AUDITING 100 PRACTICE EXAM (SAMPLE)

STUDY GUIDE

Prepare with structure. Pass with confidence

Table of Contents

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

1. An auditor is most likely to inspect loan agreements under which an entity's inventories are pledged to support management's financial statement assertion of

A. Existence or occurrence

B. Presentation and disclosure

C. Completeness

D. Valuation or allocation

2. Regarding observation as an audit technique, which statement is true?

A. It is the most effective audit methodology to use in filling out internal control questionnaires

B. It is the most persuasive technique to learn how transactions are really processed during the period under audit

C. It is rarely sufficient to satisfy any audit assertion other than existence

D. It is the most persuasive audit technique for determining if fraud has really occurred

3. Which statement about statistical sampling in auditing is true?

A. Sampling methods are used by auditors in both testing of controls and substantive testing.

B. In as much as audits are test-based, generally accepted auditing standards require the use of statistical sampling methods whenever the auditor decided to examine only a part of the population.

C. Although statistical sampling may be applied to test controls, it is required for substantive testing purposes.

D. Statistical sampling methods are more appropriate for testing of controls when the auditor elects to reprocess transactions, than when controls are tested by means of document examination.

4. What are risk assessment procedures?

A. Inquiries only

B. Analytical procedures only

C. Inquiries, analytical procedures, and observation to identify risks of material misstatement

D. Observations only

5. Which statement about analytical procedures is true?

A. Analytical procedures used in planning the audit should not use nonfinancial information

B. Analytical procedures usually are effective and efficient for tests of controls

C. Analytical procedures alone may provide the appropriate level of assurance for some assertions

D. Analytical procedures may be omitted entirely for some financial statement audits

6. If control risk is assessed as maximum, the nature of related substantive tests should be changed in which direction?

A. The nature of related substantive tests should be changed from more to less effective

B. The nature of related substantive tests should be changed from less to more effective

C. The timing of related substantive tests should be changed from year-end to an interim date.

D. Substantive tests timing should remain unchanged when control risk is maximum.

7. In an attestation engagement, which statement is true regarding the primary beneficiaries of the engagement?

A. The CPA firm is engaged and paid by the client; therefore, the firm has primary responsibility to be an advocate for the client.

B. The CPA firm is engaged and paid by the client, but the primary beneficiaries of the audit are the statement users.

C. Should a situation arise where no convincing authoritative standard available, and there is a choice of actions, which could impact client's financial statements either positively or negatively, the CPA is free to endorse the choice which is best in the client's interest.

D. As long as CPA firms are competent, it is not required that they remain unbiased.

8. Which statement describes inherent risk?

A. Inherent risk is the risk that controls fail to detect misstatements.

B. Inherent risk is the risk that an assertion will be misstated due to management bias.

C. Inherent risk is the risk that misstatements occur because of internal control weakness.

D. The susceptibility to misstatement due to the nature of the item.

9. In non-statistical sampling, the parameters used to determine sample size are the same as in statistical sampling.

A. True

B. False

C. Not applicable

D. Only for controls

10. Which statement best describes the scope of statistical sampling in audits?

A. It is only applicable to substantive testing.

B. It is only useful for control testing with reprocessing.

C. It applies to both controls testing and substantive testing.

D. It is never appropriate for document examination.

Answers

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

Explanations

1. **An auditor is most likely to inspect loan agreements under which an entity's inventories are pledged to support management's financial statement assertion of**

   A. Existence or occurrence

   B. Presentation and disclosure

   C. Completeness

   D. Valuation or allocation

The key idea here is how information about encumbered assets is shown to users. When inventories are pledged as collateral, the important risk is that the notes and overall presentation might not clearly reflect that those inventories are restricted, and what liabilities are secured by them. By inspecting loan agreements, the auditor verifies that the financial statements properly present and disclose the secured liabilities, the nature and extent of the lien, and any restrictions on the inventories. This ensures readers understand the true asset base and the associated obligations, which is a presentation and disclosure issue. It's not mainly about whether the inventories exist, how much they're worth, or whether every item is recorded; those aspects relate to existence, valuation, or completeness, whereas the disclosure of liens and collateral speaks to how the information is presented to users.

2. **Regarding observation as an audit technique, which statement is true?**

   A. It is the most effective audit methodology to use in filling out internal control questionnaires

   B. It is the most persuasive technique to learn how transactions are really processed during the period under audit

   C. It is rarely sufficient to satisfy any audit assertion other than existence

   D. It is the most persuasive audit technique for determining if fraud has really occurred

Observation provides direct, real-time evidence about what exists or is happening at a given moment. Because it gives a snapshot of a process or asset in the moment you observe it, it is most useful for supporting existence (that something actually exists or a process is in place). However, by itself it rarely addresses other assertions like completeness, accuracy, valuation, or rights and obligations, since those require examining documents, testing samples over time, or corroborating evidence from other sources. It also isn't the strongest tool for detecting fraud, which often requires a broader mix of procedures and corroborating evidence. So, while observation is valuable, it is rarely sufficient on its own to satisfy audit assertions beyond existence.

3. Which statement about statistical sampling in auditing is true?

A. Sampling methods are used by auditors in both testing of controls and substantive testing.

B. In as much as audits are test-based, generally accepted auditing standards require the use of statistical sampling methods whenever the auditor decided to examine only a part of the population.

C. Although statistical sampling may be applied to test controls, it is required for substantive testing purposes.

D. Statistical sampling methods are more appropriate for testing of controls when the auditor elects to reprocess transactions, than when controls are tested by means of document examination.

Statistical sampling in auditing can be used for both tests of controls and substantive testing. The main idea is to draw conclusions about a population by examining a representative sample and to quantify the risk that the sample leads to an incorrect conclusion. For testing controls, sampling helps determine whether a control operates effectively by evaluating a subset of control occurrences and estimating the overall control reliability. For substantive testing, sampling allows the auditor to infer whether account balances or transactions are fairly stated by testing a sample and projecting the findings to the population, with an explicit sampling risk. This flexibility is why the statement is true: auditors routinely apply sampling methods in both types of testing, choosing statistical or non-statistical approaches based on judgment, risk, and materiality. The other options overstate requirements or preferences—for example, they imply statistical sampling must be used whenever part of a population is examined, or that it is required for substantive testing, or that one type of testing is inherently more suited to sampling than the other.

4. What are risk assessment procedures?

A. Inquiries only

B. Analytical procedures only

C. Inquiries, analytical procedures, and observation to identify risks of material misstatement

D. Observations only

Risk assessment procedures are about identifying where material misstatements could occur by gathering information in multiple ways. The strongest approach combines inquiries, analytical procedures, and observation. Inquiries involve asking management and others about processes, controls, and any changes that could affect risk. They provide context and insight that you can't see from numbers alone. Analytical procedures compare expected relationships to what actually happened—for example, comparing current results with budgets, prior periods, or industry norms—to spot unusual or unexpected trends that signal risk. Observation means watching how things are actually done, including how controls are performed in practice, which helps you understand whether designed controls are operating effectively. Using all three together gives a fuller picture than any single method. Inquiries alone might miss unspoken issues or misstatements; analytical procedures alone might fail to reveal control weaknesses; and observation alone might not uncover all potential risk areas. The combination is used to identify risks of material misstatement so the audit can be planned accordingly.

5. Which statement about analytical procedures is true?

A. Analytical procedures used in planning the audit should not use nonfinancial information

B. Analytical procedures usually are effective and efficient for tests of controls

C. Analytical procedures alone may provide the appropriate level of assurance for some assertions

D. Analytical procedures may be omitted entirely for some financial statement audits

Analytical procedures help auditors assess whether financial information is reasonable by comparing expected results with actual results. They are valuable in planning to identify areas of potential misstatement and to tailor further audit procedures, and they can also serve as substantive evidence when the relationships are strong and reliable. For some assertions, especially where a straightforward, predictable relationship exists and data are reliable, analytical procedures alone may provide the appropriate level of assurance without requiring extensive further testing. In planning and final review, nonfinancial information is often incorporated to develop expectations, and since analytical procedures are not designed to test controls, they are not the primary method for testing controls. They should not be omitted entirely from an audit, as they contribute to forming an overall assessment of the financial statements. Therefore, the statement that analytical procedures alone may provide the appropriate level of assurance for some assertions captures the correct concept.

6. If control risk is assessed as maximum, the nature of related substantive tests should be changed in which direction?

A. The nature of related substantive tests should be changed from more to less effective

B. The nature of related substantive tests should be changed from less to more effective

C. The timing of related substantive tests should be changed from year-end to an interim date.

D. Substantive tests timing should remain unchanged when control risk is maximum.

When control risk is at its maximum, you can't rely on controls to catch misstatements. To keep overall audit risk acceptable, you must reduce detection risk by using substantive procedures that are more persuasive. So, the substantive tests should become more effective—testing with stronger, more reliable methods, often with larger samples or more precise procedures to obtain sufficient and appropriate evidence. While timing can be adjusted in some audits, the key directional change is increasing the effectiveness of substantive procedures.

7. In an attestation engagement, which statement is true regarding the primary beneficiaries of the engagement?

A. The CPA firm is engaged and paid by the client; therefore, the firm has primary responsibility to be an advocate for the client.

B. The CPA firm is engaged and paid by the client, but the primary beneficiaries of the audit are the statement users.

C. Should a situation arise where no convincing authoritative standard available, and there is a choice of actions, which could impact client's financial statements either positively or negatively, the CPA is free to endorse the choice which is best in the client's interest.

D. As long as CPA firms are competent, it is not required that they remain unbiased.

In an attest engagement, the purpose is to provide credible information to those who rely on it rather than to please or advocate for the client. The CPA firm may be engaged and paid by the client, but independence and objectivity are essential; the primary beneficiaries are the users of the financial statements, not the client. This is why choosing actions solely in the client's best interest is not the firm's role—professional judgment must be exercised without bias, and the report should reflect what the standards require, not what would benefit the client if that conflicts with objectivity. The firm must remain unbiased even if there are no authoritative standards for a particular situation, and financial statement users, not the client, are the main beneficiaries of the assurance provided.

8. Which statement describes inherent risk?

A. Inherent risk is the risk that controls fail to detect misstatements.

B. Inherent risk is the risk that an assertion will be misstated due to management bias.

C. Inherent risk is the risk that misstatements occur because of internal control weakness.

D. The susceptibility to misstatement due to the nature of the item.

Inherent risk is the susceptibility of a misstatement to occur due to the item's inherent characteristics, independent of any controls. It reflects how likely a misstatement could exist simply because of the nature of the account, transaction type, or estimation complexity. This is different from risks tied to controls or detection. The best description is that inherent risk is the susceptibility to misstatement due to the nature of the item. For example, highly judgmental valuations or complex, volatile transactions typically carry higher inherent risk. The other statements mix in aspects of detection risk and control risk, which are separate concepts. Controls failing to detect misstatements describes detection risk, not inherent risk. Management bias relates to motive for misstatement but inherent risk focuses on intrinsic characteristics, not intent. Misstatements arising from weak internal controls describe control risk, not the inherent susceptibility of the item itself.

9. In non-statistical sampling, the parameters used to determine sample size are the same as in statistical sampling.

A. True

B. False

C. Not applicable

D. Only for controls

The main idea is that the decision about how many items to test uses the same fundamental considerations in both statistical and non-statistical sampling. You still look at factors like the size of the population, how much misstatement you are willing to tolerate (tolerable deviation or materiality), and how much misstatement you expect. In statistical sampling, those factors are translated into a precise formula to calculate an exact sample size and to quantify the level of confidence you have in the result. In non-statistical sampling, you don't compute with a formula, but you still use professional judgment to choose a sample size that provides an appropriate level of assurance given the same factors. Because the same parameters guide the decision, the statement is true.

10. Which statement best describes the scope of statistical sampling in audits?

A. It is only applicable to substantive testing.

B. It is only useful for control testing with reprocessing.

C. It applies to both controls testing and substantive testing.

D. It is never appropriate for document examination.

Statistical sampling in audits is a way to draw conclusions about a whole population by examining a subset of items. This approach is versatile enough to be used for both tests of controls and substantive testing. For tests of controls, you sample transactions or control outcomes to assess whether the controls are functioning as intended, which helps determine the likelihood of misstatements occurring. For substantive testing, you sample items to obtain evidence about account balances and the validity of recorded amounts, focusing on assertions like existence, accuracy, and completeness. Document examination fits into this as well, since auditors often sample a subset of documents to support substantive conclusions. Because sampling can contribute evidence in multiple areas, the broad description that it applies to both controls testing and substantive testing is the best fit. The other statements are too restrictive or inaccurate since sampling is not limited to one type of testing and is commonly used in examining documents as part of substantive work.

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://auditing100.examzify.com

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