

AUDIT OF CONSTRUCTION AND REAL ESTATE INDUSTRY PRACTICE TEST (SAMPLE) STUDY GUIDE



SAMPLE STUDY GUIDE WITH LIMITED 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. 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. It refers to any real property consisting of land and improvements such as fixtures, buildings, roads, structures, and even utility systems.**
 - A. Real estate
 - B. Construction
 - C. Urban planning
 - D. Personal property
- 2. How do contingent liabilities relating to guarantees or performance bonds affect financial statement disclosures in construction audits?**
 - A. They are recorded as probable and estimable liabilities; recognize or provide for estimated losses; include notes with terms and timing.
 - B. They are ignored unless actually paid.
 - C. They must be disclosed as probable and estimable liabilities; recognize or provide for estimated losses; include notes with terms and timing.
 - D. They are recognized only if issued by related parties.
- 3. What is a primary purpose of performing sensitivity analysis on major real estate projects in risk management disclosures?**
 - A. To illustrate how sensitive outcomes are to key assumptions such as discount rates, price expectations, and costs to complete.
 - B. To satisfy regulatory requirements regardless of impact.
 - C. To hide potential risks.
 - D. To replace all other risk disclosures.
- 4. Which is a use of industrial buildings?**
 - A. Marketing
 - B. Education
 - C. Healthcare
 - D. Research
- 5. Which statement best describes residential construction?**
 - A. It focuses on commercial office construction
 - B. It focuses on infrastructures
 - C. It focuses on landscaping
 - D. It focuses on the construction or renovation of dwellings

- 6. The Metro Manila Subway Project is expected to cost around how much?**
- A. 200 Billion Philippine Pesos
 - B. 500 Billion Philippine Pesos
 - C. 1050 Billion Philippine Pesos
 - D. 357 Billion Philippine Pesos
- 7. What is the final component in the sequence of how the real estate industry works?**
- A. Development
 - B. Brokerage
 - C. Professional services
 - D. Property management
- 8. Which combination of evidence sources is most effective for confirming estimates in construction and real estate audits?**
- A. Budget forecasts, project schedules, site progress, and subcontractor quotes (All relevant sources).
 - B. Budget forecasts only
 - C. Site progress photos only
 - D. Subcontractor quotes only
- 9. What is the purpose of transfer pricing review in intercompany real estate transactions?**
- A. Ensure terms reflect arm's length and elimination on consolidation; risks include overstatement of revenue, misallocation of costs, non-arm's-length terms.
 - B. Aim to maximize internal profits irrespective of arm's length.
 - C. Transfer pricing is irrelevant to audits.
 - D. Only external transactions matter.
- 10. How would you evaluate the reasonableness of estimated costs to complete on a construction contract for audit purposes?**
- A. Compare estimated costs to known milestones, supplier quotes, and historical project data; test sensitivity of estimates; corroborate with third-party quotes.
 - B. Based on last year's data only
 - C. Use random sampling of costs
 - D. Use budget only

Answers

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

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Explanations

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1. It refers to any real property consisting of land and improvements such as fixtures, buildings, roads, structures, and even utility systems.

A. Real estate

B. Construction

C. Urban planning

D. Personal property

The main idea is the distinction between property types based on permanence and attachment to the land. Real property includes land and permanent improvements attached to it—buildings, roads, utility systems, and fixtures that are intended to stay with the land. These items are part of what defines the property and are typically transferred with the land title. Personal property, in contrast, consists of movable items not permanently attached. Construction describes the act of building, not the property itself, and urban planning is about designing how land is used, not ownership of a property asset. Real estate is the term used for the land and its permanent improvements that form an asset that can be bought, sold, or mortgaged. So, the best answer is real estate.

2. How do contingent liabilities relating to guarantees or performance bonds affect financial statement disclosures in construction audits?

A. They are recorded as probable and estimable liabilities; recognize or provide for estimated losses; include notes with terms and timing.

B. They are ignored unless actually paid.

C. They must be disclosed as probable and estimable liabilities; recognize or provide for estimated losses; include notes with terms and timing.

D. They are recognized only if issued by related parties.

Contingent liabilities from guarantees or performance bonds are potential future outflows that depend on a triggering event. The proper accounting approach hinges on how probable the loss is and whether the amount can be estimated. When a loss is probable and estimable, you recognize a provision to reflect that expected outflow, and you also disclose the nature of the guarantee or bond and the terms and timing in the notes. If the loss is only reasonably possible or not readily estimable, you disclose the contingency in the notes but do not recognize a provision. If the probability is remote, you may not need to disclose. This is why the best answer emphasizes that these contingencies should be disclosed as probable and estimable liabilities and, where the loss is estimable, recognized or provided for, with notes describing the terms and timing. It aligns with the idea that management must reveal the potential impact in the notes and, when appropriate, record a provision for the expected loss. The other options imply ignoring the liability until payment, or restrict disclosure to related-party situations, which are not correct treatments for guarantees or performance bonds in construction audits.

3. What is a primary purpose of performing sensitivity analysis on major real estate projects in risk management disclosures?

- A. To illustrate how sensitive outcomes are to key assumptions such as discount rates, price expectations, and costs to complete.**
- B. To satisfy regulatory requirements regardless of impact.
- C. To hide potential risks.
- D. To replace all other risk disclosures.

The main idea this question tests is how sensitivity analysis is used to show how projected results depend on key assumptions. In major real estate projects, financial outcomes like net present value or cash flow hinge on inputs such as the discount rate, expected selling prices or rents, and costs to complete. Sensitivity analysis systematically varies these inputs to reveal how much the outcomes can change, highlighting which assumptions drive the result and how robust the plan is under different conditions. This helps investors and managers see the potential range of outcomes, understand where risks are concentrated, and decide where to place contingencies or implement risk-mitigation measures. It's about transparency and informed decision-making, not about ticking regulatory boxes, hiding risks, or replacing other risk disclosures.

4. Which is a use of industrial buildings?

- A. Marketing
- B. Education
- C. Healthcare
- D. Research**

Industrial buildings are designed to support production, processing, storage, and distribution of goods, with spaces for manufacturing lines, warehouses, and related support functions. Marketing, education, and healthcare are not typical industrial uses; marketing is mainly office/retail-oriented, education requires classrooms and instructional facilities, and healthcare needs clinical environments with specialized infrastructure. Research fits best because many industrial settings include R&D labs, pilot plants, and testing areas that integrate with manufacturing and product development. So, among the options, research aligns most closely with how industrial buildings are used.

5. Which statement best describes residential construction?

- A. It focuses on commercial office construction
- B. It focuses on infrastructures
- C. It focuses on landscaping
- D. It focuses on the construction or renovation of dwellings**

Residential construction focuses on building or renovating places where people live. This includes new homes such as single-family houses, townhomes, condominiums, and apartment buildings, as well as renovations inside dwellings like remodeling a kitchen or bathroom or adding an extra room. It is distinct from other sectors: it isn't about commercial office buildings, which fall under commercial construction, nor about infrastructure projects like roads or bridges, and it isn't primarily about landscaping, which deals with outdoor grounds and aesthetics rather than the structure itself. Recognizing this scope helps in auditing and practice because the types of work, regulatory requirements, and cost drivers are specific to housing projects, separate from non-residential or civil projects.

6. The Metro Manila Subway Project is expected to cost around how much?

- A. 200 Billion Philippine Pesos
- B. 500 Billion Philippine Pesos
- C. 1050 Billion Philippine Pesos
- D. 357 Billion Philippine Pesos**

Understanding large transit projects, the total cost reflects civil works (including tunnels and stations), rolling stock, signaling and power systems, land or right-of-way needs, and project management plus contingencies. For the Metro Manila Subway Project, the official ballpark figure given by the government for Phase 1 is around 357 billion Philippine pesos. This aligns with the scale of a 33-kilometer line with multiple underground sections and several stations, plus the necessary trains and systems. The other amounts are not in line with the published estimate: 200 billion would be too low for this scope, 500 billion is higher than the official figure, and 1,050 billion is far outside the disclosed range.

7. What is the final component in the sequence of how the real estate industry works?

- A. Development
- B. Brokerage
- C. Professional services**
- D. Property management

In real estate workflows, value is created when an asset is developed, then brought to market through brokerage, and finally operated and optimized through property management. The services that provide specialized expertise—legal, financial, appraisal, consulting, and other professional guidance—support every stage and, crucially, enable ongoing optimization and compliance across the asset's lifecycle. These professional services are what wrap up the sequence, because they deliver the analysis, documentation, risk management, and strategic advice that make ongoing operations sustainable and future cycles (like refinancing, redevelopment, or exit) possible. Without this expert support, the asset's development, sale, and operation wouldn't be able to scale or transition smoothly, so professional services sit at the end of the typical streamlined progression.

8. Which combination of evidence sources is most effective for confirming estimates in construction and real estate audits?

- A. Budget forecasts, project schedules, site progress, and subcontractor quotes (All relevant sources).
- B. Budget forecasts only
- C. Site progress photos only
- D. Subcontractor quotes only**

Combining different kinds of evidence gives a stronger check on estimates because each source provides a distinct perspective that, when put together, reveals whether the estimate is reasonable. Budget forecasts show what was planned to spend, but they can be optimistic or include contingencies that mask underlying risks. Project schedules tie costs to timing and resource usage, helping you see if the pace of work could drive costs up or down. Site progress photos confirm what has actually been completed and can uncover scope changes or work that wasn't captured in the original estimate. Subcontractor quotes offer external cost information and market rates for specific trades, but by themselves they may not reflect all components of the project or changes that occurred. Relying on just one type of evidence leaves gaps. For example, forecasts might look good on paper yet not align with actual progress; progress photos show activity but not total cost; quotes show rates but not whether they cover all trades or changes. Using all relevant sources and comparing them helps verify whether the estimate aligns with real progress, market costs, and planned versus actual spending, reducing the risk of misstatement. So the most effective approach is to triangulate across budget forecasts, project schedules, site progress, and subcontractor quotes, rather than depending on a single source.

9. What is the purpose of transfer pricing review in intercompany real estate transactions?

- A. Ensure terms reflect arm's length and elimination on consolidation; risks include overstatement of revenue, misallocation of costs, non-arm's-length terms.**
- B. Aim to maximize internal profits irrespective of arm's length.
- C. Transfer pricing is irrelevant to audits.
- D. Only external transactions matter.

In intercompany real estate transactions, the essential purpose of a transfer pricing review is to verify that prices charged between related entities reflect what independent, unrelated parties would agree (arm's length principle) and to ensure those intercompany results are handled correctly in consolidation. This helps prevent shifting profits to different entities or jurisdictions and avoids distortions in the group's financial statements. Why this is the best answer: it explicitly ties pricing to market-based terms and to the consolidation process, acknowledging that intercompany deals must be priced as if the entities were independent and that the related revenues and costs are properly eliminated or adjusted in consolidation. It also points to the common risks auditors look for—overstatement of revenue, misallocation of costs, and terms that are not at arm's length—highlighting why a careful transfer pricing review is important for accurate financial reporting and tax compliance. Other choices miss the mark because they ignore the arm's length requirement, suggest maximizing internal profits regardless of market reality, claim transfer pricing isn't relevant to audits, or state that only external transactions matter—none of which align with how real estate groups are audited and consolidated.

10. How would you evaluate the reasonableness of estimated costs to complete on a construction contract for audit purposes?

A. Compare estimated costs to known milestones, supplier quotes, and historical project data; test sensitivity of estimates; corroborate with third-party quotes.

B. Based on last year's data only

C. Use random sampling of costs

D. Use budget only

Evaluating reasonableness of estimated costs to complete relies on grounding the estimate in current, project-specific information from multiple independent sources and stress-testing the assumptions to reflect uncertainty. Using known milestones provides a solid progress anchor tied to the contract's schedule, while supplier quotes bring in up-to-date market rates for materials and subcontracted work. Historical project data adds a reality check by showing how similar activities performed in the past, including typical productivity and cost patterns. Testing the sensitivity of estimates to key drivers—such as material price volatility, labor rates, and productivity assumptions—reveals how far the total cost could realistically move under different scenarios. Corroborating the estimate with third-party quotes adds external validation, reducing the risk that internal biases or incomplete information skew the numbers. Together, these elements create a robust, evidence-based estimate that supports reliable financial reporting and audit conclusions. Relying only on last year's data can misrepresent current conditions or scope changes; random sampling may miss material cost items or drivers and isn't designed to establish overall reasonableness; using only a budget ignores actual market conditions and execution performance, and can be biased.

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://auditofconstrealestateindustry.examzify.com>

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

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