

# Audit of Construction and Real Estate Industry Practice Test (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. Which IT controls should be tested at the project level in construction audits?**
  - A. Access rights, segregation of duties, change management for project systems, and user access reviews**
  - B. Only password policies**
  - C. IT controls are not tested**
  - D. Only physical security measures**
  
- 2. Which element is essential when disclosing tax considerations for REITs in different jurisdictions?**
  - A. Only the current year tax rate.**
  - B. Disclose current and deferred tax assets and liabilities; explain REIT-specific regimes, distributions, and planning; consider jurisdictional differences.**
  - C. Ignore jurisdictional differences in tax disclosures.**
  - D. Provide only a qualitative discussion of tax planning.**
  
- 3. How are construction project cash flows classified in the statement of cash flows?**
  - A. Operating activities reflect investing in PPE and intangible assets.**
  - B. Investing activities reflect cash receipts from customers.**
  - C. Financing activities reflect payments to suppliers.**
  - D. Operating activities reflect cash receipts from customers and payments to suppliers; investing activities reflect PPE and intangible assets; financing activities reflect borrowings and repayments.**
  
- 4. What is the role of external confirmations in auditing construction contractor payables and receivables, and what risks exist if confirmations are not obtained?**
  - A. They are optional and have minimal impact on audit risk.**
  - B. They should be avoided due to privacy concerns.**
  - C. They confirm balances directly with counterparties, reducing misstatement risk.**
  - D. They should be replaced with internal reconciliations only.**

- 5. The current status of the enforceability position discussed in relation to revenue recognition is what?**
- A. It has been fully adopted nationwide**
  - B. It has been repealed**
  - C. It is being reviewed by the real estate industry**
  - D. It is irrelevant to real estate revenue**
- 6. Which balance sheet classification best describes unbilled receivables?**
- A. Liability**
  - B. Asset**
  - C. Equity**
  - D. Revenue**
- 7. Residential construction refers to the building or renovation of dwellings.**
- A. Commercial buildings**
  - B. Roads and bridges**
  - C. Residential buildings and renovations**
  - D. Industrial facilities**
- 8. What are key considerations when auditing land held for development versus inventory for sale?**
- A. Classification clarity, cost capitalization rules, impairment indicators, and transfer timing to inventory.**
  - B. Land must always be classified as inventory for sale.**
  - C. Land held for development is never inventory.**
  - D. Impairment indicators are irrelevant for land.**
- 9. What should management verify regarding the auditor's secure site during planning?**
- A. That all necessary personnel can access the site**
  - B. That only the CFO has access**
  - C. That access is limited to a single device**
  - D. That the site is physically secured**

- 10. How would you audit deferred revenue or customer advances for pre-sales in property development?**
- A. Record revenue when cash is received, regardless of performance obligations.**
  - B. Review contract terms, verify amounts with customers, ensure recognition aligns with performance obligations, and test that revenue is not recognized before satisfaction of obligations.**
  - C. Recognize revenue only at project completion.**
  - D. Ignore contract terms and rely on customer letters.**

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## **Answers**

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

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## **Explanations**

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**1. Which IT controls should be tested at the project level in construction audits?**

- A. Access rights, segregation of duties, change management for project systems, and user access reviews**
- B. Only password policies**
- C. IT controls are not tested**
- D. Only physical security measures**

Testing IT controls at the project level is essential because the systems used in a construction project—such as project management software, ERP, BIM platforms, and scheduling tools—touch critical data on costs, timelines, procurement, and design. Without evaluating these controls, risks like unauthorized access, inappropriate changes, or untracked updates can go unnoticed and undermine project outcomes. A solid project-level IT control review looks at who can access project systems and what they can do (access rights and segregation of duties), how changes to project systems are requested, approved, tested, and deployed (change management), and whether there are periodic reviews of user access to ensure permissions stay appropriate. Password policies and physical security are important components of the overall security environment, but focusing only on them misses broader controls that prevent errors and fraud, such as proper change processes and ongoing access governance. Therefore, IT controls should be tested at the project level to provide assurance on data integrity, security, and governance; claiming that IT controls are not tested would leave significant risk unaddressed.

**2. Which element is essential when disclosing tax considerations for REITs in different jurisdictions?**

- A. Only the current year tax rate.**
- B. Disclose current and deferred tax assets and liabilities; explain REIT-specific regimes, distributions, and planning; consider jurisdictional differences.**
- C. Ignore jurisdictional differences in tax disclosures.**
- D. Provide only a qualitative discussion of tax planning.**

Disclosures about taxes for REITs across jurisdictions must show the full picture of tax impact, not just the current year's rate. It's essential to present both current and deferred tax assets and liabilities, because timing differences between accounting rules and tax rules can create future tax benefits or obligations that affect reported earnings and cash flow. You should explain how REIT-specific regimes operate in each jurisdiction, including any distribution requirements and how they affect tax planning and potential tax outcomes. Also, highlight differences among jurisdictions so users can assess overall tax risk and planning implications for the REIT's cross-border operations. Providing only a current-rate figure would obscure these important elements and could mislead stakeholders about future tax costs.

### 3. How are construction project cash flows classified in the statement of cash flows?

- A. Operating activities reflect investing in PPE and intangible assets.
- B. Investing activities reflect cash receipts from customers.
- C. Financing activities reflect payments to suppliers.
- D. Operating activities reflect cash receipts from customers and payments to suppliers; investing activities reflect PPE and intangible assets; financing activities reflect borrowings and repayments.**

Cash flows are organized by activity type: operating, investing, and financing. Operating activities capture the cash effects of delivering goods and services, such as cash receipts from customers and payments to suppliers and subcontractors (plus employees). Investing activities deal with the acquisition and disposal of long-term assets like property, plant, and equipment and intangible assets. Financing activities reflect changes in the entity's capital structure, such as borrowings and repayments, and equity transactions. For a construction project, cash receipts from customers and payments to suppliers are operating activities; purchases or disposals of PPE and intangible assets are investing activities; borrowings and repayments are financing activities. This mapping is exactly what the correct option describes.

### 4. What is the role of external confirmations in auditing construction contractor payables and receivables, and what risks exist if confirmations are not obtained?

- A. They are optional and have minimal impact on audit risk.
- B. They should be avoided due to privacy concerns.
- C. They confirm balances directly with counterparties, reducing misstatement risk.
- D. They should be replaced with internal reconciliations only.**

External confirmations provide independent evidence by asking counterparties such as subcontractors, suppliers, and clients to verify the balances the contractor records. In auditing construction contractor payables and receivables, they help establish that the recorded amounts actually exist, are accurate, and are properly cut off at year-end, which reduces the risk of misstatement from fraud or error. Without confirmations, the auditor relies heavily on internal records, which can be manipulated or incomplete, increasing the chance of undetected fictitious liabilities, unrecorded payables, or unrecorded receivables. Construction projects involve many parties and complex terms, so confirmations are especially valuable for obtaining persuasive evidence about balances. If confirmations aren't obtained, auditors should use alternative procedures such as reviewing subsequent payments, examining vendor statements, inspecting supporting documents (invoices, contracts, POs), and reconciling balances with supplier and customer records, while also evaluating internal controls. However, internal reconciliations alone do not provide the same level of assurance as third-party confirmations, so relying solely on them elevates audit risk.

**5. The current status of the enforceability position discussed in relation to revenue recognition is what?**

- A. It has been fully adopted nationwide**
- B. It has been repealed**
- C. It is being reviewed by the real estate industry**
- D. It is irrelevant to real estate revenue**

Revenue recognition in real estate is not a fixed, final rule; it hinges on how enforceable the promised performance and payment terms are under contracts and under evolving guidance. Because real estate deals often involve long timelines, deposits, milestones, and complex arrangements (such as joint ventures, multi-element contracts, or contingent payments), industry practices and the interpretation of enforceability are continually reassessed. That ongoing evaluation ensures guidance stays aligned with current business models and standards setters' updates, so there hasn't been a nationwide adoption finished, nor a repeal, and it isn't something to ignore. The real estate industry is actively reviewing and refining how revenue should be recognized to reflect enforceability realities, hence this status.

**6. Which balance sheet classification best describes unbilled receivables?**

- A. Liability**
- B. Asset**
- C. Equity**
- D. Revenue**

Unbilled receivables are earned revenue that hasn't yet been billed to the customer. In construction accounting, revenue is often recognized as the work progresses (percent-of-completion), which creates a right to collect cash even before an invoice goes out. That right to cash is an asset on the balance sheet, usually shown as a current asset or as "unbilled revenue" within receivables. For example, if you recognize \$100,000 of revenue for work completed this period but haven't billed the client yet, you would debit unbilled receivable and credit revenue. When you later issue the invoice, you reclassify that amount from unbilled receivable to accounts receivable. So, unbilled receivables best fit an asset because they represent an expected future cash inflow you've earned, not an obligation (liability), nor ownership (equity) or income (revenue) at the moment of recognition.

**7. Residential construction refers to the building or renovation of dwellings.**

- A. Commercial buildings**
- B. Roads and bridges**
- C. Residential buildings and renovations**
- D. Industrial facilities**

Residential construction focuses on building and renovating places where people live. It covers homes, apartments, townhouses, and other dwellings, including new construction and remodeling existing living spaces. The correct choice captures both building and renovation of residential spaces, which is exactly what residential construction involves. Other options describe different sectors—commercial buildings, roads and bridges, or industrial facilities—which are outside the residential realm.

**8. What are key considerations when auditing land held for development versus inventory for sale?**

**A. Classification clarity, cost capitalization rules, impairment indicators, and transfer timing to inventory.**

**B. Land must always be classified as inventory for sale.**

**C. Land held for development is never inventory.**

**D. Impairment indicators are irrelevant for land.**

The main idea is to verify how land is categorized and measured depending on its intended use, and to test how that classification drives cost treatment, impairment checks, and when the asset moves to inventory. Classification clarity matters because land can be a non-current asset held for development or it can be inventory held for sale in the ordinary course. The auditor looks for management's documented plans and timing to support the chosen classification; misclassifying can skew both the balance sheet and the income statement. Cost capitalization rules are essential. Costs that create or enhance the future economic benefits of the land should be capitalized appropriately—acquisition costs, legal fees, site improvements, and development costs attributable to bringing the land to its intended use. If the land is being developed, those costs are capitalized until the asset is ready for sale, at which point they may transfer into inventory costs. Land itself is typically not depreciated, while development costs may be capitalized until the asset is reclassified as inventory or sold. Impairment indicators are relevant for both scenarios. Long-lived assets and development projects require impairment testing when events indicate the carrying amount may not be recoverable. For inventory, you also assess recoverable amount via net realizable value (NRV). The audit should look for indicators such as market declines, regulatory changes, or delays that could trigger impairment or write-downs. Transfer timing to inventory is a key control point. The reclassification point when land moves from development (or long-term asset) to inventory affects measurement, depreciation (if applicable), and cost of sales. Ensuring correct cut-offs at period end prevents misstatement of both asset values and inventories.

**9. What should management verify regarding the auditor's secure site during planning?**

**A. That all necessary personnel can access the site**

**B. That only the CFO has access**

**C. That access is limited to a single device**

**D. That the site is physically secured**

The main idea is ensuring collaborative access. The auditor's secure site is used for planning materials, exchange of information, risk assessments, and coordination of work. Management should verify that all necessary personnel—those who need to review, contribute to, or act on the planning materials—can access the site. If access is restricted to just one person (like a CFO) or limited to a single device, the audit planning process can be delayed, miscommunicated, or incomplete because key team members would be unable to participate. While security of the site matters, the goal here is to enable the appropriate team to work effectively. Simply ensuring physical security without allowing required personnel to access would create bottlenecks and gaps in planning.

**10. How would you audit deferred revenue or customer advances for pre-sales in property development?**

- A. Record revenue when cash is received, regardless of performance obligations.**
- B. Review contract terms, verify amounts with customers, ensure recognition aligns with performance obligations, and test that revenue is not recognized before satisfaction of obligations.**
- C. Recognize revenue only at project completion.**
- D. Ignore contract terms and rely on customer letters.**

Revenue from pre-sales in property development must be recognized when the customer gains control of the promised asset and the seller has satisfied the specified performance obligations, not simply when cash is received. Advances from customers create a liability (deferred revenue) until the underlying obligations are met, so the auditor's task is to verify that recognition aligns with those obligations and the transfer of control. The best approach is to review the contract to identify each performance obligation, determine the transaction price, and verify that any deposits are recorded as deferred revenue until the obligations are satisfied. The auditor should confirm the recorded amounts with customers, test that revenue is not recognized before the obligations are fulfilled, and perform cut-off testing to ensure proper timing and disclosures. Recognizing revenue upon receipt of cash ignores performance obligations; recognizing only at project completion may misstate progress and timing; and ignoring contract terms would undermine the reliability of the financial statements.

## 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://auditofconstrealestateindustry.examzify.com>**

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

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