



CPA

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Practice Questions

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1. The financial accounts of Lager Corporation are prepared using IFRS. Of the following, which information must be shown on the income statement?

- A. Operating expenses, non operating expenses, and extraordinary items.
- B. Revenues, cost of goods sold, and advertising expense.
- C. Gross profit, operating profits, and net profits.
- D. Finance costs, tax expense, and income.

2. Which of the following is NOT an example of Deferred Inflows of Resources?

- A. Grant amounts received in advance of meeting timing requirements
- B. Deferred amounts from refunding debt (credits)
- C. Deferred loss from sale and leaseback
- D. Proceeds from sale of future revenue

3. An auditor would express an unmodified opinion with an emphasis-of-matter paragraph added to the auditor's report for a `_____`.

- A. material internal control weakness
- B. reasonable period of time
- C. material internal control strength
- D. justified change in accounting principle

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4. According to the cost recovery method of accounting, gross profit on an installment sale is recognized in income `_____`.

- A. On the date the final cash collection is received
- B. In proportion to the cash collection
- C. After cash collections equal to the cost of sales have been received
- D. On the date of the sale



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5. Which of the following is true regarding the difference between book value and shareholder's equity?

- A. Shareholder's equity measures net assets.
- B. Book value excludes intangibles such as goodwill.
- C. Shareholder's equity is an asset; book value is a liability.
- D. Book value is an asset; shareholder's equity is a liability.

6. Which of the following special reports provides negative assurance?

- A. Suspicion of fraud
- B. allegations of fraud
- C. Report on cash basis financial statements
- D. Auditor's report on compliance with aspects of contractual agreements

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7. Receivables turnover measures which of the following?

- A. the number of times per year the balance of receivables is collected
- B. cash and cash equivalents
- C. the firm's ability to meet its short-term obligations as they come due
- D. the efficiency with which assets are managed

**8. Use the below facts to calculate basic EPS for ABC Corp:

Net Income \$300,000

Stockholders Equity \$500,000

Preferred Dividends \$30,000

Weighted average common shares outstanding 200,000**

- A. 1.40
- B. 1.25
- C. 1.50
- D. 1.35

**9. Calculate the amount of depreciation in year 3 of the assets useful life assuming the following facts. Cost of asset \$11,000Salvage Value \$1,000Useful life is four yearsSum of years digit method is used to calculate **

- A. 4,000
- B. 1,000
- C. 2,000
- D. 3,000



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**10. On January 1, year 1, the first day of business, Kate Company spent \$115,000 on a machine. The machine's price at the end of the year was \$125,000. The machine depreciates using the straight-line method, has a five-year life, and no salvage value.

What is the amount of the current cost depreciation expenditure that would appear in supplemental current cost financial statements for the year ended December 31, year 1?**

- A. \$24,000
- B. \$14,000
- C. \$23,000
- D. \$25,000

11. An auditor may express an opinion on an entity's accounts receivables balance even if the auditor has disclaimed an opinion on the financial statements taken as a whole provided the <code>_____</code>.

- A. auditor also reports on the current asset portion of the entity's balance sheet
- B. distribution of the report on the accounts receivable to restricted to internal use only
- C. report on the accounts receivable is presented separately from the disclaimer of opinion on the financial statements
- D. report on the accounts receivable discloses the reason for the disclaimer of opinion on the financial statements

12. Which of the following does not represent a quality control component?

- A. Acceptance and continuance of client relationships and specific engagements.
- B. Human resources.
- C. Monitoring.
- D. Internal control.

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13. Auditors use the information collected while obtaining their understanding of the client and its environment to identify all of the following except:

- A. account balances
- B. disclosures that might be materially misstated
- C. year-end purchases
- D. transaction classes



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14. There are special considerations for owners' equity. Little effort will be exerted in auditing the `<code>_____</code>` of a continued client.

- A. financial statements
- B. stock options
- C. transfer agents
- D. retained earnings

15. No deletions of audit documentation are permitted after the

- A. Client's year-end.
- B. Report release date.
- C. Documentation completion date.
- D. Last date of significant fieldwork.

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16. When audited financial statements are presented in a client's document containing other information, the auditor should `<code>_____</code>`.

- A. perform the appropriate substantive auditing procedures to corroborate the other information
- B. add an emphasis-of-matter paragraph to the auditor's report without changing the opinion on the financial statements
- C. perform inquiry and analytical procedures to ascertain whether the other information is reasonable
- D. read the other information to determine that it is consistent with the audited financial statements

17. The Code presents the relevant rules for those in business and related to the business the member is a part of, rather than public accounting context. Other members are those who are retired or unemployed. Examples of acts under the discreditable rule include all of the following except:

- A. release of confidential information
- B. solicitation or disclosure of CPA exam questions and answers
- C. failure to file a tax return or to pay a tax liability
- D. inappropriate acts in promoting or marketing services or use of the CPA credential

18. An auditor's working papers serve mainly to `<code>_____</code>`.

- A. provide the principal support for the auditor's report
- B. Document the level of independence maintained by the auditor
- C. Monitor the effectiveness of the CPA firm's quality control procedures
- D. satisfy the auditor's responsibilities concerning the Code Of Professional Conduct



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19. Samples to test internal control are intended to provide a basis for an auditor to conclude whether:

- A. Materiality for planning purposes is at a sufficiently low level.
- B. The financial statements are materially misstated.
- C. The control activities are operating effectively.
- D. The risk of incorrect acceptance is too high.

20. The IRS rejected a taxpayer's return when the taxpayer attempted to e-file the return. When resubmitting the rejected return as a paper return, the taxpayer must file the return

- A. By the due date for filing the return or 20 calendar days after the return was rejected
- B. By the due date for filing the return or 30 calendar days after the return was rejected
- C. By the due date for filing the return or 5 calendar days after the return was rejected
- D. By the due date for filing the return or 10 calendar days after the return was rejected

21. All of the following benefits are covered by workers' compensation regulations, apart from

- A. Full pay during disability.
- B. The cost of prosthetic devices.
- C. Burial expenses.
- D. Monthly payments to surviving dependent children.

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22. A corporation's penalty for underpaying federal estimated taxes is

- A. Partially deductible
- B. Fully deductible in the year paid
- C. Fully deductible if reasonable cause can be established for the underpayment
- D. Not deductible



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23. According to the Federal Insecticide, Fungicide, and Rodenticide Act, which of the following is (are) true?
I. Herbicides and pesticides must be certified and can only be used for permitted applications.
II. Before companies can sell herbicides and pesticides, they must be registered under the Act.
III. Pesticides can only be applied in certain quantities on food crops, as set out in the Act.

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

24. Losses and credits from passive activities applies to all of the following except:

- A. S corporations
- B. estates
- C. trusts
- D. individuals

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25. According to the COSO ERM framework, which of the following would involve the determination of the likelihood and impact of events on the achievement of objectives?

- A. Risk assessment
- B. Residual risk
- C. Control activities
- D. Inherent risk

26. According to the International Standards for the Professional Practice of Internal Auditing, which of the following statements is true?

- A. Internal auditors must not have a financial interest in the company
- B. The internal auditors must establish and maintain a system to monitor the disposition of audit results
- C. Internal auditors must be assigned to assist the external auditors
- D. All internal audit seniors must be Certified Internal Auditors



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27. A major function of transaction processing is<code>_____</code>.

- A. data analysis
- B. data processing
- C. data coding
- D. data storage

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28. Which of the below benefits of leasing as a long-term financing option is false?

- A. The provisions of the agreement may be less stringent than for other debt agreements.
- B. The firm may be able to lease the asset when it does not have the credit capacity to purchase the asset.
- C. The dollar cost.
- D. Up front costs may be less.

29. Corporate governance is designed to compensate for the agency problem resulting from the fact that corporations are managed by professional management that may do which of the following?

- A. not operate them in the best interest of the CEO
- B. not operate them in the best interest of the shareholders
- C. not operate them in the best interest of the project manager
- D. not operate them in the best interest of the CPA

30. Choose the accurate answer for the assumption of Breakeven analysis that over the relevant range,

- A. Unit revenues are nonlinear.
- B. Total fixed costs are nonlinear.
- C. Unit variable costs are unchanged.
- D. Total costs are unchanged.



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Answer Key & Explanations

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1. D — Finance costs, tax expense, and income.

The income statement can be made by listing expenses either by type or by function, thus this is the right answer. Income, finance expenses, the equity method portion of profits and losses, tax expense, discontinued operations, profit or loss, noncontrolling interests in profits and losses, and net profit (loss) attributable to parent equity holders are the bare minimum disclosures that must be made on the income statement.

2. C — Deferred loss from sale and leaseback

Examples of Deferred Inflows of Resources include grant amounts received in advance of meeting timing requirements, deferred amounts from refunding debt (credits), and proceeds from sale of future revenue. Other samples include *deferred gain* from a sale-leaseback transaction, positive fair value of government hedge of a future transaction, and advance of revenue from imposed non-exchange transactions.

3. D — justified change in accounting principle

An auditor would express an unmodified opinion with an emphasis-of-matter paragraph added to the auditor's report for a justified change in accounting principle. The emphasis-of-matter paragraph should be placed after the opinion paragraph. A material weakness must be reported to management and those charged with governance, but it would not be disclosed in an emphasis-of-matter paragraph added to an otherwise unmodified opinion.

4. C — After cash collections equal to the cost of sales have been received

Installment methods of recognizing revenue are appropriate only when "collection of the sale price is not reasonably assured." Under the cost recovery method, gross profit is deferred and recognized only when the cumulative receipts exceed the cost of the asset sold.

5. B — Book value excludes intangibles such as goodwill.

Book value differs from shareholder's equity in that book value excludes intangibles, such as goodwill.
Key Takeaway: Shareholder's equity is Total Assets – Total Liabilities. Book value is the net tangible assets of a corporation and does not include items such as goodwill, patents, etc., that are considered intangible. The terms are not synonymous.

6. D — Auditor's report on compliance with aspects of contractual agreements

Negative assurance is provided in reports on compliance with aspects of contractual agreements and reports on regulatory requirements related to audited financial statements. Saying, "We are not aware of any instances of noncompliance" is considered giving negative assurance. Cash basis, tax basis, and other non-GAAP reports provide positive rather than negative assurance. The emphasis-of-matter paragraph in the report indicates that the financial statements (elements, accounts, items) were prepared in accordance with the applicable special purpose framework (positive assurance).

7. A — the number of times per year the balance of receivables is collected

Receivables turnover measures the number of times per year the balance of receivables is collected. This is a very important measure of the efficiency with which management is managing accounts receivable.



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**8. D — 1.35**

Basic EPS = Income Available to common shareholders / Weighted average number of common shares outstanding
Income available to common shareholders = Net Income - Preferred Dividends
Basic EPS = $(300,000 - 30,000) / 200,000 = 1.35$

9. C — 2,000

The sum of years digits is calculated based on the useful life $(1+2+3+4) = 10$
The depreciable base is Cost of asset - salvage value $(11,000 - 1,000) = 10,000$
Depreciation Schedule:
1st year $(4/10) \times 10,000 = 4,000$
2nd year $(3/10) \times 10,000 = 3,000$
3rd year $(2/10) \times 10,000 = 2,000$
4th year $(1/10) \times 10,000 = 1,000$.

10. A — \$24,000

The average current cost of the asset during the term of usage should be used to calculate depreciation. This machine will typically cost \$120,000 $[(\$115,000 + \$125,000) \div 2]$ at year one's current prices. Therefore, year 1 depreciation expense is \$24,000 $(\$120,000 \div 5\text{-year useful life})$.

11. C — report on the accounts receivable is presented separately from the disclaimer of opinion on the financial statements

Such a report is considered a "specified elements, accounts, or items report" and should include the opinion on the accounts receivable separately from the disclaimer of opinion on the financial statement. Reason for the disclaimer of opinion need to be provided. Distribution of such a report is not restricted to internal use only. The auditor need not report on the current asset portion of the entity's balance sheet to issue such a report.

12. D — Internal control.

Because internal control does not have a quality control component, "internal control" is the appropriate response. Monitoring, human resources, and acceptance of client relationships and specific engagements are all components of quality control. The leadership responsibilities for engagement performance, quality within the organization, and relevant ethical requirements are further parts of quality control.

13. C — year-end purchases

Auditors use the information collected while obtaining their understanding of the client and its environment to identify transaction classes, account balances, and disclosures that might be materially misstated. Assessing the risks of misstatement (the risk assessment) is performed both at the overall financial statement level and at the relevant assertion level and includes.

14. D — retained earnings

Little effort will be exerted in auditing the retained earnings of a continued client. The audit procedures for dividends will allow the auditor to verify the propriety of that debit to retained earnings. The entry to record the year's net income (loss) is readily available. Finally, the nature of any prior period adjustments is examined to determine whether they meet the criteria for an adjustment to retained earnings. Recall that the type of adjustment typically encountered is a correction of prior years' income.

15. C — Documentation completion date.

This is valid since audit documentation may not be erased beyond the documentation completion date, according to professional norms.

16. D — read the other information to determine that it is consistent with the audited financial statements

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The auditor is required to read the other information to determine that it is consistent with the audited financial statements. No such inquiry, analytical procedures, or other substantive auditing procedures are required. Unless the information seems incorrect or inconsistent with the audited financial statements, no emphasis-of-matter paragraph needs to be added to the auditor's report.

17. A — release of confidential information

To the contrary, inappropriate release of confidential information is an example of an act that is discreditable. Other examples include solicitation or disclosure of CPA exam questions and answers; failure to file a tax return or to pay a tax liability; and inappropriate acts in promoting or marketing services or use of the CPA credential.

18. A — provide the principal support for the auditor's report

The requirement is to identify a primary purpose of an auditor's working papers. AU-C 230 states that working papers serve mainly to provide the principal support for the auditor's report and to aid the auditor in the conduct and supervision of the audit.

19. C — The control activities are operating effectively.

Samples to test internal control are intended to provide a basis for an auditor to conclude whether the control activities are operating effectively. Choice "b" is incorrect. Tests of controls may provide evidence regarding the likelihood of misstatement, but they do not provide a basis for concluding whether the financial statements are materially misstated. Choice "c" is incorrect. The risk of incorrect acceptance is an aspect of sampling risk related to substantive tests, not tests of controls. Choice "d" is incorrect. Samples to test controls do not provide evidence regarding materiality levels for planning purposes.

20. D — By the due date for filing the return or 10 calendar days after the return was rejected
by the due date for filing the return or 10 calendar days after the return was rejected .

21. A — Full pay during disability.

Workers are usually compensated earnings under workers' compensation, however only a portion of their salaries are paid.

22. D — Not deductible

Even though a corporation's penalty for underpay-ing federal estimated taxes is in the nature of interest, it is treated as an addition to tax, and as such, the penalty is not deductible.

23. D — I, II, and III.

All three clauses are included in the Federal Insecticide, Fungicide, and Rodenticide Act. Before herbicides and insecticides can be sold, products must be registered. Furthermore, they must only be used for the purposes that have been allowed. In addition, the quantity that can be utilized on food crops is limited.

24. A — S corporations

Losses and credits from passive activities applies to individuals, estates, trusts, closely held C corporations, and personal service corporations. A closely held C corporation is one with five or fewer shareholders owning more than 50% of stock. Personal service corporation is an incorporated service business with more than 10% of its stock owned by shareholder-employees.

25. A — Risk assessment

According to the COSO ERM framework, **risk assessment** would involve the determination



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of the likelihood and impact of events on the achievement of objectives. Control activities are the methods used to implement the response to risk. Sometimes the control activity is also, effectively, the risk response is wrong. Inherent risk is the risk to an entity in the absence of any actions management might take to alter either the risk's likelihood or impact. Risk responses are developed to deal with inherent risk. Residual risk is the risk that still remains after management responds to the risk and the control activities are in place.

26. B — The internal auditors must establish and maintain a system to monitor the disposition of audit results

This statement is true according to the International Standards for the Professional Practice of Internal Auditing. The other answers are incorrect because they do not present the two major types of services.

27. D — data storage

Data storage is a major function of transaction processing along with data input, data processing, and information output. Analysis of data is not a major function of transaction processing. Analysis is typically performed after transaction processing.

28. C — The dollar cost.

This is true since the long-term dollar cost of leasing an asset is typically higher than the cost of buying and financing it in another way.

29. B — not operate them in the best interest of the shareholders

Corporate governance is designed to compensate for the agency problem resulting from the fact that corporations are managed by professional management that may not operate them in the best interest of the shareholders. Corporate governance includes internal control and enterprise risk management.

30. C — Unit variable costs are unchanged.

Breakeven analysis is predicated on a number of generalizations. One presumption is that the variable costs per unit remain constant over the relevant range. It is assumed that the selling price per unit stays constant over the relevant range. Unit revenues are therefore linear. As production rises, total costs rise as well because total variable costs rise as well. Total fixed costs are always linear over the relevant range since they remain constant.



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