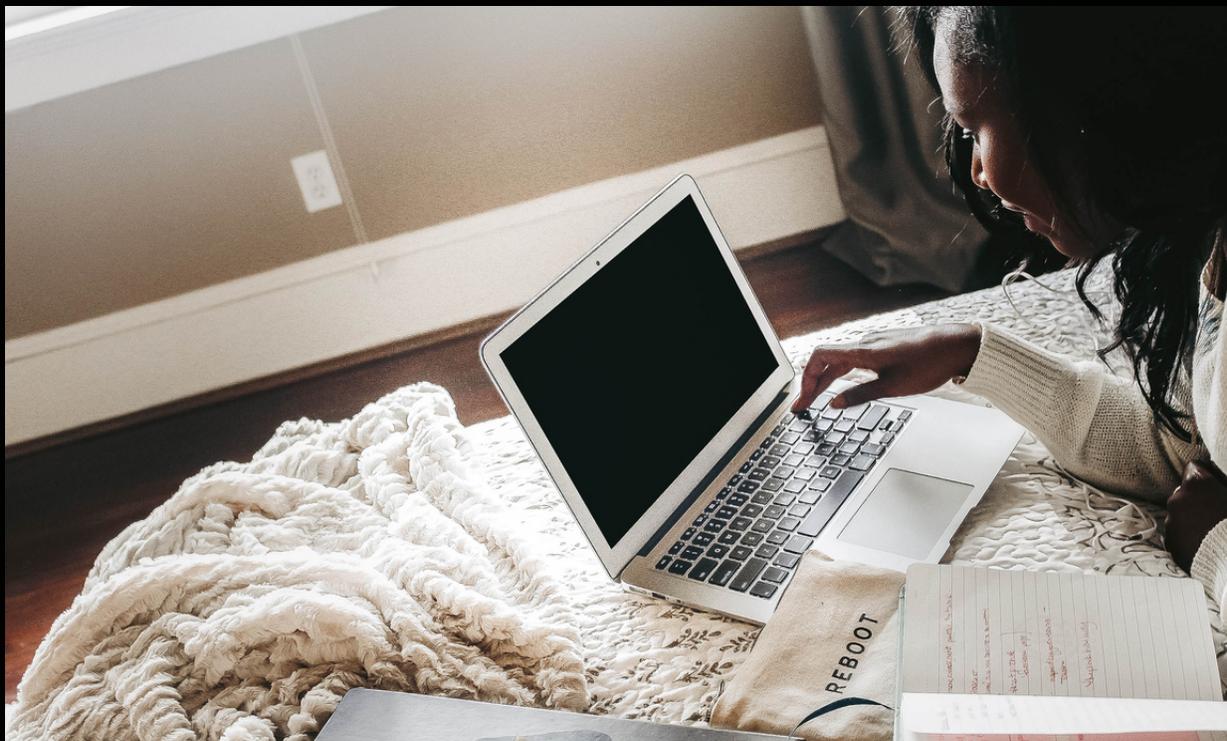


# CPA Exam Questions Simplified



A guide to breaking down complex CPA exam questions to understand why the right answer is right...and why the other 3 answers are wrong.

**By Nikki Winston, CPA**



# Introduction

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Here's the practice CPA exam questions – and the answers. I want you to review these questions and understand why the right answer is right. Also understand why the other 3 choices are wrong.

I'm giving you detailed explanations. If you need to talk through a question further, send your questions to [cpaexam@winstoncpagroup.com](mailto:cpaexam@winstoncpagroup.com).

“ Make this short-term sacrifice with the CPA exam for a long-term gain in your career.

# About Me

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Listen! Studying for the CPA exam was one of the most stressful times in my life. There were moments where I questioned if I wanted to keep pursuing it or maybe being a CPA wasn't for me. I was studying, working, raising 2 kids, and still trying to have a "life" outside of my CPA exam books.

After 1,373 days, 13 NTSs, and countless moments of frustration, I passed the CPA exam. A celebratory message on LinkedIn turned into daily messages from candidates asking me for study tips. Those messages turned into 1:1 CPA exam coaching sessions - which turned into group coaching + a content library with all of my CPA exam tips and tricks.

I'm grateful that my TEST became a TESTIMONY for me to share what I've learned with you on your journey to becoming a CPA. I do this because I love it and if my strategy worked for me and many others who have joined my CPA exam coaching program, I know it'll work for you too!

Nikki

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## AUD Questions + Explanations 05

The minutia, the attribute sampling, audit reports, subsequent events, ethics, independence, did I say ethics?

## BEC Questions + Explanations 06

The 5 areas that have nothing to do with each other. You'll go on a ride from ERM & SOX to Economics to WACC to IT to Ops Management.

## FAR Questions + Explanations 07

No matter what you decide to do professionally, you can skip being an auditor with AUD, a cost accountant with BEC, or even taxes with REG. But you can't escape the part that tells the story of a business.

## REG Questions + Explanations 08

The life skills section: taxes + learning what it means when you sign a check or enter into a contract. Lots going on but you'll likely encounter one or more of these situations in your personal life.

## The CPA Candidate Community 09

We go deeper into CPA exam concepts, learn how to manage stress, and creating your study plan.



# 05

# AUD Questions + Explanations

**Which of the following procedures does a CPA usually perform when reviewing the financial statements of a nonissuer?**

- A. Make inquiries of management concerning restrictions on the availability of cash balances.
- B. Communicate deficiencies in the design of internal control to the entity's audit committee.
- C. Examine trend analysis to determine the appropriateness of the CPA's assessment of detection risk.
- D. Evaluate management's plans for dealing with negative trends and financial difficulties.

**The correct answer is A.**

The key here is to understand what a review consists of – compared to an audit or compilation engagement. A review engagement includes inquiring with management about matters relevant to the financial statements. Understanding the terms around restricted cash is something that would be relevant to a review engagement, to ensure that the funds are used as intended.

**Choices B, C, and D are all incorrect.**

These are procedures that an auditor may perform, not an accountant on a review engagement. Another takeaway...

This question gave you 3 examples of procedures an auditor would perform around (1) communicating internal control deficiencies to the organization's audit committee (2) assessing audit risk and (3) evaluating management's plans for dealing with adverse events happening in the business, also known as evaluating the entity's ability to continue as a going concern.

# 06

# BEC Questions + Explanations

**1. How would the following ratios or measures be affected if a company issued additional capital stock for cash?**

- A. Total debt to total assets increases | Working capital increases
- B. Total debt to total assets increases | Working capital decreases
- C. Total debt to total assets decreases | Working capital increases
- D. Total debt to total assets decreases | Working capital decreases

**The correct answer is C.**

Did this question totally confuse you? The key is understanding where cash flows and equity go in the financial statements (all balance sheet). Also understand how these ratios are calculated.

Total debt to total assets is just how it sounds: total debt divided by total assets. Cash is an asset so an increase in cash will increase the denominator of the total debt to total assets ratio.

Working capital is the different between current assets and current liabilities. An increase in cash will increase total assets which in turn increases working capital.

**Choices A, B, and D are incorrect.**

Per the above explanation.

# 07 FAR Questions + Explanations

During the current year, Cooley Co. had an unrealized holding gain of \$100,000 on a debt investment classified as available-for-sale. Cooley's corporate tax rate is 25%. What amount of the gain should be included in Cooley's net income and other comprehensive income (OCI) at the end of the current year?

- A. Net income of \$100,000 | OCI of \$0
- B. Net income of \$75,000 | OCI of \$25,000
- C. Net income of \$25,000 | OCI of \$75,000
- D. Net income of \$0 | OCI of \$75,000

**The correct answer is D.**

By knowing one simple accounting concept you can easily answer the question – the concept of realization. Both unrealized gains and the tax impacts on available-for-sale investments are recorded to OCI. With an \$100K gain at a 25% tax rate, that means the net amount of these two will be recorded to the OCI account.

**Choices A, B, and C are incorrect.**

Per the above explanation.

Accounting tip: when something is “realized” that means it's been recorded in the P&L or balance sheet. Unrealized gains and losses are booked to OCI until the investment is sold or reclassified – then it becomes “realized” and recorded in the P&L. It's also important to know the differences amongst, trading, available-for-sale, and held-to-maturity investments.

# 08

# REG Questions + Explanations

**Which of the following pairs of elements must a client proven to hold an accountant liable for common law fraud?**

- A. Material misrepresentation and breach of contract.
- B. Freedom from contributory negligence and loss.
- C. Scienter and justifiable reliance.
- D. Intent to deceive and privity.

**The correct answer is C.**

Let me save you some time: if you see a question like this and “scienter” is an answer choice, go with that one. Scienter means having an intent or knowledge or wrongdoing – a clear ethics violation. While these other ones sound like they could potentially be right, there’s not much that can beat scienter when we’re talking about common law fraud.

**Choice A is incorrect.**

A breach of contract is not relevant when we’re talking about common law fraud.

**Choice B is incorrect.**

There doesn’t have to be a loss incurred when there’s a question of common law fraud.

**Choice D is incorrect.**

Privity means the defendant must be a party to the contract. That has no bearing when common law fraud is in question.

**Another takeaway from this question:**

These all sound good and someone who had no idea which answer was right or didn’t know what “scienter” means could easily get this one wrong. The 3 wrong answer choices are things a defense attorney could try for an accountant defendant, but they mean nothing when common law fraud is in question. Think about it: an accountant is being accused of common law fraud and they come back and say, “I didn’t breach the contract” or “Nobody got hurt” or “I’m not in a contractual relationship with you” and none of these are viable defenses against common law fraud.

While the questions look and feel intimidating, take a step back and think realistically about what’s being asked. Don’t let these questions make you forget how smart you really are!

# The CPA Candidate Community

## The Virtual Classroom for CPA Candidates

MCQ and simulation tutorials

Figuring out what you're doing is half the problem. Breaking down the question makes it easier to understand. Once you understand, you can answer it.

Group coaching & accountability

Having a community of people who understand your struggle makes it easier to do. Plus, when you feel like giving up, your community is here to keep you motivated!

Organize study materials

You just bought your study materials...but what do you do with them? Do you start with videos or lectures? How long should I study?

Time-saving study strategies

Studying for the CPA exam is a huge time commitment. Learn simple ways to manage your time while studying, working, parenting, and having a life.

# I'm Inviting You...

## Join the CPA Candidate Community

No long sales page to keep telling you to SIGN UP NOW! I want you to join us because I want you to win in your career.

My struggles with the CPA exam were mostly because of (1) things I didn't know or understand (2) not seeing many CPAs that looked like me and (3) being overwhelmed with trying to split my time with studying, working, and being a mom.



This community is a judgment-free space for you to ask all of your questions & get the help, guidance, & coaching you need to be successful on the CPA exam. Once you pass the CPA exam, I'll help you get started in your career as a new CPA.

**[Accept Your Invitation](#)**

We're covering all 4 sections of the CPA exam and the CPA Exam Virtual Classroom is the ideal supplement to your course materials. Let's go!

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