

Audit and Assurance Practice Exam (Sample)

Study Guide



Everything you need from our exam experts!

This is a sample study guide. To access the full version with hundreds of questions,

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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. Don't worry about getting everything right, 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, and take breaks to retain information better.

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.

7. Use Other Tools

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!

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Questions

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1. In testing controls over whether sales are properly valued, what procedure could the auditor take?

- A. Sampling recorded sales invoices and agreeing the price to an authorized price list.**
- B. Reviewing customer feedback on pricing satisfaction.**
- C. Implementing more rigorous internal control measures.**
- D. Conducting market price comparisons for future sales.**

2. What does professional skepticism entail?

- A. Having faith in client representations**
- B. A questioning mind and critical assessment of evidence**
- C. Assuming all information provided is accurate**
- D. Being overly critical of all audit findings**

3. Which of the following items would typically be included in a PCAOB audit report that includes Critical Audit Matters (CAMs)?

- A. The auditor's evaluation of the matter**
- B. Management's agreement with the identified CAMs**
- C. Disclosure of procedures performed by the auditor**
- D. Indication of the significance of the matter**

4. Why are cash accounts generally more susceptible to error compared to other accounts?

- A. The high volume of transactions increases the likelihood of errors.**
- B. Cash is typically handled by more employees than other accounts.**
- C. Cash accounts are usually monitored less frequently.**
- D. Errors are less likely to occur in manual calculations.**

5. Which of the following activities is not associated with the acquisition and payment cycle?

- A. Receive a customer purchase order**
- B. Process supplier invoices**
- C. Make payments to vendors**
- D. Review purchasing contracts**

6. What is the role of walkthroughs in assessing internal controls?

- A. To draft a financial statement**
- B. To verify the independence of an auditor**
- C. To trace a transaction through the system**
- D. To identify management fraud**

7. After identifying the risks of material misstatements, which audit plan would the auditor implement when control risk is believed to be high?

- A. The only evidence the auditor plans to obtain is from tests of details.**
- B. A reliance on internal controls to gather evidence.**
- C. A focus on analytical procedures rather than tests of details.**
- D. Performance of extensive substantive analytical procedures only.**

8. What does increased demand for a low-priced product generally indicate for inventory management?

- A. Higher strategic risk**
- B. More effective turnover**
- C. Potential for excess inventory**
- D. Expansion limitations**

9. What effect does a justified departure from GAAP have on the audit report?

- A. It should only be mentioned verbally**
- B. It must detail the reasons and effects**
- C. It requires complete removal of the audit opinion**
- D. It should be ignored if immaterial**

10. What is the end goal of substantive testing in an audit?

- A. To gather evidence on internal controls**
- B. To verify the accuracy of financial statements**
- C. To determine auditor independence**
- D. To calculate auditor fees**

Answers

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

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Explanations

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1. In testing controls over whether sales are properly valued, what procedure could the auditor take?

- A. Sampling recorded sales invoices and agreeing the price to an authorized price list.**
- B. Reviewing customer feedback on pricing satisfaction.**
- C. Implementing more rigorous internal control measures.**
- D. Conducting market price comparisons for future sales.**

The procedure of sampling recorded sales invoices and agreeing the price to an authorized price list is a direct method to test controls over the valuation of sales. This approach allows the auditor to verify that the prices charged to customers are consistent with the agreed-upon prices in the company's price list. This is crucial because an effective control in the sales process ensures that discounts, markup adjustments, and pricing errors do not affect financial reporting. By performing this procedure, the auditor assesses whether there is a reliable process in place to maintain pricing accuracy, which is essential for proper revenue recognition and overall financial statement integrity. This method also helps identify any discrepancies between recorded sales and established pricing policies, which could indicate a failure in internal controls if significant issues are found. Other alternative procedures, like reviewing customer feedback or implementing internal controls, do not provide the same direct assurance regarding proper sales valuation. Similarly, market price comparisons for future sales focus on future transactions instead of validating current sales prices.

2. What does professional skepticism entail?

- A. Having faith in client representations**
- B. A questioning mind and critical assessment of evidence**
- C. Assuming all information provided is accurate**
- D. Being overly critical of all audit findings**

Professional skepticism is a fundamental principle for auditors and involves maintaining a questioning mind and performing a critical assessment of audit evidence. This mindset is essential in identifying potential misstatements and ensuring that the auditor does not simply accept information at face value. In practice, professional skepticism means being open to the possibility that the evidence might contradict client representations and being prepared to investigate further when there are indications that the information may not be reliable. This critical assessment helps auditors make more informed decisions and ensures that they gather sufficient and appropriate evidence before arriving at conclusions. The other options do not accurately reflect the essence of professional skepticism. Believing in client representations or assuming that all information is accurate goes against the purpose of skepticism, which is to question and verify. While being critical is part of skepticism, being overly critical can lead to biased conclusions and may disrupt the necessary balanced assessment of evidence. Thus, having a questioning mind coupled with critical assessment of evidence is vital to the auditing process.

3. Which of the following items would typically be included in a PCAOB audit report that includes Critical Audit Matters (CAMs)?

- A. The auditor's evaluation of the matter**
- B. Management's agreement with the identified CAMs**
- C. Disclosure of procedures performed by the auditor**
- D. Indication of the significance of the matter**

In a PCAOB audit report that includes Critical Audit Matters (CAMs), the inclusion of the auditor's evaluation of the matter is essential. This element provides a comprehensive overview, showcasing how the auditor assessed the issues considered to be critical to the financial statement audit. The evaluation reflects the auditor's professional judgment and offers insights into the complexity and risks associated with these matters, which enhances transparency and informs users of the financial statements about the challenges faced during the audit. While the other options may contain relevant information, they do not capture a core aspect of what makes the auditor's perspective valuable. For instance, while management's agreement with the identified CAMs is relevant, it does not provide the same depth of analysis from the auditor's viewpoint. Similarly, though the disclosure of procedures performed by the auditor can be important, it does not convey the subjective evaluation that is critical in understanding the significance of the CAM. Lastly, an indication of the significance of the matter might be inferred through other disclosures, but the evaluation itself is paramount in elucidating the auditor's thought process and the implications of these matters for the overall audit. Thus, the inclusion of the auditor's evaluation is crucial in ensuring that stakeholders gain an understanding of the most challenging aspects of the audit process.

4. Why are cash accounts generally more susceptible to error compared to other accounts?

- A. The high volume of transactions increases the likelihood of errors.**
- B. Cash is typically handled by more employees than other accounts.**
- C. Cash accounts are usually monitored less frequently.**
- D. Errors are less likely to occur in manual calculations.**

Cash accounts are indeed more prone to errors primarily due to the high volume of transactions they typically involve. Since cash transactions can occur multiple times throughout a day, the likelihood of making mistakes, whether through misrecording amounts, input errors, or oversight in counting physical cash, increases significantly. This constant flow of activity makes it more challenging to maintain accurate records and ensures that every transaction is processed correctly. In addition to the sheer number of transactions, factors such as the complexity of cash management in businesses, including handling petty cash, deposits, withdrawals, and transfers, can contribute to an elevated error risk. The frequent interactions with cash necessitate diligence, and even small mistakes can lead to significant discrepancies when compounded over time. While cash accounts may be monitored frequently, the intense activity can overshadow routine checks, allowing errors to persist longer than they might in accounts with less frequent transactions. Understanding the intensity and intricacies of cash flow can help in devising stronger internal controls to mitigate these risks.

5. Which of the following activities is not associated with the acquisition and payment cycle?

- A. Receive a customer purchase order**
- B. Process supplier invoices**
- C. Make payments to vendors**
- D. Review purchasing contracts**

The activity associated with receiving a customer purchase order does not belong to the acquisition and payment cycle because this cycle primarily involves activities related to the procurement of goods and services from suppliers and the subsequent payments for those acquisitions. The acquisition and payment cycle focuses on establishing relationships with vendors, processing their invoices, making payments, and managing purchasing agreements. Receiving a customer purchase order pertains more to the sales cycle rather than the acquisition and payment cycle. In this context, it reflects the process of a business selling goods to customers, where the order is initiated by the customer rather than the organization acquiring products or services. On the other hand, processing supplier invoices, making payments to vendors, and reviewing purchasing contracts are all integral steps in managing purchases and settling accounts with suppliers, aligning with the functions of the acquisition and payment cycle.

6. What is the role of walkthroughs in assessing internal controls?

- A. To draft a financial statement**
- B. To verify the independence of an auditor**
- C. To trace a transaction through the system**
- D. To identify management fraud**

Walkthroughs play a crucial role in assessing internal controls by tracing a transaction through the system. This process involves selecting a transaction and following it through all the stages of processing, documenting each step it takes within the internal control system. By doing this, auditors can observe how transactions are initiated, authorized, processed, and recorded, allowing them to evaluate whether the controls are designed effectively and operating as intended. This hands-on approach helps in identifying potential weaknesses or gaps in the internal control processes that could lead to errors or fraud. Through walkthroughs, auditors can provide evidence that the internal controls are functioning as planned, thereby enhancing the reliability of the financial reporting process. Looking at the other options, drafting a financial statement is not relevant to the assessment process of internal controls, as it focuses on the output rather than the underlying controls. Verifying the independence of an auditor is concerned with ethical standards and does not relate to how internal controls are evaluated. Identifying management fraud, while important, is a broader objective that can be informed by walkthroughs but is not the primary purpose of conducting them. Thus, tracing a transaction is the specific and direct function of walkthroughs in the context of internal control assessment.

7. After identifying the risks of material misstatements, which audit plan would the auditor implement when control risk is believed to be high?

- A. The only evidence the auditor plans to obtain is from tests of details.**
- B. A reliance on internal controls to gather evidence.**
- C. A focus on analytical procedures rather than tests of details.**
- D. Performance of extensive substantive analytical procedures only.**

When control risk is assessed as high, the auditor is concerned that the internal controls in place may not effectively prevent or detect material misstatements. Therefore, the auditor needs to gather additional substantive evidence to support the financial statements. This approach involves performing tests of details, which are direct examinations of the underlying financial data, rather than relying on integrated internal controls or analytical procedures. Tests of details provide a more robust form of evidence because they involve verifying transactions and balances rather than inferring reliability through reliance on internal controls. By focusing solely on tests of details, the auditor mitigates the risk that material misstatements remain undetected. This ensures a more thorough examination, which is essential when control risks are high. Other options that suggest relying on internal controls or analytical procedures would not be appropriate in a scenario where the auditor has doubts about the effectiveness of those controls to act as reliable evidence for the audit. Thus, the strategy to prioritize detailed evidence collection aligns with the heightened concern over control deficiencies.

8. What does increased demand for a low-priced product generally indicate for inventory management?

- A. Higher strategic risk**
- B. More effective turnover**
- C. Potential for excess inventory**
- D. Expansion limitations**

Increased demand for a low-priced product typically indicates a more effective turnover for inventory management. When demand rises, it often leads to quicker sales of existing stock, which means that the company is able to move its inventory faster. This effective turnover minimizes holding costs and ensures that cash flow remains healthy, as products are not sitting in inventory for long periods. With a low-priced product experiencing increased demand, businesses focus on maintaining optimal inventory levels to meet consumer needs without overstocking. This strategy aligns inventory closely with sales patterns, further enhancing the efficiency of inventory management. In contrast, while potential for excess inventory might seem plausible if demand fluctuates unexpectedly, in a scenario of increased demand, robust inventory turnover is the primary focus. Similarly, higher strategic risk and expansion limitations may not directly correlate with the context of a low-priced product's increasing demand, as these factors deal more with overall business strategy and market positioning rather than the inherent efficiency of inventory processes under heightened demand conditions.

9. What effect does a justified departure from GAAP have on the audit report?

- A. It should only be mentioned verbally
- B. It must detail the reasons and effects**
- C. It requires complete removal of the audit opinion
- D. It should be ignored if immaterial

A justified departure from Generally Accepted Accounting Principles (GAAP) has significant implications for the audit report, especially in terms of transparency and the integrity of financial reporting. When a company deviates from GAAP but has valid reasons for doing so, this situation must be clearly communicated within the audit report. Detailing the reasons for the departure is crucial as it helps users of the financial statements understand the context behind the non-compliance. Additionally, explaining the effects of this departure on the financial statements provides essential information that impacts users' decision-making processes. Without this level of detail, stakeholders may misinterpret the financial statements, leading to potential misjudgments about the entity's financial health and compliance. In contrast, merely mentioning the departure verbally would not provide sufficient clarity or assurance, while removing the audit opinion entirely would be overly drastic and not aligned with the principles of fair presentation. Ignoring the departure if deemed immaterial would also be inappropriate because even immaterial departures can affect the understanding of the financial context. Therefore, it is necessary to articulate both the rationale and ramifications associated with the justified departure to maintain the integrity of the audit opinion and ensure effective communication with stakeholders.

10. What is the end goal of substantive testing in an audit?

- A. To gather evidence on internal controls
- B. To verify the accuracy of financial statements**
- C. To determine auditor independence
- D. To calculate auditor fees

Substantive testing in an audit primarily aims to verify the accuracy of financial statements. This type of testing involves evaluating and validating the data presented in the financial statements to ensure that they are free from material misstatement, whether due to error or fraud. The process includes various procedures such as examining transactions, testing account balances, and obtaining supporting documentation. By focusing on these elements, auditors can ascertain that the financial results presented reflect the true financial position and performance of the organization in accordance with relevant accounting standards. Gathering evidence on internal controls, while important, is typically done through tests of controls rather than substantive testing. Determining auditor independence is a matter of adherence to ethical standards and regulations, not the focus of substantive testing. Calculating auditor fees pertains to the business aspect of auditing services and does not relate to the substantive testing process in terms of evaluating financial statement accuracy.

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://auditandassurance.examzify.com>

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

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