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QUESTION 1

Confirmation is most likely to be a relevant form of evidence with regard to assertions about accounts receivable when the auditor has concerns about the receivables:

- A. Valuation.
- B. Classification.
- C. Existence.
- D. Completeness.

Correct Answer: C

Explanation:

Choice "c" is correct. Confirmation of accounts receivable provides evidence that the customer and the receivable exist.

Choice "a" is incorrect. Accounts receivable confirmations do not provide evidence regarding valuation, since they do not indicate whether customers have the intent or the ability to pay.

Choice "b" is incorrect. Accounts receivable confirmations do not provide evidence regarding the appropriate classification of receivables in the financial statements.

Choice "d" is incorrect. Accounts receivable confirmations are sent to recorded customers, so they do not provide evidence regarding the possible omission of valid accounts (i.e., completeness).

QUESTION 2

In considering the payback period for three projects, ABC Corp. gathered the following data about cash flows:

	<u>Cash Flows by Year</u>				
	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>
Project A	(\$10,000)	\$3,000	\$3,000	\$3,000	\$3,000
Project B	(25,000)	15,000	15,000	(10,000)	15,000
Project C	(10,000)	5,000	5,000		

Which of the projects will achieve payback within three years?

- A. Projects A, B, and C.
- B. Projects B and C.
- C. Project B only.

D. Projects A and C.

Correct Answer: B

Explanation:

Choice "b" is correct. Projects B and C achieve payback in three years. The payback period for Project A is somewhere between the end of Year 4 and Year 5. For all three projects, Year 1 appears to be a combination of cash outflows (initial cost) and cash inflows (return of investment), but it really does not make any difference. When the cumulative cash flow (both inflow and outflow) is zero, the project has paid back.

Choice "a" is incorrect. Project A does not pay back within 3 years even though Projects B and C do.

Choice "c" is incorrect. Projects B and C, not just Project B, pay back within 3 years.

Choice "d" is incorrect. Project A does not pay back within 3 years even though Project C does.

QUESTION 3

According to the FASB conceptual framework, what does the concept of reliability in financial reporting include?

A. Effectiveness.

B. Certainty.

C. Precision.

D. Neutrality.

Correct Answer: D

Explanation:

Choice "d" is correct. The concept of reliability in financial reporting includes; neutrality, representational faithfulness and verifiability.

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

QUESTION 4

The continual process of re-evaluating the strategic plans includes all of the following significant questions a firm should be concerned with, except:

A. Has the firm been able to attain or maintain competitive advantage?

- B. Is the firm able to be profitable under the current strategy?
- C. Does the current strategy continue to be aligned with the established goals of the firm?
- D. Has the firm been able to adapt to the preferences of its employees?

Correct Answer: D

Explanation:

Choice "d" is correct. Although the firm needs to be flexible with respect to changes in many situations and then adapt to them, the ability to adapt to the preferences of its employees is not nearly as significant to the process as the other three choices, which are crucial to the success of the strategic plan.

Choices "a", "b", and "c" are incorrect because they are all significant questions a firm should be concerned with when re-evaluating the strategic plan.

QUESTION 5

Symbol A most likely represents:

- A. Remittance advice file.
- B. Receiving report file.
- C. Accounts receivable master file.
- D. Cash disbursements transaction file.

Correct Answer: C

Explanation:

Choice "c" is correct. The accounts receivable master file is the file most likely to be affected by sales and cash receipts transactions, as noted immediately above symbol "A" in the flowchart.

Choice "a" is incorrect. Remittance advices are used to update the accounts receivable file, but a separate "remittance advice file" generally is not created.

Choice "b" is incorrect. The inventory/purchase/cash disbursements cycle would include a receiving report file, not the revenue cycle.

Choice "d" is incorrect. Cash disbursements are not part of the revenue cycle.