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QUESTION 1

Which one of the following provides a spontaneous source of financing for a firm?

- A. Accounts payable.
- B. Accounts receivable.
- C. Debentures.
- D. Preferred stock.

Correct Answer: A

Explanation:

Choice "a" is correct. Accounts payable provide a spontaneous source of financing for a firm.

Choice "b" is incorrect. Accounts receivable take time to factor.

Choices "c" and "d" are incorrect.

Each of the following take time to issue:

- C. Debentures.
 - D. Preferred stock.
-

QUESTION 2

Strategic planning activities normally involve which of the following efforts:

- I. Strategic Positioning.
- II. Value Chain Analysis.
- III. Balance Scorecard Development.

- A. I.
- B. I and II.
- C. I and III.
- D. II and III.

I, II, and III.

Correct Answer: D

Explanation:

Choice "d" is correct. Strategic planning activities are normally acknowledged to include each of three operations including:

I. Strategic positioning. Strategic positioning includes the process of identifying mission, identifying overall strategy, identifying factors critical to succeeding given the assumed strategy and identifying internal and external factors that contribute or detract from achieving the strategy.

II. Value chain analysis. Value chain analysis includes the process of identifying the functional characteristics of an organization and the manner in which each one of those functions adds value to the firm's customers.

III. Balanced scorecard development. Development of a balanced scorecard identifies measurements of value that are both financial and non-financial to be used to monitor and evaluate performance.

Choice "a" is incorrect. All three activities are integral to strategic planning. Choice "b" is incorrect. All three activities are integral to strategic planning. Choice "c" is incorrect. All three activities are integral to strategic planning.

QUESTION 3

On January 2, 1989, ABC Co. purchased a machine for \$264,000 and depreciated it by the straight-line method using an estimated useful life of eight years with no salvage value. On January 2, 1992, ABC determined that the machine had a useful life of six years from the date of acquisition and will have a salvage value of \$24,000. An accounting change was made in 1992 to reflect the additional data. The accumulated depreciation for this machine should have a balance at December 31, 1992, of:

A. \$176,000

B. \$160,000

C. \$154,000

D. \$146,000

Correct Answer: D

Explanation:

Choice "d" is correct, \$146,000 accumulated depreciation balance at Dec. 31, 1992.

	depreciable cost	useful life	annual deprec		years elapsed	accumulated deprec
Original	\$264 ÷	8 yrs	= \$33	x	3yrs	= \$99 ('89-'91)
Accum deprec	(99)					
NBV 12/31/91	<u>165</u>					
Salvage	<u><24></u>					
Revised Balance, 12/31/92	141 ÷	3 yrs	= 47	x	1 yr	= 47 (1992) \$146

QUESTION 4

Tracing shipping documents to prenumbered sales invoices provides evidence that: A. No duplicate shipments or billings occurred.

B. Shipments to customers were properly invoiced.

C. All goods ordered by customers were shipped.

D. All prenumbered sales invoices were accounted for.

Correct Answer: B

Explanation: Choice "b" is correct. Tracing from shipping documents (source documents) to sales invoices provides evidence that shipments to customers are properly invoiced. Choice "a" is incorrect. Tracing shipping documents to sales invoices wouldn't necessarily identify duplicate shipments or billings. Duplicate shipments or billings could be identified by accounting for prenumbered shipping documents and sales invoices. Choice "c" is incorrect. The auditor would compare the signed purchase order to shipping documents to determine if all goods ordered by the customer were shipped. Choice "d" is incorrect. To determine that all prenumbered sales invoices were accounted for, an auditor would review the consecutive numbering of invoices and then trace from the sales invoices into the sales journal.

QUESTION 5

ABC Corp. is an accrual-basis calendar-year corporation with 100,000 shares of voting common stock issued and outstanding as of December 28, 1996. On Friday, December 29, 1996, XYZ surrendered 2,000 shares of ABC stock to ABC in exchange for \$33,000 cash. XYZ had no direct or indirect interest in ABC after the stock surrender. Additional information follows:

XYZ's adjusted basis in 2,000 shares of ABC on December 29, 1996 (\$8 per share)	16,000
ABC's accumulated earnings and profits at January 1, 1996	25,000
ABC's 1996 net operating loss	(7,000)

What amount of income did XYZ recognize from the stock surrender?

A. \$33,000 dividend.

- B. \$25,000 dividend.
- C. \$18,000 capital gain.
- D. \$17,000 capital gain.

Correct Answer: D

Explanation:

Choice "d" is correct. \$17,000 capital gain.

Amount realized:

Sale price of 2,000 shares of ABC shares	\$33,000
Adjusted basis of stock (2,000 shares @ \$8)	(16,000)
Gain realized	\$17,000

Choices "a" and "b" are incorrect. Dividends are distributions of earnings. These proceeds are from the sale of stock.

Choice "c" is incorrect, per above. Accumulated earnings and profits do not affect the gain calculation, they only affect the taxability of dividends paid to shareholders.

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