

Certified Construction Industry Financial Professional (CCIFP) 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. Which expression represents a current liability under percentage-of-completion accounting?**
 - A. Costs in excess of billings**
 - B. Billings in excess of costs**
 - C. Wages payable**
 - D. Prepaid expenses**

- 2. Which two steps define Activity Based Costing?**
 - A. Uses ABC for budgeting only**
 - B. Allocates all costs equally**
 - C. Links indirect costs to activities; Allocates activity cost to jobs based on specific attributes**
 - D. Focuses on direct costs only**

- 3. Which of the following is an internal factor to consider in strategic planning?**
 - A. Life cycle stage**
 - B. Political**
 - C. Market Outlook**
 - D. Regulatory**

- 4. What is a labor & material payment bond?**
 - A. Guarantees performance of a contractor**
 - B. Guarantees payment to suppliers and workers providing labor/material**
 - C. Guarantees timely delivery**
 - D. Guarantees compliance with safety**

- 5. How is encumbrance accounting used in construction budgeting?**
 - A. Encumbrances record commitments (purchase orders) to reserve funds and prevent over-commitment, improving budget control.**
 - B. Encumbrances track actual cash receipts from clients.**
 - C. Encumbrances are bank loans for project financing.**
 - D. Encumbrances are direct costs accumulated on a job.**

- 6. Under the look back rule, the look back requirement does not apply if the contract is completed within how many years?**
- A. 1 year**
 - B. 2 years**
 - C. 3 years**
 - D. 4 years**
- 7. Which of the following is NOT a requirement to use the percentage of completion method?**
- A. Audited annual financial statements**
 - B. Reliable estimates**
 - C. Clearly specified conditions in a contract**
 - D. Reasonable expectations for performance**
- 8. Fraud risk indicators in construction accounting include which of the following?**
- A. A combination of indicators such as ghost vendors, round-tripping, duplicate payments, missing supporting documentation, and unusual bidding patterns signals fraud risk.**
 - B. Fraud indicators are irrelevant to internal controls and cannot be detected.**
 - C. Only external audits can detect fraud, so internal controls are irrelevant.**
 - D. Fraud risk is not a concern in construction accounting.**
- 9. Under ASC 340-10, how are prepayments and allowances treated in financial statements?**
- A. Prepayments and allowances are recorded as assets or liabilities and amortized or expensed as services are received or time passes, with disclosures as needed.**
 - B. They are recorded as revenue.**
 - C. They are never disclosed.**
 - D. They are recorded only if material.**

10. Under IRS rules, a residential construction contract is defined as involving more than how many dwellings?

- A. Exactly 3 dwellings**
- B. Row houses and townhouses as separate dwellings**
- C. Excluded from IRC 460**
- D. More than 4 dwellings**

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Answers

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

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Explanations

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1. Which expression represents a current liability under percentage-of-completion accounting?

- A. Costs in excess of billings
- B. Billings in excess of costs**
- C. Wages payable
- D. Prepaid expenses

In percentage-of-completion accounting, you track both costs incurred to date and billings to date for each contract. When billings exceed costs, the company has received cash for work not yet earned, creating a current liability called billings in excess of costs. If costs exceed billings, that difference is a current contract asset (costs in excess of billings). Wages payable is a general payroll liability, not specific to the contract accounting presentation, and prepaid expenses are assets, not liabilities. Therefore, billings in excess of costs is the expression that represents a current liability under this method.

2. Which two steps define Activity Based Costing?

- A. Uses ABC for budgeting only
- B. Allocates all costs equally
- C. Links indirect costs to activities; Allocates activity cost to jobs based on specific attributes**
- D. Focuses on direct costs only

Activity Based Costing focuses on what actually drives overhead and how those drivers affect each job. It starts by turning indirect costs into groups called activity cost pools—essentially linking costs to the activities that cause them. Then it uses drivers that measure how much of each activity a product or job uses, and allocates the cost from each activity pool to the jobs based on that usage. So, the two defining steps are: first, link indirect costs to activities; second, allocate the costs from those activities to jobs according to how much each job consumes the activities (often using attributes like number of setups, hours of machining, or inspections). This approach gives a more accurate picture of product or job costs than spreading overhead evenly or focusing only on direct costs. In contrast, allocating all costs equally ignores the real drivers of overhead, and focusing only on direct costs misses the substantial indirect costs that ABC is designed to assign. If ABC were used only for budgeting, it would fail to provide the actionable cost detail needed for pricing and decision making.

3. Which of the following is an internal factor to consider in strategic planning?

- A. Life cycle stage**
- B. Political**
- C. Market Outlook**
- D. Regulatory**

The factor being tested is the distinction between internal and external considerations in strategic planning. The life cycle stage is an internal factor because it describes the organization's own product or business entity—its development status, maturity, and the resource needs tied to that stage. This directly shapes strategic decisions like how much to invest, when to scale up operations, or when to divest, all based on what the company can control and allocate internally. In contrast, political conditions, market outlook, and regulatory changes come from outside the organization. They represent external forces that the company must monitor and respond to, but they aren't things the company can change from within. Understanding this helps the team differentiate actions they can influence (internal) from those they must adapt to (external).

4. What is a labor & material payment bond?

- A. Guarantees performance of a contractor**
- B. Guarantees payment to suppliers and workers providing labor/material**
- C. Guarantees timely delivery**
- D. Guarantees compliance with safety**

A labor and material payment bond is a type of surety bond that guarantees the contractor will pay all subcontractors, suppliers, and workers for labor and materials used on the project. This protects the project owner from claims or liens if the contractor fails to pay those providing labor or materials. It's different from a performance bond, which guarantees the project will be completed according to the contract terms and quality. The labor and material bond does not promise on-time delivery or safety compliance; those aspects are addressed by other requirements or protections. On many public projects, this bond is required to ensure those who contribute to the work are paid, giving financial security to everyone involved in providing labor and materials.

5. How is encumbrance accounting used in construction budgeting?

- A. Encumbrances record commitments (purchase orders) to reserve funds and prevent over-commitment, improving budget control.**
- B. Encumbrances track actual cash receipts from clients.**
- C. Encumbrances are bank loans for project financing.**
- D. Encumbrances are direct costs accumulated on a job.**

Encumbrance accounting in construction budgeting centers on setting aside funds for commitments like purchase orders and contracts. By recording these commitments, the budget reserves the necessary money so there's no over-commitment and the project manager can see how much is still available for new obligations. When a purchase order is issued, the encumbrance represents the obligation to pay for the goods or services when they're received. As items are received and invoiced, the encumbrance is reduced and the actual expense is recorded, with accounts payable reflecting the liability. If the order is canceled, the encumbrance is released, freeing those funds. This approach keeps the budget aligned with commitments, improving cash flow planning and budget control. It's not about tracking actual cash receipts, bank loans, or direct costs themselves; those elements are handled through other parts of accounting.

6. Under the look back rule, the look back requirement does not apply if the contract is completed within how many years?

- A. 1 year**
- B. 2 years**
- C. 3 years**
- D. 4 years**

The main idea here is that the look-back rule includes a practical exemption based on contract duration. If a contract is finished within a relatively short period, there isn't enough time for widespread changes or estimates to arise, so retrospective adjustments aren't required. Therefore, the look-back requirement does not apply when the contract is completed within two years. Two years is the threshold that determines whether the look-back process is needed. For contracts completed in 24 months or less, you skip the look-back; for longer contracts, the look-back would apply to reconcile final costs and revenues with what was originally recognized. For example, a project completed in 18 months would not trigger look-back adjustments, while a project stretching beyond two years would.

7. Which of the following is NOT a requirement to use the percentage of completion method?

- A. Audited annual financial statements**
- B. Reliable estimates**
- C. Clearly specified conditions in a contract**
- D. Reasonable expectations for performance**

The main idea is recognizing revenue as work progresses on a long-term contract, which hinges on being able to measure progress and estimate total costs. You can apply the percentage-of-completion method when you have reliable estimates of total contract costs and a way to determine how far along the project is, so revenue and gross profit can be recognized proportionally over time. Clear contract terms help establish the criteria for progress and milestones, and you need reasonable expectations for performance to ensure you'll complete the work and collect what is owed. Audited annual financial statements, while important for external reporting, are not a prerequisite for using this method.

8. Fraud risk indicators in construction accounting include which of the following?

- A. A combination of indicators such as ghost vendors, round-tripping, duplicate payments, missing supporting documentation, and unusual bidding patterns signals fraud risk.**
- B. Fraud indicators are irrelevant to internal controls and cannot be detected.**
- C. Only external audits can detect fraud, so internal controls are irrelevant.**
- D. Fraud risk is not a concern in construction accounting.**

Fraud risk indicators in construction accounting are most meaningful when viewed together. A mix of signals—ghost vendors, round-tripping, duplicate payments, missing supporting documentation, and unusual bidding patterns—creates a pattern that suggests possible deception rather than a random error. Recognizing multiple indicators allows you to heighten scrutiny, strengthen controls, and pursue targeted investigations. It's the clustering of indicators that elevates fraud risk, not a single red flag. Internal controls rely on spotting these signals to prevent and detect misstatements: segregation of duties, regular vendor reviews, robust documentation, clear approval workflows, and audit trails all help deter or uncover fraudulent activity. External audits are valuable, but they're not the only way to detect fraud, and internal controls remain essential even when audits occur. Dismissing fraud indicators or treating fraud risk as a nonissue would leave the organization exposed. So, the best practice is to monitor a combination of indicators that collectively signal fraud risk and to respond with strengthened controls and further investigation.

9. Under ASC 340-10, how are prepayments and allowances treated in financial statements?

A. Prepayments and allowances are recorded as assets or liabilities and amortized or expensed as services are received or time passes, with disclosures as needed.

B. They are recorded as revenue.

C. They are never disclosed.

D. They are recorded only if material.

Prepayments and allowances are items that represent future benefits or obligations, so they belong on the balance sheet as assets or liabilities. The cost is then allocated to the period when the benefit is received or as time passes, which means it is amortized or expensed rather than recorded all at once. This keeps expenses aligned with the periods they relate to. Disclosures may be needed to explain the nature and timing of these items. For example, paying for a year of insurance up front creates a prepaid expense (an asset). Over each month, you move a portion from the asset to insurance expense. Similarly, an allowance tied to future credits or rebates is tracked as a liability or contra asset and recognized over the period the benefit is realized or the obligation is settled.

10. Under IRS rules, a residential construction contract is defined as involving more than how many dwellings?

A. Exactly 3 dwellings

B. Row houses and townhouses as separate dwellings

C. Excluded from IRC 460

D. More than 4 dwellings

The key idea is the threshold used to classify a contract as a residential construction contract under IRS rules. A project becomes a residential construction contract when it involves more than four dwelling units, with row houses and townhouses counted as separate dwellings. This classification matters because once the contract crosses that threshold, it falls under the long-term contract rules (IRC 460) and generally uses the percentage-of-completion method for income and cost recognition. If the project has four or fewer dwellings, it isn't treated as a residential construction contract under these rules. So the correct threshold is more than four dwellings; the other options either specify an incorrect count, misstate how certain unit types are counted, or suggest exclusion from IRC 460.

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://ccifp.examzify.com>

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

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