

# 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**

Which of the following corporate actions is subject to shareholder approval?

- A. Election of officers.
- B. Removal of officers.
- C. Declaration of cash dividends.
- D. Removal of directors.

Correct Answer: D

Explanation:

Choice "d" is correct. Shareholders have the right to elect and remove directors through the voting process.

Choice "a" is incorrect. Officers are selected by the directors rather than by the shareholders.

Choice "b" is incorrect. Because officers are selected by the directors, generally they may be removed only by the directors.

Choice "c" is incorrect. Dividends generally can be declared only by the directors; shareholders usually do not have any right to declare or vote on a distribution.

**QUESTION 2**

Under the uniform capitalization rules applicable to property acquired for resale, which of the following costs should be capitalized with respect to inventory if no exceptions are met?

	<i>Marketing costs</i>	<i>Off-site storage costs</i>
A.	Yes	Yes
B.	Yes	No
C.	No	No
D.	No	Yes

- A. Option A
- B. Option B
- C. Option C

D. Option D

Correct Answer: D

Explanation:

Choice "d" is correct. Under the uniform capitalization rules, purchasers of inventory for resale may deduct their marketing costs but must capitalize their off-site storage costs.

Choices "a", "b", and "c" are incorrect. Marketing costs are deductible, but off-site storage must be capitalized.

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### QUESTION 3

ABC, Inc. is a multidivisional corporation, which has both intersegment sales and sales to unaffiliated customers. ABC should report segment financial information for each division meeting which of the following criteria?

- A. Segment operating profit or loss is 10% or more of consolidated profit or loss.
- B. Segment operating profit or loss is 10% or more of combined operating profit or loss of all company segments.
- C. Segment revenue is 10% or more of combined revenue of all the company segments.
- D. Segment revenue is 10% or more of consolidated revenue.

Correct Answer: C

Explanation:

Choice "c" is correct. Segment revenue is 10% or more of combined revenue of all the company segments. Rule: To be significant enough to report on, a segment must be at least 10% of:

1.  
Combined revenues (whether intersegment or affiliated customers) or
2.  
Operating profit (of all segments not having an operating loss), or
3.  
Identifiable assets.

Choice "a" is incorrect. Rule is 10% of "operating profit," not "consolidated profit."

Choice "b" is incorrect. Segments with "operating losses" are not combined with those having "operating profits" in determining a segment.

Choice "d" is incorrect. "Consolidated revenue" would not include "intersegment revenue." Rule is "combined revenue," not "consolidated revenue."

#### QUESTION 4

When conducting field work for a physical inventory, an auditor cannot perform which of the following steps using a generalized audit software package?

- A. Observing inventory.
- B. Selecting sample items of inventory.
- C. Analyzing data resulting from inventory.
- D. Recalculating balances in inventory reports.

Correct Answer: A

Explanation:

Choice "a" is correct. A generalized audit software package (GASP) is used to perform tests directly on a client's system. Since observing inventory involves personal observations made by the auditor, and is unrelated to the client's system, a GASP would not be useful in this regard.

Choice "b" is incorrect. Generalized audit software packages (GASPs) are used to perform tests directly on a client's system. Tasks typically performed by GASPs include selecting items that meet specified criteria.

Choice "c" is incorrect. Generalized audit software packages (GASPs) are used to perform tests directly on a client's system. Tasks typically performed by GASPs include performing statistical analysis of data.

Choice "d" is incorrect. Generalized audit software packages (GASPs) are used to perform tests directly on a client's system. Tasks typically performed by GASPs include recalculating amounts and totals.

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#### QUESTION 5

Among which of the following related parties are losses from sales and exchanges not recognized for tax purposes?

- A. Father-in-law and son-in-law.
- B. Brother-in-law and sister-in-law.
- C. Grandfather and granddaughter.
- D. Ancestors, lineal descendants, and all in-laws.

Correct Answer: C

Explanation:

Choice "c" is correct. Losses from sales and exchanges are not recognized for tax purposes between

grandfather and granddaughter.

Rule: Losses are disallowed on sales between related parties. "Related" includes brothers and sisters, husband-wife, lineal descendants (father, son, grandfather), and entities that are more than 50% owned by individuals, corporations, trusts and/or partnerships.

Choices "a", "b", and "d" are incorrect, because losses from sales and exchanges are recognized for all "in-laws."

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