

ACFE Certified Fraud Examiner (CFE) 1 Practice Exam (Sample)

Study Guide



Everything you need from our exam experts!

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Questions

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- 1. Which of the following can be a consequence of a consistently low accounts receivable turnover?**
 - A. Increased risk of bad debts**
 - B. Improved cash flow management**
 - C. Higher customer loyalty**
 - D. Enhanced operational efficiency**
- 2. What is 'external auditing'?**
 - A. An internal review of company policies**
 - B. Examination of tax returns**
 - C. An independent examination of financial statements to express an opinion on their accuracy**
 - D. A process for employee assessments**
- 3. Fraud perpetrators tend to have better outcomes in which of the following areas compared to other property offenders?**
 - A. Psychological health**
 - B. Financial stability**
 - C. Criminal history**
 - D. Employment history**
- 4. In evaluating credit policy effectiveness, which ratio is particularly useful?**
 - A. Operating margin ratio**
 - B. Accounts receivable turnover ratio**
 - C. Debt to equity ratio**
 - D. Gross profit margin ratio**
- 5. What does the accounts receivable turnover ratio measure?**
 - A. How quickly a company collects its debt**
 - B. The total sales for a given period**
 - C. The proportion of receivables to total assets**
 - D. Current assets compared to current liabilities**

- 6. What does 'management override of controls' mean?**
- A. Management following all internal control procedures**
 - B. Management enforcing stricter policies**
 - C. Management creating exceptions to internal controls**
 - D. Management providing additional training for employees**
- 7. What is the formula for accounts receivable turnover ratio?**
- A. Sales / Average Accounts Receivable**
 - B. Average Accounts Receivable / Sales**
 - C. Net Credit Sales / Accounts Receivable**
 - D. Average Sales / Total Receivables**
- 8. What characterizes real-time analysis in fraud detection?**
- A. Occasional review of processed transactions**
 - B. Works at transaction time and analyzes each transaction**
 - C. Collects data over extended periods**
 - D. Requires minimal updating of indicators**
- 9. Which type of fraud involves deceiving someone for personal gain through misrepresentation?**
- A. Asset misappropriation**
 - B. Fraud by misrepresentation**
 - C. Embezzlement**
 - D. Collusion**
- 10. What is the primary purpose of criminal cases?**
- A. To seek a monetary reward**
 - B. To right a wrong**
 - C. To punish the offender**
 - D. To provide restitution**

Answers

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1. A
2. C
3. A
4. B
5. A
6. C
7. A
8. B
9. B
10. B

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Explanations

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1. Which of the following can be a consequence of a consistently low accounts receivable turnover?

- A. Increased risk of bad debts**
- B. Improved cash flow management**
- C. Higher customer loyalty**
- D. Enhanced operational efficiency**

A consistently low accounts receivable turnover indicates that a company is not collecting its receivables efficiently. This typically means that customers are taking longer to pay their invoices, which can lead to a buildup of accounts receivable on the balance sheet. As these outstanding amounts age, the risk of bad debts rises, since some customers may ultimately default on their payments or be unable to pay. Thus, increased risk of bad debts becomes a significant consequence of low accounts receivable turnover. It can threaten a company's cash flow and overall financial health, as it may not have the liquid assets available to cover its immediate expenses or opportunities, resulting from ineffective credit control or overly lenient terms extended to customers. In contrast, improved cash flow management, higher customer loyalty, and enhanced operational efficiency are generally outcomes associated with better accounts receivable turnover, indicating that these options are less relevant in this context.

2. What is 'external auditing'?

- A. An internal review of company policies**
- B. Examination of tax returns**
- C. An independent examination of financial statements to express an opinion on their accuracy**
- D. A process for employee assessments**

External auditing refers to the independent examination of an organization's financial statements by a qualified auditor, whose objective is to express an opinion on the fairness and accuracy of those statements. This process involves evaluating the financial records and reporting to ensure compliance with accounting standards and applicable regulations. The auditor's opinion provides assurance to stakeholders, such as investors and creditors, that the financial statements present an accurate portrayal of the company's financial position and performance. This independent viewpoint is crucial because it helps to enhance the credibility of the financial information reported by the company. The external auditor typically operates separately from the company's internal operations, thus providing an unbiased assessment that increases stakeholder confidence. In contrast, the other options focus on different aspects unrelated to external auditing. An internal review of company policies pertains to operational reviews and governance rather than financial statement accuracy. Examination of tax returns relates specifically to taxation, which is not the primary focus of external auditing. The process for employee assessments concerns human resources and performance evaluations, making it irrelevant to the financial auditing context. Each of these topics, while important in their own right, does not capture the essence of what constitutes external auditing.

3. Fraud perpetrators tend to have better outcomes in which of the following areas compared to other property offenders?

A. Psychological health

B. Financial stability

C. Criminal history

D. Employment history

Fraud perpetrators often experience better psychological health outcomes compared to other property offenders. This can be attributed to a variety of factors inherent in the nature of fraud itself. Unlike violent crimes or more overt property crimes, which may involve significant stress and trauma, fraud can be executed in a more calculated and controlled manner. Fraudsters often possess skills that allow them to manipulate systems and people effectively, leading to the perception of enhanced psychological well-being due to successful deception and perhaps a lack of immediate consequences. Moreover, the intellectual aspects of committing fraud—planning and executing schemes often with the thought that they're smarter than the system—can give offenders a sense of confidence and control, which may contribute positively to their psychological state. This stands in stark contrast to other property offenders, whose criminal activities often lead to direct confrontations with law enforcement, victims, or even violence, which can adversely affect their mental health. The other areas, such as financial stability, criminal history, and employment history, generally do not display the same contrast between fraud perpetrators and other property offenders. Fraudsters often face significant risks of financial instability in the long run due to potential legal consequences and loss of employment if caught, while their criminal histories may not be significantly different from other property offenders, as both

4. In evaluating credit policy effectiveness, which ratio is particularly useful?

A. Operating margin ratio

B. Accounts receivable turnover ratio

C. Debt to equity ratio

D. Gross profit margin ratio

The accounts receivable turnover ratio is particularly useful in evaluating the effectiveness of a credit policy because it measures how efficiently a company is collecting its receivables. This ratio indicates how many times, on average, accounts receivable are collected during a specific period, typically a year. A higher turnover ratio signifies that a business is effective in collecting its debts and managing credit, suggesting that its credit policies are working as intended. Evaluating credit policy effectiveness is crucial because it can directly impact cash flow and overall financial health. If a company has slow collections or high amounts of outstanding receivables, it may indicate that its credit policies are either too lenient or not enforced effectively. While the operating margin ratio, debt to equity ratio, and gross profit margin ratio provide valuable insights into a business's overall financial performance and risk profile, they do not specifically address the efficiency of credit management and receivables collection. Therefore, the accounts receivable turnover ratio stands out as the most relevant measure for assessing credit policy effectiveness.

5. What does the accounts receivable turnover ratio measure?

- A. How quickly a company collects its debt**
- B. The total sales for a given period**
- C. The proportion of receivables to total assets**
- D. Current assets compared to current liabilities**

The accounts receivable turnover ratio measures how efficiently a company collects payments from its customers for credit sales. This ratio indicates the number of times, on average, that a company collects its accounts receivable during a specific period, usually a year. A higher turnover ratio suggests that the company is effective at managing its receivables and converting them into cash quickly, reflecting good credit management and customer payment behavior. This ratio is an important metric for assessing the financial health of a business, particularly in terms of cash flow management. It helps stakeholders understand how quickly the company can expect to turn its receivables into actual cash, which is essential for funding operations, paying debts, and making new investments.

6. What does 'management override of controls' mean?

- A. Management following all internal control procedures**
- B. Management enforcing stricter policies**
- C. Management creating exceptions to internal controls**
- D. Management providing additional training for employees**

The concept of 'management override of controls' refers to the ability of management to bypass or make exceptions to established internal controls within an organization. This can occur for various reasons, such as perceived business needs or in situations involving unexpected circumstances. While internal controls are designed to prevent and detect fraud and errors, when management overrides these controls, it poses significant risks to the integrity of financial reporting and overall business operations. By allowing exceptions to the rules, management can inadvertently facilitate fraudulent activities or create opportunities for misuse of resources, as the checks and balances intended to safeguard the organization may be undermined. It is crucial to ensure that such overrides are monitored and justified to maintain accountability and reduce the risk of fraud. The other options do not accurately describe 'management override of controls.' Strictly following internal control procedures or enforcing stricter policies would result in adherence to controls rather than their override. Providing additional training for employees focuses on enhancing skills and knowledge but does not inherently relate to the action of bypassing controls. Hence, the most accurate interpretation of 'management override of controls' aligns with the notion of management creating exceptions to internal controls.

7. What is the formula for accounts receivable turnover ratio?

- A. Sales / Average Accounts Receivable**
- B. Average Accounts Receivable / Sales**
- C. Net Credit Sales / Accounts Receivable**
- D. Average Sales / Total Receivables**

The accounts receivable turnover ratio reflects how efficiently a company collects its receivables and is calculated by dividing net credit sales by the average accounts receivable. However, option A's representation, which specifies "Sales / Average Accounts Receivable," closely resembles the commonly used formula for calculating this ratio. This ratio gives insight into the number of times a business can collect its average accounts receivable over a specified period. A higher turnover indicates that the company is efficient at collecting its receivables, while a lower ratio may suggest inefficiencies or potential collection issues. Using total sales instead of only credit sales can sometimes lead to distortions, making the ratio less effective under certain accounting practices. Nonetheless, the interpretation of average accounts receivable is crucial in assessing the effectiveness of credit policies and collection practices over time.

8. What characterizes real-time analysis in fraud detection?

- A. Occasional review of processed transactions**
- B. Works at transaction time and analyzes each transaction**
- C. Collects data over extended periods**
- D. Requires minimal updating of indicators**

Real-time analysis in fraud detection is characterized by its ability to work at the moment a transaction occurs, allowing for immediate scrutiny of each transaction as it happens. This method enables organizations to identify potential fraudulent activities instantaneously, increasing the chances of stopping fraud before it escalates or causes significant damage. By analyzing data in real-time, fraud detection systems can use various algorithms and anomaly detection techniques to flag suspicious transactions based on predefined criteria or emerging patterns. This approach contrasts with periodic or occasional reviews of transactions, as seen in other options, where fraud detection may miss rapid or evolving tactics used by fraudsters. The focus on immediate analysis also distinguishes real-time systems from those that rely on long-term data collection or infrequent updates, as timely responses are crucial in preventing fraud. Consequently, real-time analysis is vital for effective fraud prevention strategies, providing organizations with a proactive stance rather than a reactive one.

9. Which type of fraud involves deceiving someone for personal gain through misrepresentation?

A. Asset misappropriation

B. Fraud by misrepresentation

C. Embezzlement

D. Collusion

Fraud by misrepresentation specifically involves deceiving an individual or entity to obtain something of value, typically through false statements or deceptive practices. This form of fraud focuses on the act of misrepresenting information to influence another party's decision, leading them to act in a way that benefits the perpetrator. This definition aligns precisely with the notion of personal gain through deceit, which is why this choice is the correct answer. In this scenario, the perpetrator may create a false impression or provide misleading information, ultimately leading to a financial or personal advantage. Other options, while related to fraudulent activities, do not encapsulate the core essence of misrepresentation. Asset misappropriation generally pertains to the theft of an organization's assets, embezzlement refers to the fraudulent appropriation of funds placed in one's trust, and collusion involves two or more parties working together to commit a fraudulent act. None of these terms emphasize the specific act of deceiving through misrepresentation for personal gain as clearly as fraud by misrepresentation does.

10. What is the primary purpose of criminal cases?

A. To seek a monetary reward

B. To right a wrong

C. To punish the offender

D. To provide restitution

The primary purpose of criminal cases is to punish the offender, which is reflected in the need for the judicial system to maintain law and order within society. Criminal cases are designed to address violations of law that are deemed harmful to society as a whole. When an individual commits a crime, it disrupts social harmony and poses a threat to public safety. The outcome of a criminal case is to impose penalties on the perpetrator to deter them and others from committing similar acts in the future. This can include imprisonment, fines, community service, or other forms of punishment deemed appropriate for the crime committed. The notion of punishment also serves to uphold societal norms and deter further criminal behavior. In contrast, while righting a wrong and providing restitution may be important aspects of civil cases, criminal cases focus primarily on the state or government taking action against the offender for the purpose of punishment and deterrence. Monetary rewards or restitution to victims are not the foundational objectives of criminal proceedings.