



Following are multiple choice questions recently released by the AICPA. These questions were released by the AICPA with letter answers only. Our editorial board is currently working on providing detailed explanations for these questions, so please check back to the Becker Knowledgebase soon for the updated file.

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1. CPA-

In obtaining written representations from management, materiality limits ordinarily would apply to representations related to:

- a. Amounts concerning related party transactions.
- b. Irregularities involving members of management.
- c. The availability of financial records.
- d. The completeness of minutes of directors' meetings.

Explanation

Choice "a" is correct.

2. CPA-

As a result of sampling procedures applied as tests of controls, an auditor incorrectly assesses control risk higher than appropriate. The most likely explanation for this situation is that:

- a. The deviation rate in the auditor's sample is less than the tolerable rate, but the deviation rate in the population exceeds the tolerable rate.
- b. The deviation rate in the auditor's sample exceeds the tolerable rate, but the deviation rate in the population is less than the tolerable rate.
- c. The deviation rates of both the auditor's sample and the population exceed the tolerable rate.
- d. The deviation rates of both the auditor's sample and the population are less than the tolerable rate.

Explanation

Choice "b" is correct.

3. CPA-

An accountant has been engaged to compile the financial statements of a nonpublic entity. The financial statements contain many departures from GAAP because of inadequacies in the accounting records. The accountant believes that modification of the compilation report is not adequate to indicate the deficiencies. Under these circumstances, the accountant should:

- a. Inform management that the engagement can proceed only if distribution of the accountant's report is restricted to internal use.
- b. Withdraw from the engagement and provide no further service concerning these financial statements.
- c. Quantify the effects of the departures from GAAP and describe the departures from GAAP in a special report.
- d. Obtain written representations from management that the financial statements will not be used to obtain credit from financial institutions.

Explanation

Choice "b" is correct.

4. CPA-

Under which of the following circumstances would the expression of a disclaimer of opinion be inappropriate?

- a. The auditor is unable to obtain the audited financial statements of a consolidated investee.
- b. Management does not provide reasonable justification for a change in accounting principles.
- c. The company failed to make a count of its physical inventory during the year and the auditor was unable to apply alternative procedures to verify inventory quantities.
- d. Management refuses to allow the auditor to have access to the company's canceled checks and bank statements.

Explanation

Choice "b" is correct.

5. CPA-

According to the third standard of field work, which of the following terms identifies a requirement for audit evidence?

- a. Appropriate.
- b. Adequate.
- c. Reasonable.
- d. Disconfirming.

Explanation

Choice "a" is correct.

6. CPA-

When performing analytical procedures in the planning stage, the auditor most likely would develop expectations by reviewing which of the following sources of information?

- a. Unaudited information from internal quarterly reports.
- b. Various account assertions in the planning memorandum.
- c. Comments in the prior-year's management letter.
- d. The control risk assessment relating to specific financial assertions.

Explanation

Choice "a" is correct.

7. CPA-

An auditor's decision whether to apply analytical procedures as substantive tests usually is determined by the:

- a. Availability of documentary evidence that should be verified.
- b. Extent of accounting estimates used in preparing the financial statements.
- c. Precision and reliability of the data used to develop expectations.
- d. Number of transactions recorded just before and just after the year end.

Explanation

Choice "c" is correct.

8. CPA-

In a financial statement audit, inherent risk is evaluated to help an auditor assess which of the following?

- a. The internal audit department's objectivity in reporting a material misstatement of a financial statement assertion it detects to the audit committee.
- b. The risk that the internal control system will not detect a material misstatement of a financial statement assertion.
- c. The risk that the audit procedures implemented will not detect a material misstatement of a financial statement assertion.
- d. The susceptibility of a financial statement assertion to a material misstatement assuming there are no related controls.

Explanation

Choice "d" is correct.

9. CPA-

Which of the following statements most likely would be included in an engagement letter from an auditor to a client?

- a. The CPA firm will provide absolute assurance about whether the financial statements are free of material misstatement.
- b. The CPA firm is responsible for ensuring that the client complies with applicable laws.
- c. The CPA firm will involve information technology specialists in the performance of the audit.
- d. The CPA firm will adjust the financial statements to correct misstatements before issuing a report.

Explanation

Choice "c" is correct.

10. CPA-

A CPA is engaged to examine an entity's financial forecast. The CPA believes that several significant assumptions do not provide a reasonable basis for the forecast. Under these circumstances, the CPA should issue a(an):

- a. Adverse opinion.
- b. Pro forma opinion.
- c. Qualified opinion.
- d. Unqualified opinion with an explanatory paragraph.

Explanation

Choice "a" is correct.

11. CPA-

Which of the following represents an inherent limitation of internal controls?

- a. Bank reconciliations are not performed on a timely basis.
- b. The CEO can request a check with no purchase order.
- c. Customer credit checks are not performed.
- d. Shipping documents are not matched to sales invoices.

Explanation

Choice "b" is correct.

12. CPA-

An auditor's tests of controls for completeness for the revenue cycle usually include determining whether:

- a. Each receivable is collected subsequent to the year end.
- b. An invoice is prepared for each shipping document.
- c. Each invoice is supported by a customer purchase order.
- d. Each credit memo is properly approved.

Explanation

Choice "b" is correct.

13. CPA-

Which of the following prospective financial statements is(are) appropriate for general use?

	<u>Financial forecast</u>	<u>Financial projection</u>
a.	Yes	Yes
b.	Yes	No
c.	No	Yes
d.	No	No

Explanation

Choice "b" is correct.

14. CPA-

Which of the following procedures most likely would assist an auditor to identify litigation, claims, and assessments?

- a. Inspect checks included with the client's cutoff bank statement.
- b. Obtain a letter of representations from the client's underwriter of securities.
- c. Apply ratio analysis on the current-year's liability accounts.
- d. Read the file of correspondence from taxing authorities.

Explanation

Choice "d" is correct.

15. CPA-

Which of the following is the primary objective of probability proportional to sample size?

- a. To identify overstatement errors.
- b. To increase the proportion of smaller-value items in the sample.
- c. To identify items where controls were not properly applied.
- d. To identify zero and negative balances.

Explanation

Choice "a" is correct.

16. CPA-

When assessing the competence of the internal auditors, an independent CPA should obtain information about the:

- a. Organizational level to which the internal auditors report.
- b. Quality of the internal auditors' working paper documentation.
- c. Policies prohibiting internal auditors from auditing sensitive matters.
- d. Internal auditors' preliminary assessed level of control risk.

Explanation

Choice "b" is correct.

17. CPA-

An auditor is testing the reasonableness of dividend income from investments in publicly-held companies. The auditor most likely would compute the amount that should have been received and recorded by the client by:

- a. Reading the details of the board of directors' meetings.
- b. Confirming the details with the investee companies' registrars.
- c. Electronically accessing the details of dividend records on the Internet.
- d. Examining the details of the client's most recent cutoff bank statement.

Explanation

Choice "c" is correct.

18. CPA-

Analytical procedures used in the planning phase of an audit should focus on:

- a. Documenting the risk factors relating to the susceptibility of assets to misappropriation.
- b. Identifying the internal control activities that could reduce the assessed level of control risk.
- c. Discovering uncorrected misstatements that should be communicated to the audit committee.
- d. Enhancing the auditor's understanding of the transactions and events that have occurred since the last audit.

Explanation

Choice "d" is correct.

19. CPA-

In auditing an entity's computerized payroll transactions, an auditor would be least likely to use test data to test controls concerning:

- a. Overpayment of employees for hours not worked.
- b. Control and distribution of unclaimed checks.
- c. Withholding of taxes and Social Security contributions.
- d. Missing employee identification numbers.

Explanation

Choice "b" is correct.

20. CPA-

Which of the following factors is most relevant when an auditor considers the client's organizational structure in the context of control risk?

- a. Management's attitude toward information processing and accounting departments.
- b. The organization's recruiting and hiring practices.
- c. Physical proximity of the accounting function to upper management.
- d. The suitability of the client's lines of reporting.

Explanation

Choice "d" is correct.

21. CPA-

An auditor who uses the work of a specialist may refer to the specialist in the auditor's report if the:

- a. Auditor believes that the specialist's findings are reasonable in the circumstances.
- b. Specialist's findings support the related assertions in the financial statements.
- c. Auditor modifies the report because of the difference between the client's and the specialist's valuations of an asset.
- d. Specialist's findings provide the auditor with greater assurance of reliability about management's representations.

Explanation

Choice "c" is correct.

22. CPA-

Which of the following ratios would an engagement partner most likely consider in the overall review stage of an audit?

- a. Total liabilities/net sales.
- b. Accounts receivable/inventory.
- c. Cost of goods sold/average inventory.
- d. Current assets/quick assets.

Explanation

Choice "c" is correct.

23. CPA-

In attribute sampling, a 25% change in which of the following factors will have the smallest effect on the size of the sample?

- a. Tolerable rate of deviation.
- b. Number of items in the population.
- c. Degree of assurance desired.
- d. Planned assessed level of control risk.

Explanation

Choice "b" is correct.

24. CPA-

Which of the following is a conceptual similarity between generally accepted auditing standards and the attestation standards?

- a. Both sets of standards require the CPA to report on the adequacy of disclosure in the financial statements.
- b. All of the standards of fieldwork in generally accepted auditing standards are included in the attestation standards.
- c. The requirement that the CPA be independent in mental attitude is included in both sets of standards.
- d. Both sets of standards are applicable to engagements regarding financial forecasts and projections.

Explanation

Choice "c" is correct.

25. CPA-

What is an auditor's responsibility for supplementary information, such as disclosure of pension information, which is outside the basic financial statements but required by the GASB?

- a. The auditor should engage a specialist, such as an actuary, to verify that management's assertions are reasonable.
- b. The auditor's only responsibility for supplementary information is to determine that such information has not been omitted.
- c. The auditor should perform tests of transactions to the supplementary information to verify that it is reasonably comparable to the prior-year's information.
- d. The auditor should apply certain limited procedures to the supplementary information and report deficiencies in, or omissions of, such information.

Explanation

Choice "d" is correct.

26. CPA-

Which of the following is an analytical procedure that an auditor most likely would perform during the final review stage of an audit?

- a. Comparing each individual expense account balance with the relevant budgeted amounts and investigating any significant variations.
- b. Testing the effectiveness of internal control procedures that appear to be suitably designed to prevent or detect material misstatements.
- c. Reading the financial statements and considering whether there are any unusual or unexpected balances that were not previously identified.
- d. Calculating each individual expense account balance as a percentage of total entity expenses and comparing the results with industry averages.

Explanation

Choice "c" is correct.

27. CPA-

Accepting an engagement to compile an entity's financial projection most likely would be inappropriate if the projection is to be included in a(an):

- a. Mortgage application for the purpose of expanding the entity's facilities.
- b. Offering statement of the entity's initial public offering of common stock.
- c. Comprehensive document to be used in negotiating a new labor contract.
- d. Report to the audit committee that is not sent to the stockholders.

Explanation

Choice "b" is correct.

28. CPA-

Which of the following procedures is an accountant required to perform when reviewing the financial statements of a nonpublic entity in accordance with *Statements on Standards for Accounting and Review Services (SSARS)*?

- a. Assess control risk.
- b. Obtain a management representation letter.
- c. Confirm account balances.
- d. Perform a physical inventory observation.

Explanation

Choice "b" is correct.

29. CPA-

A CPA firm is completing the fieldwork for an audit of Swenson Co. for the current year ended December 31. The manager in charge of the audit is performing the final steps in the evidence accumulation phase of the audit and notes that there have been several changes in Swenson during the year under audit. Which of the following items would indicate there could be substantial doubt about Swenson's ability to continue as a going concern for a reasonable period of time?

- a. Cash infusion by a venture capital firm.
- b. Recurring working capital shortages.
- c. A lack of significant contracts with new customers.
- d. Term debt refinanced with a new bank.

Explanation

Choice "b" is correct.

30. CPA-

The blank form of accounts receivable confirmations may be less efficient than the positive form because:

- a. Shipping documents need to be inspected.
- b. Recipients may sign the forms without proper investigation.
- c. More nonresponses to the requests are likely to occur.
- d. Subsequent cash receipts need to be verified.

Explanation

Choice "c" is correct.

31. CPA-

An accountant agrees to the client's request to change an engagement from a review to a compilation of financial statements. The compilation report should include:

- a. No reference to the original engagement.
- b. Reference to a departure from GAAS.
- c. Scope limitations that may have resulted in the change of engagement.
- d. Information about review procedures already performed.

Explanation

Choice "a" is correct.

32. CPA-

Which of the following describes a weakness in accounts payable procedures?

- a. The accounts payable clerk files invoices and supporting documentation after payment.
- b. The accounts payable clerk manually verifies arithmetic on the vendor invoice.
- c. The accounts payable system compares the receiving report to the vendor invoice.
- d. The accounts payable manager issues purchase orders.

Explanation

Choice "d" is correct.

33. CPA-

A successor auditor's inquiries of the predecessor auditor should include questions regarding:

- a. The predecessor's evaluation of audit risk and judgment about materiality.
- b. Subsequent events that occurred since the predecessor's audit report was issued.
- c. The predecessor's understanding as to the reasons for the change in auditors.
- d. The predecessor's knowledge of accounting matters of continuing significance.

Explanation

Choice "c" is correct.

34. CPA-

Which of the following most likely would cause an auditor to consider whether a client's financial statements contain material misstatements?

- a. Management did not disclose to the auditor that it consulted with other accountants about significant accounting matters.
- b. The chief financial officer will not sign the management representation letter until the last day of the auditor's field work.
- c. Audit trails of computer-generated transactions exist only for a short time.
- d. The results of an analytical procedure disclose unexpected differences.

Explanation

Choice "d" is correct.

35. CPA-

Which of the following statements is correct regarding accounting estimates?

- a. The auditor's objective is to evaluate whether accounting estimates are reasonable in the circumstances.
- b. Accounting estimates should be used when data concerning past events can be accumulated in a timely, cost-effective manner.
- c. An important accounting estimate is management's listing of accounts receivable greater than 90 days past due.
- d. Accounting estimates should not be used when the outcome of future events related to the estimated item is unknown.

Explanation

Choice "a" is correct.

36. CPA-

A practitioner has been engaged to apply agreed-upon procedures in accordance with *Statements on Standards for Attestation Engagements* (SSAE) to prospective financial statements. Which of the following conditions must be met for the practitioner to perform the engagement?

- a. The prospective financial statement includes a summary of significant accounting policies.
- b. The practitioner takes responsibility for the sufficiency of the agreed-upon procedures.
- c. The practitioner and specified parties agree upon the procedures to be performed by the practitioner.
- d. The practitioner reports on the criteria to be used in the determination of findings.

Explanation

Choice "c" is correct.

37. CPA-

A test of a payroll system involved comparing an individual's number of overtime hours a week with an average of weekly overtime during a similar period in a prior year and evaluating the results. This is an example of what type of test?

- a. Range test.
- b. Detail test.
- c. Category test.
- d. Reasonableness test.

Explanation

Choice "d" is correct.

38. CPA-

Which of the following is an analytical procedure that an auditor most likely would perform when planning an audit?

- a. Confirming a sample of accounts payable.
- b. Scanning payroll files for terminated employees.
- c. Comparing current-year balances to budgeted balances.
- d. Recalculating interest expense based on notes payable balances.

Explanation

Choice "c" is correct.

39. CPA-

Which of the following statements is correct concerning an auditor's use of the work of an actuary in assessing a client's pension obligations?

- a. The auditor is required to understand the objectives and scope of the actuary's work.
- b. The reasonableness of the actuary's assumptions is strictly the auditor's responsibility.
- c. The client is required to consent to the auditor's use of the actuary's work.
- d. If the actuary has a relationship with the client, the auditor may not use the actuary's work.

Explanation

Choice "a" is correct.

40. CPA-

Which of the following titles would be considered suitable for financial statements that are prepared on a cash basis?

- a. Income statement.
- b. Statement of operations.
- c. Statement of revenues collected and expenses paid.
- d. Statement of cash flows.

Explanation

Choice "c" is correct.

41. CPA-

Which of the following could be difficult to determine because electronic evidence may not be retrievable after a specific period?

- a. The acceptance level of detection risk.
- b. The timing of control and substantive tests.
- c. Whether to adopt substantive or reliance test strategies.
- d. The assessed level of inherent risk.

Explanation

Choice "b" is correct.

42. CPA-

The purpose of establishing quality control policies and procedures for deciding whether to accept or continue a client relationship is to:

- a. Monitor the risk factors concerning misstatements arising from the misappropriation of assets.
- b. Provide reasonable assurance that personnel are adequately trained to fulfill their responsibilities.
- c. Minimize the likelihood of associating with clients whose management lacks integrity.
- d. Document objective criteria for the CPA firm's responses to peer review comments.

Explanation

Choice "c" is correct.

43. CPA-

Which of the following situations most likely could lead to an embezzlement scheme?

- a. The accounts receivable bookkeeper receives a list of payments prepared by the cashier and personally makes entries in the customers' accounts receivable subsidiary ledger.
- b. Each vendor invoice is matched with the related purchase order and receiving report by the vouchers payable bookkeeper who personally approves the voucher for payment.
- c. Access to blank checks and signature plates is restricted to the cash disbursements bookkeeper who personally reconciles the monthly bank statement.
- d. Vouchers and supporting documentation are examined and then canceled by the treasurer who personally mails the checks to vendors.

Explanation

Choice "c" is correct.

44. CPA-

Independence is not required on which of the following types of engagements?

- a. Audit.
- b. Review.
- c. Compilation.
- d. Agreed-upon procedures.

Explanation

Choice "c" is correct.

45. CPA-

An accountant's compilation report on a financial forecast should include a statement that:

- a. The hypothetical assumptions used in the forecast are reasonable in the circumstances.
- b. The forecast should be read only in conjunction with the audited historical financial statements.
- c. The accountant expresses only limited assurance on the forecasted statements and their assumptions.
- d. There will usually be differences between the forecasted and actual results.

Explanation

Choice "d" is correct.

46. CPA-

Which of the following actions should the auditor take in response to discovering a deviation from the prescribed control procedure?

- a. Make inquiries to understand the potential consequence of the deviation.
- b. Assume that the deviation is an isolated occurrence without audit significance.
- c. Report the matter to the next higher level of authority within the entity.
- d. Increase sample size of tests of controls.

Explanation

Choice "a" is correct.

47. CPA-

Which of the following events least likely would indicate the existence of related party transactions?

- a. Making a loan with no scheduled date for the funds to be repaid.
- b. Maintaining compensating balance arrangements for the benefit of principal stockholders.
- c. Borrowing funds at an interest rate significantly below prevailing market rates.
- d. Writing off obsolete inventory to net realizable value just before year end.

Explanation

Choice "d" is correct.

48. CPA-

As part of the process of observing a client's physical inventories, an auditor should be alert to:

- a. The inclusion of any obsolete or damaged goods.
- b. Any change in the method of pricing from prior years.
- c. The existence of outstanding purchase commitments.
- d. The verification of inventory values assigned to goods in process.

Explanation

Choice "a" is correct.

49. CPA-

After issuing an auditor's report, an auditor has no obligation to make continuing inquiries concerning audited financial statements unless:

- a. Information about a material transaction that occurred just after the auditor's report was issued is deemed to be reliable.
- b. A final resolution is made of a contingent liability that had been disclosed in the financial statements.
- c. Information that existed at the report date and may affect the report comes to the auditor's attention.
- d. An event occurs just after the auditor's report was issued that affects the entity's ability to continue as a going concern.

Explanation

Choice "c" is correct.

50. CPA-

Which of the following statements is correct regarding a review of a nonpublic entity's financial statements in accordance with *Statements on Standards for Accounting and Review Services* (SSARS)?

- a. The accountant is required to assess the risk of fraud.
- b. It is not necessary for the accountant to obtain a management representation letter.
- c. An opinion is expressed in the review report.
- d. The accountant must be independent to issue the review report.

Explanation

Choice "d" is correct.