

# Audit and Assurance Practice Exam (Sample)

## Study Guide



**Everything you need from our exam experts!**

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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 risk assessment in the context of an audit?**
  - A. The process of identifying risks of material misstatement**
  - B. The evaluation of auditor qualifications**
  - C. The determination of audit fees based on risk**
  - D. The identification of clients needing audits**
- 2. In the audit procedure related to marketable securities, which assertion requires the auditor to examine documents for restrictions?**
  - A. Completeness**
  - B. Valuation**
  - C. Rights and obligations**
  - D. Existence**
- 3. Which of the following accounts is not part of the acquisition and payment cycle?**
  - A. Accounts Receivable**
  - B. Accounts Payable**
  - C. Inventory**
  - D. Cash**
- 4. What action must be taken if there is a significant scope limitation during the audit?**
  - A. Issue a clean opinion**
  - B. Issue a modified opinion**
  - C. Request additional time for audit**
  - D. Ignore scope limitations**
- 5. In a PCAOB audit report that includes CAMs, which item would likely be excluded?**
  - A. A description of all audit procedures performed.**
  - B. A summary of significant unadjusted misstatements.**
  - C. An overview of the audit approach taken.**
  - D. Information related to the risks of material misstatement.**

**6. What is one potential result of failing to adhere to financial regulations?**

- A. Increased accuracy in future audits**
- B. Legal penalties and reputational damage**
- C. Heightened investor trust**
- D. Enhanced transparency in financial reporting**

**7. What does valuation of cash balances primarily focus on?**

- A. The physical presence of cash**
- B. The true economic value of the cash**
- C. The frequency of cash transactions**
- D. The forecasted cash flows**

**8. What do substantive tests aim to achieve?**

- A. To determine overall compliance with regulatory standards**
- B. To detect material misstatements in account balances or transactions**
- C. To assess the effectiveness of internal controls**
- D. To analyze the company's market position**

**9. If a company introduced a new product with a low price point, what change is expected in the inventory turnover?**

- A. It is expected to remain unchanged**
- B. It is expected to increase**
- C. It is expected to decrease**
- D. It is expected to fluctuate frequently**

**10. What audit procedure would be appropriate to test the existence assertion for inventory?**

- A. Conduct a market analysis on inventory prices**
- B. Review the client's proposed physical inventory procedures**
- C. Analyze customer feedback on inventory items**
- D. Check inventory against theoretical calculations**

## **Answers**

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

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## **Explanations**

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## 1. What is risk assessment in the context of an audit?

- A. The process of identifying risks of material misstatement**
- B. The evaluation of auditor qualifications**
- C. The determination of audit fees based on risk**
- D. The identification of clients needing audits**

Risk assessment in the context of an audit refers to the process through which auditors identify and evaluate the risks of material misstatement in the financial statements. This is a fundamental aspect of the audit process, as it helps auditors understand where misstatements are likely to occur, whether due to errors or fraud. In performing risk assessment, auditors consider various factors, such as the complexities of the client's operations, the industry in which the client operates, the internal control environment, and any past issues with misstatements. By understanding these risks, auditors can tailor their audit procedures to address the specific areas of concern that may lead to significant errors in the financial reporting. This allows for a more effective audit that focuses on the areas with the highest likelihood of risk, thereby enhancing the overall reliability of the audit process. The other options represent activities that, while related to the audit process, do not encapsulate the key concept of risk assessment. Evaluating auditor qualifications, determining audit fees, and identifying clients that need audits are important aspects of the auditing profession but do not specifically describe the risk assessment process itself. Understanding these distinctions is essential for grasping the foundational elements of auditing practices.

## 2. In the audit procedure related to marketable securities, which assertion requires the auditor to examine documents for restrictions?

- A. Completeness**
- B. Valuation**
- C. Rights and obligations**
- D. Existence**

The assertion related to examining documents for restrictions in the audit procedure for marketable securities is focused on rights and obligations. This assertion requires auditors to confirm that the entity has the legal rights to the securities it holds and that these securities are free from any obligations or claims by third parties. When auditors examine documents, they look for any restrictions that may limit the use, transfer, or disposal of the securities. Such restrictions could stem from legal agreements, contracts, or regulatory requirements. Understanding these rights is essential in ensuring that the company can exercise its ownership of the securities without encumbrances and that any restrictions are clearly acknowledged and accounted for in the financial statements. This is a critical aspect of the audit process because it ensures that investors and stakeholders receive an accurate picture of the entity's holdings and any potential liabilities associated with those holdings. Validating the rights and obligations supports the overall accuracy and reliability of financial reporting related to marketable securities.

**3. Which of the following accounts is not part of the acquisition and payment cycle?**

**A. Accounts Receivable**

**B. Accounts Payable**

**C. Inventory**

**D. Cash**

The acquisition and payment cycle primarily involves transactions related to the purchase of goods and services, focusing on how a company acquires inventory or services and makes payments for them. Within this context, accounts payable, inventory, and cash are all directly linked to the cycle: - Accounts payable represents the obligations that arise when a company purchases goods or services on credit. - Inventory indicates the goods a company has acquired, either to sell or to use in operations. - Cash is involved when making payments for those acquisitions. Accounts receivable, on the other hand, relates to money owed to a business from customers who have purchased goods or services on credit. This aspect is part of the revenue cycle, which deals with the company's sales and collections, rather than the acquisition and payment cycle. Therefore, accounts receivable does not fit into the context of the acquisition and payment cycle, making it the correct answer.

**4. What action must be taken if there is a significant scope limitation during the audit?**

**A. Issue a clean opinion**

**B. Issue a modified opinion**

**C. Request additional time for audit**

**D. Ignore scope limitations**

When an audit encounters a significant scope limitation, the appropriate action is to issue a modified opinion. A scope limitation arises when the auditor is unable to obtain sufficient appropriate audit evidence regarding any material aspect of the financial statements. Such limitations could be due to restrictions imposed by management or circumstances that prevent auditors from accessing necessary information. When the limitations are significant, a modified opinion indicates that while the auditor was able to conduct an audit, the lack of sufficient evidence may affect the reliability of the financial statements as a whole. This modified opinion can take one of two forms: a qualified opinion or a disclaimer of opinion, depending on the severity and nature of the limitation. A qualified opinion is issued when the limitation is material but not pervasive, meaning it has a significant impact but does not affect the overall financial statements. A disclaimer of opinion is issued when the limitation is so severe that the auditor cannot express any opinion on the financial statements due to the inability to gather evidence. In contrast, issuing a clean opinion would misrepresent the situation, as it would suggest there were no significant limitations, while requesting additional time may not address the fundamental issue of the limitation itself. Ignoring scope limitations is not an acceptable practice in auditing, as it would diminish the credibility and reliability of

**5. In a PCAOB audit report that includes CAMs, which item would likely be excluded?**

- A. A description of all audit procedures performed.**
- B. A summary of significant unadjusted misstatements.**
- C. An overview of the audit approach taken.**
- D. Information related to the risks of material misstatement.**

In a PCAOB audit report that includes Critical Audit Matters (CAMs), the item that would likely be excluded is a description of all audit procedures performed. The focus of CAMs is to highlight matters that were communicated to the audit committee and that have significance to the financial statements. The purpose is to provide insight into the audit process and the areas of significant judgment or risk, rather than to detail every step taken during the audit. While the audit report may provide a summary of significant unadjusted misstatements, an overview of the audit approach, and information about risks of material misstatement, these elements are more aligned with the reporting requirements of CAMs. Items that delve into exhaustive descriptions of all audit procedures performed would detract from the report's primary purpose and may not offer additional value to the users of the financial statements. Thus, this specific item is excluded in favor of broader matters that communicate the critical aspects of the audit process and findings.

**6. What is one potential result of failing to adhere to financial regulations?**

- A. Increased accuracy in future audits**
- B. Legal penalties and reputational damage**
- C. Heightened investor trust**
- D. Enhanced transparency in financial reporting**

Failing to adhere to financial regulations can lead to substantial legal penalties and reputational damage for an organization. Regulatory frameworks are established to ensure transparency, fairness, and accountability within the financial markets. When firms do not comply, they may face fines, sanctions, or even criminal charges, depending on the severity of the violation. Additionally, non-compliance can severely harm an organization's reputation. Stakeholders, including investors, customers, and business partners, may lose trust and confidence in a company that does not follow necessary regulations. This can result in decreased market value and the potential loss of business opportunities, as well as long-term impacts on relationships with regulatory bodies and the public. The other options suggest positive outcomes, which are not consistent with the consequences of failing to adhere to financial regulations. Enhanced accuracy in audits and heightened investor trust are unlikely outcomes of non-compliance, as these typically arise from good practices and adherence to regulations. Similarly, enhanced transparency is a result of following financial regulations rather than deviating from them.

## 7. What does valuation of cash balances primarily focus on?

- A. The physical presence of cash
- B. The true economic value of the cash**
- C. The frequency of cash transactions
- D. The forecasted cash flows

Valuation of cash balances primarily focuses on the true economic value of the cash. This involves assessing how much the cash is worth in an economic context, which includes considering factors such as inflation, interest rates, and the opportunity costs of holding cash rather than investing it. Understanding the true economic value is crucial for stakeholders as it impacts financial reporting and decision-making. While the physical presence of cash is important for security and fraud prevention, it does not fully represent how cash will perform economically. The frequency of cash transactions is more about operational metrics than valuation. Additionally, while forecasted cash flows are important for budgeting and financial planning, they are projections about future inflows and outflows rather than assessments of the current value of existing cash balances. These aspects reinforce why focusing on the true economic value of cash holds significance in the context of valuation activities.

## 8. What do substantive tests aim to achieve?

- A. To determine overall compliance with regulatory standards
- B. To detect material misstatements in account balances or transactions**
- C. To assess the effectiveness of internal controls
- D. To analyze the company's market position

Substantive tests are designed specifically to detect material misstatements in account balances or transactions. These tests provide direct evidence about the accuracy and completeness of the financial information presented in the financial statements. By focusing on the actual transactions and balances, auditors can ascertain whether the amounts reported are free from significant errors that could mislead users of the financial statements. Substantive tests include procedures such as inspecting documents, confirming account balances with third parties, and performing analytical procedures to assess accuracy. This approach is crucial for identifying possible errors or fraud, which can significantly impact the financial health of an organization. Thus, the primary objective of substantive testing is to obtain relevant and reliable audit evidence regarding the assertions related to account balances, transactions, and disclosures in the financial statements, which aligns perfectly with the aim of detecting material misstatements.

**9. If a company introduced a new product with a low price point, what change is expected in the inventory turnover?**

- A. It is expected to remain unchanged**
- B. It is expected to increase**
- C. It is expected to decrease**
- D. It is expected to fluctuate frequently**

When a company introduces a new product at a low price point, it typically aims to attract a larger customer base and stimulate higher sales volumes. This increase in sales can lead to a more rapid turnover of inventory due to the higher demand for the product. Inventory turnover is calculated by dividing the cost of goods sold (COGS) by the average inventory during a specific period. With a low price point product generating more sales, COGS is likely to increase significantly if the demand is robust, while the inventory may be sold off more rapidly. Consequently, the ratio of COGS to average inventory will increase, resulting in a higher inventory turnover. Additionally, a successful low-price strategy often attracts increased consumer interest, leading to quicker sales cycles and reducing the time that inventory sits unsold. The overall expectation is that as sales accelerate against a potentially stable or even slightly decreasing average inventory level, the inventory turnover ratio will rise accordingly.

**10. What audit procedure would be appropriate to test the existence assertion for inventory?**

- A. Conduct a market analysis on inventory prices**
- B. Review the client's proposed physical inventory procedures**
- C. Analyze customer feedback on inventory items**
- D. Check inventory against theoretical calculations**

To test the existence assertion for inventory, reviewing the client's proposed physical inventory procedures is appropriate because this procedure directly relates to verifying that the physical inventory presented on the financial statements actually exists. When auditors assess the procedures clients have in place for counting and verifying inventory, they are able to evaluate the controls and processes aimed at ensuring that all inventory items are accounted for accurately and truly exist. In the context of the existence assertion, it is essential that the items reported in the inventory are real and on hand. By reviewing the physical inventory procedures, the auditor can ensure that these processes are robust and effectively implemented to detect any discrepancies or issues, reinforcing the reliability of the inventory balance reported. Other methods like conducting market analysis, analyzing customer feedback, or theoretical calculations can provide useful information about inventory valuation or market performance, but they do not directly confirm that the inventory exists. These options may contribute valuable insights or support in other areas related to inventory, yet they lack the direct connection necessary to test the existence assertion effectively.

# 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](mailto: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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