

Sample CPA Professional Program Exams – Testlets

The sample examination questions provided in this package are intended to offer a general indication of the format, structure, and nature of questions that candidates may encounter. While these materials have been developed with careful consideration and are intended to be broadly representative, they are not exhaustive and cannot capture the full range of possible question variations. These samples should therefore be used as a guide rather than a definitive representation.

East Components Ltd. (35 minute testlet)

East Components Ltd. (East) is a privately held manufacturing company preparing its financial statements in accordance with ASPE. The company designs and manufactures specialized electronic components used in industrial automation systems.

You, CPA, work for McCabe LLP and are on the audit team for the East engagement.

Management provided the audit team with a related-party listing that was last updated 3 years ago. The listing includes 5 individuals and 5 entities. Since that time, the company hired a new chief operating officer (Cynthia), acquired a distribution subsidiary, and entered into a long-term supply arrangement with one new vendor.

During review of the accounts payable vendor master file, you identified multiple vendors sharing similar mailing addresses and banking information. One vendor not included on the related-party listing was Parts; East recorded purchases of \$1,050,000 from that company during the year. Total purchases made by East for the year were \$8,400,000.

When questioned, management stated that Parts is not a related party and asserted that similarities in vendor information were coincidental. Management reiterated that the related-party listing is complete and declined to update it, citing time constraints.

Subsequent inquiry revealed that Parts is 40% owned by Cynthia's spouse, Dylan. Dylan does not hold an operational role at East.

The purchases from Parts relate to specialized component parts developed exclusively for East under a supply arrangement entered into during the year. These components are not available from existing suppliers. Pricing is approximately 18% higher than for similar components historically purchased from other suppliers. Management insists the pricing reflects enhanced quality and reliability. No formal benchmarking or pricing analysis was performed.

In addition, a long-outstanding balance owing to Parts remains unpaid at year-end. There is no formal repayment schedule, interest has not been charged, and no written financing agreement exists. Management has classified the balance as current accounts payable.

East implemented a new accounts payable system during the year. The system does not require periodic validation of related-party designations and does not flag shared banking details or ownership overlaps between vendors.

Q1 (1 mark)

Select the statement that best reflects the most appropriate auditor response, given that inquiry reveals Parts is 40% owned by the chief operating officer's spouse.

A. Treat this as a significant risk of incomplete related-party identification and disclosure, expand procedures to independently identify related parties and relationships using external and internal sources, and escalate the matter to those charged with governance if management continues to resist updating the listing.

Correct. When audit evidence conflicts with management representations on a high-risk disclosure area, the auditor must resolve the inconsistency through expanded independent procedures. Related-party completeness is a pervasive risk affecting risk assessment, disclosure, and the evaluation of management bias and override. Escalation to those charged with governance is appropriate when management restricts access or refuses to remediate.

B. Obtain an updated management-representation letter and conflict-of-interest declaration from senior management to include Parts, then conclude on completeness if the documentation is signed and no further relationships are admitted.

Incorrect. Signed representations and declarations are lower-reliability evidence. They do not resolve contradictory indicators obtained from system analytics and ownership inquiry, especially when the issue is completeness of identification. The auditor cannot conclude completeness based solely on management's assertion after independent evidence has already contradicted it.

C. Perform procedures focusing on whether the purchases exceed planning materiality and, if not, accept management's position because any potential disclosure would not influence user decisions.

Incorrect. Related-party matters are not purely quantitative. Even if below planning materiality in dollar terms, undisclosed related-party relationships can be qualitatively material due to governance implications, fraud risk indicators, conflicts of interest, and the specific disclosure requirements that apply regardless of amount.

D. Conclude that the presence of inconsistent evidence automatically results in a scope limitation, issue a modified audit opinion, and discontinue further related-party procedures.

Incorrect. A modified opinion is not a substitute for performing available procedures. A scope-limitation conclusion is appropriate only if sufficient appropriate evidence cannot be obtained after reasonable efforts. Here, the auditor can and must expand procedures. Discontinuing them would itself constitute a failure to exercise due care.

Q2 (1 mark)

Based on the facts in the scenario, select the statement that best characterizes the management-override risk present in this engagement.

A. Management-override risk is elevated. Management's refusal to update the related-party listing after the auditor identified the undisclosed relationship — combined with an implausible explanation of coincidence for shared banking details — is consistent with management using its authority to prevent a control from operating as intended, which is the defining characteristic of override risk.

Correct. Management override occurs when management uses its position and authority to bypass controls that would otherwise prevent or detect misstatements. Two indicators converge here: (1) The implausible coincidence explanation for objectively specific shared data (banking details and mailing addresses) signals an intent to suppress rather than investigate; and (2) the refusal to update the listing after being directly confronted with the finding means management is actively preventing the completeness control from being restored. These are behavioural indicators of override, not merely a design gap.

B. The scenario does not contain indicators of management override as there is no fraudulent intent.

Incorrect. Management override does not require proof of fraudulent intent. The defining indicator is management using its authority to prevent controls from operating as intended. Management's refusal to update the related-party listing — after being directly informed by the auditor that an omitted relationship had been identified — is precisely this: using authority (the ability to decide whether the listing gets updated) to prevent a control from functioning.

C. Override risk exists only where there is identified financial pressure or incentive on management. Since the scenario provides no evidence of financial stress, bonus targets, or debt covenant pressure, override risk cannot be elevated on the basis of behavioural indicators alone.

Incorrect. Financial incentives are one category of fraud risk factor, but management-override risk is assessed based on behavioural indicators as well as incentive indicators. Auditing standards and professional guidance recognize that management override can occur in the absence of financial pressure — for example, to protect a personal relationship or conceal a conflict of interest, as appears to be the case here. Limiting override assessment to financial pressure alone would miss a significant category of real-world override situations.

D. Management's refusal to update the listing is a workload-prioritization decision, not an override. Management cited time constraints as the reason, and accepting a plausible operational explanation is consistent with professional standards on management representations.

Incorrect. Professional skepticism requires that auditors critically evaluate the plausibility of management explanations rather than accepting them at face value, particularly when the

explanation contradicts independently obtained evidence. The “time constraints” explanation is implausible in context: Management was directly informed of a specific confirmed omission and declined to make a single update to the listing. This is not a resourcing decision; it is a choice not to disclose a known related-party relationship, which professional standards identify as a significant override indicator.

Q3.1 (1 mark)

You inspect the agreement with Parts and related correspondence to evaluate whether the payable balance represents a genuine obligation and whether settlement is expected. Select the assertion(s) primarily being addressed by this procedure.

A. Existence and accuracy of the liability, because inspecting the agreement and correspondence tests whether a present obligation exists at the reporting date and whether the recorded amount appropriately reflects the economic substance of the liability.

Correct. When repayment terms and interest are absent, the auditor must assess whether the recorded liability represents a genuine present obligation (existence) and whether the recorded amount is appropriate given those terms (accuracy). Inspecting the agreement and correspondence provides direct evidence on both dimensions, particularly where informal terms may indicate financing characteristics or raise doubts about whether a true obligation exists.

B. Completeness of accounts payable, because the procedure evaluates whether additional unrecorded liabilities may exist under the supply arrangement.

Incorrect. Completeness addresses whether liabilities that should be recorded have been omitted. This procedure evaluates a balance that has already been recorded: It is assessing the validity and measurement of a known recorded amount, not searching for unrecorded amounts. Completeness procedures would involve steps such as reviewing unmatched invoices and performing a search for unrecorded liabilities at year-end.

C. Classification and presentation of the liability in the current portion, because the agreement terms determine whether current classification is appropriate.

Incorrect. Classification is a secondary question that depends on first establishing that the obligation exists and is properly valued. Moreover, the absence of repayment terms — not the presence of agreement terms — drives the classification assessment under ASPE 1510. The procedure's primary purpose is to evaluate what the obligation is, not where on the balance sheet to present it.

D. Rights and obligations relating to inventory acquired under the supply arrangement, because the procedure traces the components to their source agreement.

Incorrect. The rights and obligations assertion for inventory would address whether East owns the components and whether they are free from encumbrances. This procedure is directed at the liability side — at substantiating the payable arising from the related-party transaction, not at testing ownership of the inventory received in exchange.

Q3.2 (1 mark)

You obtain historical invoice data for similar components purchased from other suppliers in prior years and compare the per-unit prices to the amounts charged by Parts. Select the assertion(s) primarily being addressed by this procedure.

A. Accuracy, valuation and allocation of the liability, because comparing the related-party price to historical arm's-length prices determines whether the inventory cost and related payable are recorded at amounts that reflect what an independent transaction would have produced.

Correct. The valuation and allocation assertion addresses whether assets and liabilities include any relevant valuation or allocation adjustments. Comparing the related-party price to historical arm's-length prices is the primary available benchmark for evaluating whether the recorded amounts — inventory cost and accounts payable — are reasonable. This procedure is also the evidentiary foundation for assessing whether the exchange-amount criteria under ASPE 3840 can be met, since criterion (3) requires that terms be consistent with normal market terms and supported by independent evidence.

B. Completeness of the liability, because the pricing comparison may identify transactions where East was undercharged by the related party, suggesting unrecorded amounts owed.

Incorrect. Completeness addresses omissions: amounts that should be recorded but have not been. The pricing-comparison procedure is directed at the recorded amounts and whether they are reasonable, not at whether additional amounts exist that have been left out. An undercharge, if identified, might be a subsequent discovery, but that is not the primary purpose of performing a pricing comparison.

C. Existence of the inventory, because confirming that comparable market prices exist for similar components validates that the components themselves were genuinely acquired and delivered.

Incorrect. Existence for inventory would be addressed by physical inspection or confirmation of quantities on hand. The existence assertion asks whether assets and liabilities are real; comparing prices to historical benchmarks says nothing about whether the physical components were actually received. A vendor could charge above-market prices for components that were genuinely delivered or below-market prices for components that were not — the price comparison alone does not test whether delivery occurred.

D. Presentation and disclosure of the liability, because the pricing differential determines whether the related-party transaction must be separately described and quantified in the financial statement notes.

Incorrect. The disclosure obligation under ASPE 3840 arises from the nature of the related-party relationship, not from the magnitude of a pricing differential. The pricing comparison is not performed to determine whether disclosure is required — disclosure is required regardless. The procedure tests whether the amounts recorded are appropriate, which is a valuation question. Any disclosure implications are a downstream consequence of that assessment rather than its primary purpose.

Q4 (4 marks)

Select the items below that should heighten the auditor's professional skepticism during the engagement. (Select 4 items.)

☒ Management provided explanations for anomalies that do not seem plausible to the auditor.

☒ A significant vendor that should have been included in the related-party transaction listing was not.

☒ The related-party vendor's pricing is very high compared to historical information.

☒ Management did not update the related-party listing after the auditor identified an error.

☐ The company's offerings are specialized.

☐ There are related-party purchases related to specialized component parts developed exclusively for the company.

☐ The new accounts payable system has control deficiencies related to related-party identification.

☐ The COO's spouse does not hold an operational role in the company.

Professional skepticism requires maintaining a questioning mind and critically evaluating the sufficiency and reliability of audit evidence, particularly in circumstances involving risk of management override or intentional misstatement. The correct items each represent a specific red flag:

1. Encountering explanations that are not plausible heightens the risk of intentional misstatement, as management may be attempting to hide information.
2. It does not seem plausible that a significant vendor and the related-party nature would not be known to management, indicating possible intentional misstatement.
3. A pricing premium creates simultaneous valuation and value-transfer risk.
4. Declining to remediate an error after being informed signals resistance rather than cooperation.

Conversely, the incorrect items do not necessarily reflect management override or intentional misstatement:

5. The fact that the company's offerings are specialized simply indicates that it may be tougher to obtain audit evidence to support valuation of the products, but it does not indicate potential for management override.
6. The purchase from a related-party for a specialized part does not indicate management override but simply reflects the nature of the company's business.
7. The accounts payable system having internal control deficiencies explains how the relationship could go undetected, but it is not itself a skepticism trigger — it does not indicate management's intent.
8. The COO's spouse having no operational role is a classification fact relevant to ASPE 3840 relationship definitions, not a condition that raises or lowers concern about management representations.

Q5 (1 mark)

Based on the indicators identified, select the statement that demonstrates at what level the auditor should assess the risk of material misstatement for the related-party completeness and disclosure assertions and provides a valid explanation.

A. Assess the risk of material misstatement as high (a significant risk) for related-party completeness and presentation, given the structural system gap, the undisclosed related vendor accounting for a significant portion of purchases, and management's refusal to update the related-party listing.

Correct. The combination of (1) a vendor master system that cannot detect shared addresses/banking, (2) an undisclosed related vendor representing 12.5% of annual purchases, and (3) management's refusal to update a 3-year-old listing despite confirmed evidence of an omitted related party indicates both a high likelihood that other related parties are missing and a potentially pervasive impact on disclosures and fraud/override risk. These are classic indicators of a significant risk for related-party completeness and disclosure that require heightened audit attention.

B. Assess the risk as moderate, because only one related vendor has been identified so far and there is no evidence that the recorded purchases or payable amounts are misstated.

Incorrect. Risk assessment is driven by the nature and pervasiveness of the control failure and management's response, not simply by the count of identified vendors or the correctness of recorded amounts. The fact that a major related vendor (12.5% of purchases) was completely omitted from a stale listing, combined with management's resistance to remediation, is inconsistent with a moderate risk assessment for completeness and disclosure.

C. Assess the risk as low, because the related vendor's purchases are quantitatively small relative to users' overall decision needs and the liability is already recorded in accounts payable.

Incorrect. Related-party completeness and disclosure risk is primarily qualitative. Even if dollar amounts were below planning materiality, undisclosed related relationships can be material due to governance concerns, fraud/override indicators, conflicts of interest, and specific disclosure requirements that apply regardless of amount. The fact that the payable is recorded does not address the risk that the relationship and its terms are not properly disclosed.

D. Do not separately assess a specific risk level for related-party completeness and disclosure. Treat the matter solely as a control deficiency to be reported to those charged with governance without changing the overall risk assessment.

Incorrect. Identified control deficiencies that affect a relevant assertion must be reflected in the assessed risk of material misstatement for that assertion.

Here, the deficiencies directly affect related-party completeness and disclosure, so they cannot be handled only as a communication to governance. Failing to revise the risk assessment would understate the true risk and could lead to insufficient further audit procedures.

Q6 (1 mark)

Under ASPE Section 3856, select the statement that explains how the Parts payable should be subsequently measured at each reporting date when it was initially measured at cost.

A. Continue measuring at cost, recognizing a reduction only if required by impairment indicators or if the instrument is subsequently modified.

Correct. When a financial instrument is initially measured at cost under the ASPE 3856 related-party guidance, subsequent measurement follows the same cost method. The carrying amount remains unchanged unless impairment indicators arise or the terms of the instrument are modified. Neither accruing interest nor remeasuring to fair value is required simply because time passes or because the balance remains unpaid.

B. Remeasure each period at fair value because the absence of stated interest indicates an embedded financing component that must be recognized through profit or loss, even in a related-party transaction.

Incorrect. Subsequent fair-value remeasurement is not automatic for a related-party debt instrument under ASPE 3856. It would only be applicable in limited circumstances — for example, if the instrument became quoted in an active market or if significant observable fair-value inputs became available, neither of which applies here. The absence of stated interest does not itself trigger fair-value remeasurement.

C. Apply amortized cost using an effective interest method by imputing a market rate of interest, because amortized cost is required whenever a liability is expected to be settled after more than one reporting period.

Incorrect. The effective interest method and imputed interest apply to arm's-length financial instruments measured at amortized cost, not to related-party instruments carried at cost under ASPE 3856. The expected timing of settlement does not change the measurement basis for a related-party instrument that was initially measured at cost; the cost model continues regardless of when settlement is anticipated.

D. Adjust the carrying amount to the higher of cost and the amount that would be due under a market interest rate, because ASPE requires related-party financial liabilities to be updated for economic substance each period.

Incorrect. There is no "higher of cost and market rate" adjustment mechanism in ASPE 3856 for related-party instruments. Such an adjustment would be specific to indexed or variable-rate instruments in particular circumstances. ASPE does not require related-party financial liabilities to be periodically adjusted to reflect market rates. The cost model is designed to be stable unless a specific triggering event — impairment or modification — occurs.

Q7 (1 mark)

Management has classified the outstanding payable to the related-party vendor as current accounts payable. Under ASPE Section 1510, select the the appropriate classification.

A. The classification as current is appropriate. Under ASPE Section 1510, a liability is classified as current when it is due on demand or when the entity does not have an unconditional right to defer settlement for at least 12 months beyond the reporting date.

Correct. ASPE Section 1510 classifies a liability as current when the entity lacks an unconditional right to defer settlement beyond 12 months. A payable with no repayment schedule is payable on demand — the creditor could call it at any time, and East would have no contractual right to defer. Current classification is, therefore, appropriate under the standard, even though the absence of terms simultaneously raises questions about the substance of the arrangement that are relevant to ASPE 3840 disclosure.

B. The payable should be classified as non-current. The long-outstanding status of the balance and the absence of any repayment schedule indicate that neither party expects near-term settlement, and non-current treatment better reflects the economic substance of the arrangement.

Incorrect. ASPE Section 1510 classification is based on contractual rights to defer settlement, not on the parties' behavioural intentions or expectations. Economic substance arguments for non-current classification are not available when the liability has no deferral right embedded in its terms. Non-current classification requires an unconditional contractual right to defer for at least 12 months, which is absent here.

C. The absence of defined terms means the balance cannot be classified until repayment terms are established, and it should be presented separately as a balance with indeterminate settlement date.

Incorrect. ASPE does not provide for a third classification category of "indeterminate" or "undetermined" obligations. Every financial liability must be classified as either current or non-current. The absence of defined terms resolves the classification question under ASPE 1510 rather than suspending it: No deferral right means no unconditional right to defer, which means current.

D. The classification depends on the auditor's assessment of whether the payable has characteristics of a financing arrangement. If the auditor concludes it does, the balance should be reclassified as long-term debt.

Incorrect. The auditor's characterization of the arrangement as having financing characteristics is relevant to ASPE 3840 disclosure requirements and to the description of the payable in the financial statement notes — it does not override the ASPE 1510 classification rules. A payable that resembles financing but has no deferral right remains current under ASPE 1510 regardless of its economic characteristics.

Q8 (5 marks)

Under ASPE Section 3840, select the items that must be disclosed in East's financial statements in connection with the transactions and balances related to Parts. (Select 5 items.)

- ☒ The fact that Parts is 40% owned by an immediate family member of chief operating officer.
- ☒ The supply arrangement for specialized components with Parts and the total purchases of \$1,050,000.
- ☒ The measurement basis applied to the Parts transactions.
- ☒ The amount outstanding with Parts at the reporting date, together with the settlement conditions: the absence of a formal repayment schedule, no interest, and no written financing agreement.
- ☒ The amounts recognized in net income during the period in connection with Parts, to the extent they differ from what would have been recognized in an arm's-length transaction.
- ☐ The full legal name of the chief operating officer and the full corporate name of the vendor entity.
- ☐ A calculation of related-party purchases compared to total annual purchases, presenting the \$1,050,000 as a percentage of the \$8,400,000 total.
- ☐ The length of time Parts has been a vendor for East and the cumulative amounts it has purchased from East since the relationship started.
- ☐ The fact that management did not initially identify Parts as a related party.

ASPE Section 3840 requires disclosure of (a) the nature of the relationship; (b) a description of the transactions and amounts; (c) the measurement basis; (d) amounts outstanding and their terms and conditions; and (e) amounts recognized in net income. Each of the correct items maps directly to one of these requirements.

For the incorrect answers, the nature of the relationship (criterion a) describes the type of connection, not the specific names of individuals. ASPE Section 3840 does not require naming specific individuals, which would itself raise privacy considerations. The quantitative reconciliation to total purchases is analytically useful context but is not among the enumerated disclosure requirements in the standard. The length of time Parts has been a vendor is also not a disclosure requirement. The fact that management did not initially identify Parts as a related party is an audit issue, not a disclosure issue.

Q9 (1 mark)

The specialized components purchased from the related-party vendor are used in East's manufacturing process. The per-unit cost includes the 18% premium above historical arm's-length prices. Under ASPE Section 3031, select the statement that explains how this premium should be recorded.

A. The premium should be included in the cost of inventory as the cost of inventory.

Correct. ASPE Section 3031 defines inventory cost as the purchase price actually paid plus directly attributable costs. There is no provision in ASPE 3031 that excludes premiums arising from related-party transactions. The standard measures cost as what was actually paid. Because the exchange-amount basis under ASPE 3840 is unavailable (criterion 3 not met), the consideration transferred — including the premium — is the measurement basis under the cost model. The lower-of-cost-and-NRV test applies at each reporting date, but NRV is not indicated to be below cost based on the facts provided.

B. The premium represents an above-market payment made in a related-party transaction and must be expensed as a period cost.

Incorrect. ASPE 3031 contains no prohibition on capitalizing amounts paid to related parties into inventory cost. There is no "excess cost" exclusion for related-party transactions in the standard. Expensing the premium as a period cost would misstate both inventory (understated) and the period's cost of goods sold (understated, with a separate overstatement in expenses) and would have no basis in the standard.

C. The premium must be written off immediately as an impairment loss through the lower-of-cost-and-net-realizable-value test.

Incorrect. The lower-of-cost-and-NRV test is applied when there is evidence that NRV falls below carrying cost. No such evidence is present in the scenario — there is no indication that East cannot recover the cost of the components through the sale of its finished goods. Applying a writedown based on a presumption that a related-party premium will necessarily cause NRV impairment is not how ASPE 3031 operates. Impairment requires evidence, not assumption.

D. The premium should be partially included in the cost of inventory, to the extent that East can demonstrate that management's asserted quality improvements translate into higher selling prices or reduced future production costs.

Incorrect. ASPE 3031 defines cost as what was actually paid, not as what can be retrospectively justified through quality or performance evidence. The standard does not require companies to prove that a higher purchase price generates proportionate future benefits before capitalizing it. Management's quality justification and the absence of benchmarking are relevant to the ASPE Section 3840 exchange amount analysis and to the audit assessment of valuation. They do not create a conditional capitalization rule under ASPE Section 3031.