

ACFE CERTIFIED FRAUD EXAMINER (CFE) FINANCIAL TRANSACTIONS AND FRAUD SCHEMES PRACTICE EXAM (SAMPLE)

STUDY GUIDE

FIND AID FOR
CONSOLIDATED STATEMENTS OF ACT.

KT AND REVENUES:
as potential rent
ss: Vacancies and concessions
Rental Income
Grants and contracts
Contributions
Program income
Special events
Administrative fees
Investment return, net
Other income

EXPENSES:
Program Services:
Senior housing
Senior centers
Management and General
Fundraising

CHANGE IN NET ASSETS
NET ASSETS WITHOUT DONOR RESTRICTIONS, BEGINNING OF YEAR
NET ASSETS WITHOUT DONOR RESTRICTIONS, END OF YEAR

\$	7,487,657	\$	7,076,679
	(474,159)		3,727,141
	7,013,498		171,735
	4,097,766		119,379
	130,686		69,804
	124,451		8,968
	82,137		299,677
	5,140		259,619
	(72,556)		
	221,487		11,733,002
	<u>11,602,609</u>		
			5,496,123
	5,665,575		2,921,491
	4,283,740		9,417,614
	9,949,315		1,470,318
	1,594,032		115,288
	208,184		<u>11,603,220</u>
	<u>11,751,531</u>		729,782
	(148,922)		7,188,835
	<u>7,918,617</u>		
\$	7,769,695	\$	7,918,617

Prepare with structure. Pass with confidence



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Introduction

Preparing for a certification exam can feel overwhelming, but with the right tools, it becomes an opportunity to build confidence, sharpen your skills, and move one step closer to your goals. At Examzify, we believe that effective exam preparation isn't just about memorization, it's about understanding the material, identifying knowledge gaps, and building the test-taking strategies that lead to success.

This guide was designed to help you do exactly that.

Whether you're preparing for a licensing exam, professional certification, or entry-level qualification, this book offers structured practice to reinforce key concepts. You'll find a wide range of multiple-choice questions, each followed by clear explanations to help you understand not just the right answer, but why it's correct.

The content in this guide is based on real-world exam objectives and aligned with the types of questions and topics commonly found on official tests. It's ideal for learners who want to:

- Practice answering questions under realistic conditions,
- Improve accuracy and speed,
- Review explanations to strengthen weak areas, and
- Approach the exam with greater confidence.

We recommend using this book not as a stand-alone study tool, but alongside other resources like flashcards, textbooks, or hands-on training. For best results, we recommend working through each question, reflecting on the explanation provided, and revisiting the topics that challenge you most.

Remember: successful test preparation isn't about getting every question right the first time, it's about learning from your mistakes and improving over time. Stay focused, trust the process, and know that every page you turn brings you closer to success.

Let's begin.

How to Use This Guide

This guide is designed to help you study more effectively and approach your exam with confidence. Whether you're reviewing for the first time or doing a final refresh, here's how to get the most out of your Examzify study guide:

1. Start with a Diagnostic Review

Skim through the questions to get a sense of what you know and what you need to focus on. Your goal is to identify knowledge gaps early.

2. Study in Short, Focused Sessions

Break your study time into manageable blocks (e.g. 30 – 45 minutes). Review a handful of questions, reflect on the explanations.

3. Learn from the Explanations

After answering a question, always read the explanation, even if you got it right. It reinforces key points, corrects misunderstandings, and teaches subtle distinctions between similar answers.

4. Track Your Progress

Use bookmarks or notes (if reading digitally) to mark difficult questions. Revisit these regularly and track improvements over time.

5. Simulate the Real Exam

Once you're comfortable, try taking a full set of questions without pausing. Set a timer and simulate test-day conditions to build confidence and time management skills.

6. Repeat and Review

Don't just study once, repetition builds retention. Re-attempt questions after a few days and revisit explanations to reinforce learning. Pair this guide with other Examzify tools like flashcards, and digital practice tests to strengthen your preparation across formats.

There's no single right way to study, but consistent, thoughtful effort always wins. Use this guide flexibly, adapt the tips above to fit your pace and learning style. You've got this!

Questions

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- 1. What is the correct characterization of vertical analysis in financial statements?**
 - A. It calculates percentage changes between accounting periods
 - B. It compares financial items over multiple accounting periods
 - C. It analyzes relationships by expressing components as percentages
 - D. It focuses solely on assets and their valuations
- 2. What is the term for a procurement fraud scheme where bid specifications favor a specific contractor?**
 - A. Bid suppression
 - B. Bid tailoring
 - C. Bid alteration
 - D. Bid division
- 3. What is a critical concern for lending institutions when assessing a company's financial ratios?**
 - A. Corporate espionage practices
 - B. Misclassification of long-term liabilities
 - C. Presence of unfair bidding practices
 - D. Manipulated financial ratios
- 4. What type of fraudulent scheme is Sheila involved in with her company ABC?**
 - A. A pay and return scheme
 - B. A personal purchases with company funds scheme
 - C. An expense reimbursement scheme
 - D. An invoice kickback scheme
- 5. What is a common consequence if related-party transactions are not disclosed?**
 - A. Increased compliance costs
 - B. Potential harm to shareholders
 - C. Legal benefits for the company
 - D. Better relationship with regulators

- 6. The asset turnover ratio is calculated by dividing which two financial metrics?**
- A. Net sales by total revenue
 - B. Net income by average total assets
 - C. Net sales by average total assets
 - D. Net profit by operational costs
- 7. When is it appropriate to deviate from GAAP?**
- A. Whenever it benefits the company's profit
 - B. When applying literal GAAP could misrepresent financial statements
 - C. When it is less expensive than complying with GAAP
 - D. When it aligns with industry practices
- 8. Which of the following best describes an employee's action in a fictitious refund scheme?**
- A. The employee returns actual goods
 - B. The employee takes cash without processing anything
 - C. The employee records a false merchandise return
 - D. The employee informs management about the refund
- 9. Which of the following classifications is NOT a type of billing scheme?**
- A. Shell company schemes
 - B. Personal purchases with company funds
 - C. Bid rigging
 - D. Invoicing via nonaccomplice vendors
- 10. Does ABC Corporation have to disclose a liability related to its class-action lawsuit in financial statements?**
- A. Yes, it must disclose the liability
 - B. No, it does not have to disclose the liability
 - C. Only if it is certain to lose the lawsuit
 - D. Only if the damages are significant

Answers

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

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Explanations

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1. What is the correct characterization of vertical analysis in financial statements?

- A. It calculates percentage changes between accounting periods
- B. It compares financial items over multiple accounting periods
- C. It analyzes relationships by expressing components as percentages**
- D. It focuses solely on assets and their valuations

Vertical analysis is a method used to evaluate the financial statements of a company by expressing each line item as a percentage of a base figure within the same financial period. For example, in an income statement, each expense can be presented as a percentage of total revenue, allowing for a clear understanding of the relative size of each expense in relation to overall revenue. This approach facilitates comparisons across different parts of the financial statement and aids in assessing how components contribute to the overall financial picture. While other methods of analysis, like horizontal analysis, focus on changes over time or compare across multiple periods, vertical analysis is distinctly about intra-period comparisons. Its strength lies in highlighting the proportionate relationships within a single financial statement, which can effectively indicate trends in behavior and performance ratios within a specific time frame. Analyzing assets and their valuations is a more narrow focus that does not capture the broader applicability of vertical analysis across various components of financial statements, making it less suitable as a characterization of the method overall.

2. What is the term for a procurement fraud scheme where bid specifications favor a specific contractor?

- A. Bid suppression
- B. Bid tailoring**
- C. Bid alteration
- D. Bid division

The term describing a procurement fraud scheme where bid specifications are manipulated to favor a specific contractor is known as bid tailoring. In this scenario, the specifications are crafted in such a way that only the intended contractor can meet them, effectively eliminating competition. This not only undermines the fair bidding process but can also lead to inflated costs and diminished quality of goods or services procured since other potential bidders are unfairly excluded. Bid tailoring is particularly insidious because it can be difficult to detect; it often masquerades as a legitimate decision to meet specific project needs. However, it is essentially a manipulation of the procurement process which violates ethical standards and laws designed to ensure fairness in public and private contracting. Recognizing this form of fraud is vital for maintaining integrity in procurement practices.

3. What is a critical concern for lending institutions when assessing a company's financial ratios?

- A. Corporate espionage practices
- B. Misclassification of long-term liabilities
- C. Presence of unfair bidding practices

D. Manipulated financial ratios

The critical concern for lending institutions when assessing a company's financial ratios is the potential for manipulated financial ratios. This is because financial ratios are key indicators of a company's financial health and operational efficiency. When these ratios are manipulated, they can provide a false picture of the company's performance and stability. Lending institutions rely on accurate financial reporting to make informed decisions about creditworthiness and risk assessment. If a company engages in practices that distort these ratios, such as creative accounting or fraudulent financial reporting, lenders may not be able to assess the true financial condition of the business, leading to potential losses if loans are made based on misleading information. In this context, understanding that financial ratios must reflect genuine economic activity is crucial for lending institutions, as abilities to effectively predict default risk, manage investments, and establish loan terms hinge on the accuracy of these ratios.

4. What type of fraudulent scheme is Sheila involved in with her company ABC?

- A. A pay and return scheme
- B. A personal purchases with company funds scheme**
- C. An expense reimbursement scheme
- D. An invoice kickback scheme

Sheila is involved in a personal purchases with company funds scheme, which is a type of fraud where an employee makes unauthorized purchases for personal use but charges those expenses to the company. This behavior reflects a misuse of company resources, as the individual exploits their position to benefit personally at the company's expense. In this scheme, Sheila would be misrepresenting her purchases as legitimate business expenses, which can lead to significant financial losses for the company and violate ethical standards. It typically involves a deliberate intent to defraud the employer by taking advantage of their trust and misusing company funds for personal gain. Understanding this type of scheme is crucial for identifying and preventing similar fraudulent activities within organizations. This phenomenon often arises in environments where oversight is lacking, making it easier for employees like Sheila to commit such acts.

5. What is a common consequence if related-party transactions are not disclosed?

- A. Increased compliance costs
- B. Potential harm to shareholders**
- C. Legal benefits for the company
- D. Better relationship with regulators

When related-party transactions are not disclosed, potential harm to shareholders is a significant consequence. This harm arises because shareholders may not have a complete understanding of the risks associated with such transactions, which can lead to decisions based on incomplete or misleading information. Related-party transactions often involve conflicts of interest, and if these conflicts are not transparently communicated, shareholders can be adversely affected by decisions that do not align with their best interests. Undisclosed transactions can result in financial losses, and in some cases, management might engage in practices that prioritize personal gain over the company's performance. Shareholders depend on accurate financial disclosures to make informed investment decisions. When related-party transactions are hidden, they risk financial repercussions, diminished trust in the company's governance, and a decline in stock value. In contrast to this, the other options do not accurately represent the consequence of nondisclosure in a related-party context. Increased compliance costs could occur as companies might need to invest in more rigorous oversight to manage the risks of undisclosed transactions, but this doesn't capture the direct harm to shareholders. Legal benefits for the company and better relationships with regulators are unlikely since nondisclosure could lead to regulatory scrutiny and possible legal ramifications, further eroding shareholder confidence.

6. The asset turnover ratio is calculated by dividing which two financial metrics?

- A. Net sales by total revenue
- B. Net income by average total assets
- C. Net sales by average total assets**
- D. Net profit by operational costs

The asset turnover ratio is a critical financial metric that measures how efficiently a company uses its assets to generate sales. It is specifically calculated by dividing net sales by average total assets. Net sales refer to the revenue generated from goods sold or services provided, excluding any returns, discounts, or allowances. Average total assets are typically determined by adding the beginning and ending total assets for a period and dividing by two. This calculation gives a clearer picture of how effectively a company is utilizing its asset base over time to drive sales. Understanding this ratio is essential for stakeholders, as a higher asset turnover indicates that a company is using its assets more efficiently, which can be a sign of good management and operational execution. Additionally, comparisons of this ratio can provide insights into a company's performance relative to its industry peers. Other options provided do not accurately represent the correct calculation of the asset turnover ratio. For instance, while net income is an important measure of profitability, it does not contribute to assessing how assets are leveraged to generate sales, and operational costs are not included in this particular ratio calculation. Thus, the focus on net sales and average total assets makes the correct answer clear and aligned with standard financial analysis practices.

7. When is it appropriate to deviate from GAAP?

- A. Whenever it benefits the company's profit
- B. When applying literal GAAP could misrepresent financial statements**
- C. When it is less expensive than complying with GAAP
- D. When it aligns with industry practices

Deviating from Generally Accepted Accounting Principles (GAAP) is appropriate primarily in situations where a strict application of GAAP may lead to misleading financial statements. This situation can occur when the unique circumstances of a company or transaction require a different accounting treatment in order to provide a true and fair view of the financial position and performance. For example, if applying GAAP as intended would obscure the economic realities of a company's business transactions or if the GAAP standards do not adequately reflect the nature of those transactions, an alternative accounting treatment might be justified. In essence, the rationale here pivots on the fundamental principles of accounting that aim to ensure transparency and relevance in financial reporting. There are instances where the spirit of GAAP should be prioritized over its letter to ensure stakeholders receive a faithful representation of the financial state of the organization. Other considerations, such as merely wanting to increase profits, reducing compliance costs, or aligning with industry practices, do not provide adequate justification for departing from GAAP. These considerations may stem from self-interest or cost-cutting motivations rather than a genuine necessity to provide clearer financial information. Thus, such reasons highlight the importance of ethical accounting practices, and compliance with GAAP remains paramount unless there is a compelling reason related to accurate representation.

8. Which of the following best describes an employee's action in a fictitious refund scheme?

- A. The employee returns actual goods
- B. The employee takes cash without processing anything
- C. The employee records a false merchandise return**
- D. The employee informs management about the refund

In a fictitious refund scheme, the employee's action of recording a false merchandise return is fundamental to the fraud. This typically involves the employee entering a transaction in the system that indicates a return of goods that were never actually returned or didn't exist. By doing so, the employee can manipulate the accounting records to create the illusion that a legitimate refund is taking place. This action allows the employee to obtain cash or store credit that they wouldn't otherwise be entitled to, effectively stealing from the company. The fraud hinges on the misrepresentation of activity in the records, which is why the act of falsifying a return is at the core of this type of scheme. The other options do not illustrate the key element of a fictitious refund scheme as effectively. For instance, returning actual goods involves a legitimate transaction, taking cash without processing anything does not apply the pretenses of a refund, and informing management about the refund does not contribute to a fraudulent scheme. Thus, recording a false return is the definitive action that identifies this fraudulent activity.

9. Which of the following classifications is NOT a type of billing scheme?

- A. Shell company schemes
- B. Personal purchases with company funds
- C. Bid rigging**
- D. Invoicing via nonaccomplice vendors

Bid rigging is characterized by a group of competitors agreeing to manipulate the bidding process for contracts, ensuring that specific parties win contracts while circumventing true competition. It primarily occurs in the context of procurement and does not specifically relate to fraudulent billing activities that typically involve manipulation of invoices or payments. In contrast, the other classifications mentioned involve methods by which individuals or groups submit fraudulent or misleading invoices to misappropriate funds. Shell company schemes involve the creation of fictitious entities to generate invoices for goods or services that were never provided. Personal purchases with company funds represent a misuse of company resources, as individuals could submit invoices for personal expenses disguised as business-related. Invoicing via nonaccomplice vendors involves sending invoices through legitimate businesses that may not be aware of the fraud, making it an effective yet deceptive billing scheme. These activities are directly aligned with common billing schemes that fraud examiners investigate in financial crimes.

10. Does ABC Corporation have to disclose a liability related to its class-action lawsuit in financial statements?

- A. Yes, it must disclose the liability
- B. No, it does not have to disclose the liability**
- C. Only if it is certain to lose the lawsuit
- D. Only if the damages are significant

When considering whether ABC Corporation must disclose a liability related to a class-action lawsuit, it is essential to understand the criteria for liability recognition under accounting standards such as GAAP (Generally Accepted Accounting Principles) or IFRS (International Financial Reporting Standards). The correct rationale for determining the need for disclosure revolves around the likelihood of the outcome of the lawsuit and the ability to reasonably estimate any potential financial obligations. Generally, a liability needs to be disclosed if it is probable that the company will incur a loss and the amount can be reasonably estimated. If the lawsuit is currently unresolved, the assessment of whether a liability exists would depend on the nature of the lawsuit and the current stage of proceedings. In this case, if the corporation believes it has a strong position in the lawsuit or that an unfavorable outcome is not probable, it may choose not to disclose the liability in its financial statements at this time. This aligns with the understanding that mere involvement in a class-action lawsuit does not automatically trigger the obligation to disclose unless specific criteria are met regarding probability and estimability. Thus, if ABC Corporation assesses that the likelihood of losing the lawsuit is low and cannot reasonably estimate any potential damages, it would not be required to disclose the liability in its financial statements. This reasoning supports the position

Next Steps

Congratulations on reaching the final section of this guide. You've taken a meaningful step toward passing your certification exam and advancing your career.

As you continue preparing, remember that consistent practice, review, and self-reflection are key to success. Make time to revisit difficult topics, simulate exam conditions, and track your progress along the way.

If you need help, have suggestions, or want to share feedback, we'd love to hear from you. Reach out to our team at hello@examzify.com.

Or visit your dedicated course page for more study tools and resources:

<https://acfecfefintransfraudschemes.examzify.com>

We wish you the very best on your exam journey. You've got this!

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