AUDITING 100 PRACTICE EXAM (SAMPLE)

STUDY GUIDE

SAMPLE STUDY GUIDE WITH LIMITED QUESTIONS

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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. A one-paragraph audit report is generally used in which situation?

A. The report is generally used when the auditor is not independent.

B. The report is generally used when there is a modified opinion.

C. The report is never used for any reason.

D. The report always includes an emphasis of matter.

2. Which statement is true? If control risk is assessed as maximum, which of the following is correct about substantive testing?

A. Tests of controls are necessary if the auditor plans to use the primarily substantive approach

B. Tests of controls are necessary if the auditor plans to assess the level of control risk at maximum

C. The auditor can simultaneously obtain an understanding of internal control and perform tests of controls

D. After performing tests of controls, the auditor will always assess control risk at maximum

3. Which statement remains true about planning in an electronic environment?

A. The definition of auditing is not changed.

B. The purposes of auditing is not changed.

C. The procedures used are not changed.

D. Auditing standards are not changed.

4. Which statement is always true about planning a year-end examination?

A. An engagement proposed after the fiscal year ends should not accepted.

B. An inventory count must be observed at the balance sheet date

C. The client's audit committee should not be told of the specific audit procedures that will be performed.

D. It is an acceptable practice to carry out substantial parts of the examination at interim dates

5. **Regarding documentation when control risk is assessed at the maximum, which statement is true?**
   A. If the auditor assesses the level of control risk at the maximum, no documentation of the reason is necessary.
   B. If the auditor assesses the level control risk at less than maximum, documentation is unnecessary.
   C. If the auditor assesses the level of control risk at the maximum, documentation of the reason is necessary.
   D. All of the given choices.

6. **Which of the following characteristics would most likely heighten an auditor's concern about the risk of material misstatements in an entity's financial statements?**
   A. the entity industry is experiencing declining customer demand
   B. employees who handle cash receipts are not bonded
   C. bank reconciliations usually include in- transit deposits
   D. equipment is often sold at a loss before being fully depreciated

7. **Substantive testing of inventory focuses on which objective?**
   A. Procedures to verify existence, completeness, valuation, and rights/obligations of inventory
   B. Testing the operating effectiveness of inventory-related controls
   C. Performing only analytical procedures on inventory
   D. Ensuring tax compliance for inventory

8. **Which of the following procedures would an auditor most likely perform in planning a financial statement audit?**
   A. Inquiring of the client's legal counsel concerning pending litigation.
   B. Examining computer generated exception reports to verify the effectiveness of internal control
   C. Searching for unauthorized transactions that may aid in detecting unrecorded liabilities
   D. Comparing the financial statements to anticipated results.

9. In accounts receivable testing, aging analysis is used to classify receivables by age to assess collectibility.

A. To determine the total AR balance

B. To verify the existence of cash receipts

C. To classify receivables by age to assess collectibility

D. To replace confirmations

10. What should auditors do when control risk is determined to be high?

A. Increase sampling for tests of controls

B. Increase professional skepticism and assign experienced staff

C. Rely only on the client's representations

D. Stop testing controls

Answers

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

Explanations

1. A one-paragraph audit report is generally used in which situation?

A. The report is generally used when the auditor is not independent.

B. The report is generally used when there is a modified opinion.

C. The report is never used for any reason.

D. The report always includes an emphasis of matter.

Independence is essential for an auditor to express an opinion on the financial statements. When independence is not maintained, the auditor cannot provide the normal assurance, so the report is shortened to a single paragraph that states the lack of independence and that an opinion on the financial statements is not expressed. This concise form is used to clearly communicate the limitation that independence imposes on the audit. If there were a modified opinion, the report would elaborate with an opinion modification and a basis for it, typically in more than one paragraph. The idea that such a report is never used is incorrect, and an emphasis of matter is something added only to highlight specific issues in the financial statements, not to signal independence problems.

2. Which statement is true? If control risk is assessed as maximum, which of the following is correct about substantive testing?

A. Tests of controls are necessary if the auditor plans to use the primarily substantive approach

B. Tests of controls are necessary if the auditor plans to assess the level of control risk at maximum

C. The auditor can simultaneously obtain an understanding of internal control and perform tests of controls

D. After performing tests of controls, the auditor will always assess control risk at maximum

Understanding internal control and testing its operating effectiveness can be done at the same time. Even if control risk is assessed as maximum, you don't stop learning about how controls work or stop testing them; you can obtain an understanding of the controls and run tests of controls in the same engagement. These tests provide evidence about whether the controls are operating effectively, which helps you gauge whether control risk might actually be lower than initially estimated or confirm that it remains high, guiding the extent of substantive testing you'll need. In other words, you can gather control-related evidence while continuing substantive procedures as needed, rather than choosing between them in sequence. The other statements impose false requirements—tests of controls aren't strictly necessary just because you're planning a mainly substantive approach, and control risk isn't guaranteed to be at maximum after testing, nor must you always assume maximum after performing tests.

3. Which statement remains true about planning in an electronic environment?

A. The definition of auditing is not changed.

B. The purposes of auditing is not changed.

C. The procedures used are not changed.

D. Auditing standards are not changed.

The main idea here is that the fundamental definition of auditing does not change just because the environment is electronic. Auditing remains a systematic process of obtaining and evaluating evidence about assertions to determine whether they align with established criteria. That core meaning holds whether you're auditing in a paper-based setting or in an IT-driven environment. What changes in planning for an electronic context are the sources of evidence, the techniques used to test controls, and the specific risks you focus on—for example, relying on data analytics, testing IT general controls, and assessing automated processes. So the definition stays the same, while the way you approach planning adapts to technology. The other statements—about purposes, procedures, or standards not changing—aren't as reliable in an IT context, because the environment pushes you to adjust procedures and standards to address IT risks and controls.

4. Which statement is always true about planning a year-end examination?

A. An engagement proposed after the fiscal year ends should not accepted.

B. An inventory count must be observed at the balance sheet date

C. The client's audit committee should not be told of the specific audit procedures that will be performed.

D. It is an acceptable practice to carry out substantial parts of the examination at interim dates

In planning a year-end audit, it's standard to schedule substantial testing for interim dates. Doing so lets you gather a lot of evidence early, spread the workload, and focus on areas that are less likely to change dramatically by year end. Importantly, this doesn't replace the need for year-end procedures—you still verify year-end balances and consider events after the interim dates to ensure the financial statements are complete and accurate. Other statements aren't universally true. Engaging an audit after the fiscal year ends is a normal part of audit planning, so it isn't correct to say it shouldn't be accepted. Inventory counts don't have to be observed exactly on the balance sheet date; counts can be performed before or after with proper cut-off testing. And it's appropriate to inform those charged with governance about the planned procedures; withholding that information isn't correct. So, carrying out substantial parts of the examination at interim dates is an acceptable practice.

5. Regarding documentation when control risk is assessed at the maximum, which statement is true?

A. If the auditor assesses the level of control risk at the maximum, no documentation of the reason is necessary.

B. If the auditor assesses the level control risk at less than maximum, documentation is unnecessary.

C. If the auditor assesses the level of control risk at the maximum, documentation of the reason is necessary.

D. All of the given choices.

Understanding how control risk affects audit documentation helps here. When control risk is set at the maximum, it means the auditor cannot rely on the entity's internal controls and will proceed with substantive procedures throughout the audit. In this framing, the decision to not rely on controls is a straightforward conclusion, so no separate documentation of the reason for that assessment is considered necessary within the given context. That's why the statement asserting no documentation is the best choice. The other options imply that documentation is required in situations where the assessment is either less than maximum or maximum, which doesn't align with the scenario described.

6. Which of the following characteristics would most likely heighten an auditor's concern about the risk of material misstatements in an entity's financial statements?

A. the entity industry is experiencing declining customer demand

B. employees who handle cash receipts are not bonded

C. bank reconciliations usually include in- transit deposits

D. equipment is often sold at a loss before being fully depreciated

When assessing risk of material misstatements, environmental and industry conditions that weaken demand raise inherent risk because outcomes become more uncertain and estimation error grows. If customers are buying less, revenue becomes more volatile, receivables collectability increases, and inventory may become obsolete. These pressures can push management toward aggressive judgments or inappropriate timing in recognizing revenue, measuring allowances, or valuing assets. The result is a broader potential for misstatements across financial statements, not just in one area. The other factors touch on control risks or more specific situations. Not having bonds for cash-handling staff heightens the risk of misappropriation, which is important but more a fraud/control concern than a pervasive misstatement across accounts. Bank reconciliations involving in-transit deposits point to timing and cutoff issues that controls should catch, but they don't in themselves imply the same level of pervasive estimation uncertainty. Selling equipment at a loss before depreciation is an asset-specific issue that could signal impairment or depreciation errors, but it's narrower in scope than the broad impact of a declining industry on financial statement assertions. So, the industry-wide decline in demand is the strongest driver of increased risk of material misstatements, guiding the auditor to expect more extensive substantive testing, particularly around revenue, allowances, and asset valuations.

7. Substantive testing of inventory focuses on which objective?

A. Procedures to verify existence, completeness, valuation, and rights/obligations of inventory

B. Testing the operating effectiveness of inventory-related controls

C. Performing only analytical procedures on inventory

D. Ensuring tax compliance for inventory

Substantive testing of inventory is about confirming the actual conditions that support the inventory balance and detecting material misstatements. It focuses on validating the key inventory assertions: existence (the inventory recorded actually exists), completeness (all inventory that should be recorded is included), valuation (amounts are properly measured and any write-downs are appropriate), and rights and obligations (the entity has the rights to the inventory and any encumbrances or consigned items are properly disclosed). In practice, this means performing physical counts, reviewing shipping and receiving documents, testing pricing and cost flows, and checking cutoffs and write-downs to ensure the numbers truly reflect reality. Testing the operating effectiveness of inventory-related controls is a test of controls, not substantive testing. Performing only analytical procedures on inventory misses the detailed checks needed to confirm existence, completeness, and valuation. Ensuring tax compliance for inventory is a tax matter, not the audit objective for substantive testing of the inventory balance.

8. Which of the following procedures would an auditor most likely perform in planning a financial statement audit?

A. Inquiring of the client's legal counsel concerning pending litigation.

B. Examining computer generated exception reports to verify the effectiveness of internal control

C. Searching for unauthorized transactions that may aid in detecting unrecorded liabilities

D. Comparing the financial statements to anticipated results.

Analytical procedures used during planning help auditors gauge risk and shape the overall approach. By comparing current financial statements to anticipated results such as budgets, forecasts, or industry norms, the auditor can spot unusual fluctuations or relationships that suggest where misstatements may occur. This early insight guides the nature, timing, and extent of further work and sets priorities for the audit. Inquiries of legal counsel about pending litigation are a specific information-gathering step focused on potential litigation risks. Examining computer-generated exception reports to verify internal control effectiveness is a test of controls conducted to assess how well the controls operate. Searching for unauthorized transactions is a substantive procedure aimed at detecting fraud or unrecorded liabilities. These activities are important, but they are not the planning-level analytic that primarily identifies risk and scopes the audit.

9. In accounts receivable testing, aging analysis is used to classify receivables by age to assess collectibility.

A. To determine the total AR balance

B. To verify the existence of cash receipts

C. To classify receivables by age to assess collectibility

D. To replace confirmations

Aging the accounts receivable is used to assess collectibility by grouping balances according to how long they've been outstanding. This helps identify which receivables are most at risk of not being collected, since the longer a amount has remained unpaid, the higher the chance it will become uncollectible. That insight drives the estimation of the allowance for doubtful accounts and guides further audit testing for collectibility, such as focusing on older balances or validating the reasonableness of write-offs. It isn't about determining the total AR balance, verifying cash receipts, or replacing confirmations; instead, it provides evidence on collectibility that supports the valuation of receivables.

10. What should auditors do when control risk is determined to be high?

A. Increase sampling for tests of controls

B. Increase professional skepticism and assign experienced staff

C. Rely only on the client's representations

D. Stop testing controls

When control risk is high, you can't rely on the client's internal controls to prevent or detect misstatements. The appropriate response is to heighten the quality and extent of audit judgment by increasing professional skepticism and bringing in more experienced staff. This helps ensure that control weaknesses are properly identified and that the evidence gathered is persuasive enough to support the audit opinion. More experienced personnel are better at evaluating control design and effectiveness and at designing robust substantive procedures to compensate for weak controls. Relying only on the client's representations is not safe, and stopping testing controls isn't appropriate because you still need to obtain sufficient evidence about the assertions. Increasing sampling for tests of controls isn't the best move here since the controls aren't expected to operate effectively, so focusing on substantive testing is more valuable.

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!