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QUESTION 1

Which of the following would be used on a review engagement?

- A. Examination of board minutes.
- B. Confirmation of cash and accounts receivable.
- C. Comparison of current-year to prior-year account balances.
- D. Recalculation of depreciation expense.

Correct Answer: C

Explanation:

Choice "c" is correct. A review consists of inquiries and analytical procedures. Comparison of current year and prior year account balances is an analytical procedure that would often be performed as part of a review.

Choice "a" is incorrect. Examining board minutes is an audit procedure that would not typically be performed in a review.

Choice "b" is incorrect. Confirmations of cash and accounts receivable are audit procedures that would not typically be performed in a review.

Choice "d" is incorrect. Recalculation of expenses is an audit procedure that would not typically be performed in a review.

QUESTION 2

Which of the following information discovered during an audit most likely would raise a question concerning possible illegal acts?

- A. Related party transactions, although properly disclosed, were pervasive during the year.
- B. The entity prepared several large checks payable to cash during the year.
- C. Material internal control weaknesses previously reported to management were not corrected.
- D. The entity was a campaign contributor to several local political candidates during the year.

Correct Answer: B

Explanation:

Choice "b" is correct. Information that may raise a question concerning possible illegal acts include

unusually large payments made to:

- Cash
- Bearer
- Purchase cashiers checks
- Transfer funds to numbered accounts

Choice "a" is incorrect. Related party transactions may provide an indication of fraud, particularly if not made in the ordinary course of business, but they are generally not indicative of illegal acts.

Choice "c" is incorrect. Failure to correct material internal control weaknesses may represent a conscious decision by management to accept that degree of risk because of cost or other considerations.

Choice "d" is incorrect. Contributions to local political candidates are legal and generally would not raise a

QUESTION 3

Which of the following would lead to the most inflation?

- A. Both aggregate demand and aggregate supply increase.
- B. Both aggregate demand and aggregate supply decrease.
- C. Aggregate demand increases and aggregate supply decreases.
- D. Aggregate demand decreases and aggregate supply increases.

Correct Answer: C

Explanation:

Choice "c" is correct. Choice "c" contains both demand-pull inflation (when the aggregate demand curve shifts right) and cost-push inflation (when the aggregate supply curve shifts left). An increase in aggregate demand causes output to rise and the price level to rise. A decrease in aggregate supply causes output to fall and the price level to rise. Thus, an increase in aggregate demand and a decrease in aggregate supply is the most inflationary.

Choice "a" is incorrect. If aggregate supply increases, the price level will fall (reducing inflation).

Choice "b" is incorrect. If aggregate demand decreases, the price level will fall (reducing inflation).

Choice "d" is incorrect per above Explanation.

QUESTION 4

While auditing the financial statements of a nonissuer, a CPA was requested to change the engagement to a review in accordance with Statements on Standards for Accounting and Review Services (SSARS) because of a scope limitation. If the CPA believes the client's request is reasonable, the CPA's review report should:

I. Refer to the scope limitation that caused the change.

II.

Describe the auditing procedures that have already been applied.

A.

I only.

B.

II only.

C.

Both I and II.

D.

Neither I nor II.

Correct Answer: D

Explanation:

Choice "d" is correct. If the CPA believes the client's request is reasonable, he/she must comply with the standards for a review and issue an appropriate report. The report should not refer to the original engagement, to any auditing procedures performed, or to the scope limitation.

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

QUESTION 5

Which of the following parties generally has the most management rights?

A. Minority shareholder in a corporation listed on a national stock exchange.

B. Limited partner in a general partnership.

- C. Member of a limited liability company.
- D. Limited partner in a limited partnership.

Correct Answer: C

Explanation: Choice "c" is correct. Unless the articles or operating agreement provides otherwise, all members of the LLC have a right to participate in management. A member of a limited liability company has the most management rights of any of the parties listed. A minority shareholder in a corporation has no management rights (and neither does a majority shareholder). A limited partner has no day-to-day management rights but may have some rights in extraordinary circumstances. It is unclear what a limited partner in a general partnership would even be; the existence of a limited partner would make a partnership a limited partnership and not a general partnership. Choice "a" is incorrect. Stockholders have very limited rights to run the corporation. They generally only have the right to elect directors and to vote on fundamental changes in the corporation. Such fundamental changes would include dissolutions, amendments to the articles, mergers, consolidations, compulsory share exchanges, and sale of substantially all of the corporation's assets. Choice "b" is incorrect. There are no limited partners in a general partnership. There are only general partners. Since there are no limited partners, there are no management rights for limited partners. Choice "d" is incorrect. Limited partners in a limited partnership have very limited rights to participate in the management of the business. In fact, if they do participate in management, they face potential liability to those who thought they were a general partner (i.e., if a limited partner becomes involved in day-to-day management in some way (participating in control), she may be treated as a general partner and lose her limited liability).

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