

CPA AUDIT PRACTICE EXAM (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. How does a larger sample size affect the risk of assessing control risk too low?**
 - A. It increases the risk
 - B. It decreases the risk
 - C. It has no effect on the risk
 - D. It can lead to more errors
- 2. An auditor's report on additional schedules under the Single Audit Act must indicate what?**
 - A. That the schedules were examined by the internal auditor
 - B. Whether the schedule of expenditures is fairly stated
 - C. That no compliance issues were found
 - D. The specific findings of the federal awards
- 3. What must all financial reporting frameworks in the U.S. acknowledge for fair presentation?**
 - A. Disclosures should be limited
 - B. Management might need to provide disclosures beyond what is specifically required
 - C. Financial statements must follow a specific template
 - D. None of the above
- 4. Which statement best describes the difference between "must" and "should" in an auditing context?**
 - A. "Must" indicates a strong recommendation, while "should" indicates flexibility
 - B. "Must" indicates a conditional requirement, while "should" indicates an unconditional requirement
 - C. "Must" indicates an unconditional requirement, while "should" allows for rare departures
 - D. No difference exists, both are mandatory
- 5. Which factor is NOT considered when assessing independence threats in audits?**
 - A. Personal relationships
 - B. Financial interests
 - C. Career aspirations
 - D. Organizational structure

- 6. What should an accountant demonstrate when understanding a client's business?**
- A. Staff qualifications and experience
 - B. Uniformity in financial statement formats
 - C. The transactions types and frequency
 - D. Both a and c
- 7. What role does the Accounting and Review Services Committee serve?**
- A. To issue audit opinions on all financial statements
 - B. To determine the independence of auditors
 - C. To promulgate standards concerning unaudited financial statements
 - D. To regulate public company audits
- 8. What type of audit procedures should be conducted for cutoff assertions?**
- A. Tests of controls
 - B. Procedures analyzing transactions around year-end
 - C. Reconciliations of accounts
 - D. Sampling methods
- 9. What is the primary responsibility of management regarding financial statements?**
- A. Preparation and fair presentation
 - B. Internal controls design and maintenance
 - C. Providing auditor access to all necessary information
 - D. All of the above
- 10. When selecting a sampling method, what factor should be considered regarding assessed control risk?**
- A. Assessed risk has no impact on sample selection
 - B. Higher control risk necessitates a smaller sample size
 - C. Lower control risk should warrant a larger sample size
 - D. All sampling methods are equally effective regardless of risk

Answers

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

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Explanations

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1. How does a larger sample size affect the risk of assessing control risk too low?

- A. It increases the risk
- B. It decreases the risk**
- C. It has no effect on the risk
- D. It can lead to more errors

A larger sample size decreases the risk of assessing control risk too low. This is because a larger sample provides a more accurate representation of the population being tested. When auditors evaluate internal controls, they aim to assess whether those controls are operating effectively. If only a small sample is tested, there is a higher chance that the sample may not capture instances of control failure, leading to an incorrect conclusion that controls are functioning well. In contrast, by increasing the sample size, auditors are more likely to identify any deviations or weaknesses within the controls, which allows for a more reliable assessment. Consequently, the auditor can form a more confident opinion about the effectiveness of the controls, thereby lowering the likelihood of an inappropriate assessment of control risk. This is crucial in ensuring that the financial statements are not materially misstated due to ineffective controls. A small sample size, on the other hand, can lead to an overstated assessment of control effectiveness, increasing the risk of issuing an unqualified opinion when the controls might not be functioning as intended.

2. An auditor's report on additional schedules under the Single Audit Act must indicate what?

- A. That the schedules were examined by the internal auditor
- B. Whether the schedule of expenditures is fairly stated**
- C. That no compliance issues were found
- D. The specific findings of the federal awards

The auditor's report on additional schedules under the Single Audit Act must indicate whether the schedule of expenditures is fairly stated. This requirement is fundamental because the purpose of the Single Audit is to ensure that federal funds are used properly and that expenditures are accurately reported. An assessment of whether the schedule of expenditures is fairly stated provides assurance to stakeholders that the data presented is reliable and meets the necessary accounting standards. The auditor's evaluation focuses on the fairness of the presentation in relation to the applicable financial reporting framework. By affirming that the schedule is fairly stated, the auditor helps maintain transparency and accountability, which is critical in the context of federal funding and compliance with applicable laws and regulations. In contrast, the other options do not directly align with the core requirements for an auditor's report under the Single Audit Act. For instance, the involvement of the internal auditor or specific compliance issues do not serve as a basis for the auditor's primary assertion regarding the fairness of the financial statements. Furthermore, while the auditor may report on findings related to federal awards, the emphasis in this context is strictly on the fairness of the presented schedules.

3. What must all financial reporting frameworks in the U.S. acknowledge for fair presentation?

- A. Disclosures should be limited
- B. Management might need to provide disclosures beyond what is specifically required**
- C. Financial statements must follow a specific template
- D. None of the above

The requirement that management might need to provide disclosures beyond what is specifically required is crucial for achieving a fair presentation in financial reporting frameworks in the U.S. This acknowledges the concept of transparency and the principle of providing a complete picture of the financial position and performance of an entity. While certain disclosures are mandated by specific accounting standards, circumstances may arise where additional information is necessary to ensure that users of the financial statements can make informed decisions. Complying strictly with the bare minimum of disclosure requirements might lead to a misleading or incomplete understanding of the entity's financial condition. For example, if there are significant uncertainties about key estimates or risks, management must disclose these items to avoid presenting a distorted view of financial health. This approach aligns with the overarching purpose of financial reporting frameworks, which is to provide relevant and faithful representation of the financial statements. The idea that disclosures should be limited runs counter to the goal of full transparency. Financial statements following specific templates might comply with standard formatting, but this does not guarantee that all necessary information is provided for a fair presentation. Thus, the recognition that additional disclosures may be required underlines the dynamic nature of financial reporting and the responsibility of management to uphold the integrity of the information presented.

4. Which statement best describes the difference between "must" and "should" in an auditing context?

- A. "Must" indicates a strong recommendation, while "should" indicates flexibility
- B. "Must" indicates a conditional requirement, while "should" indicates an unconditional requirement
- C. "Must" indicates an unconditional requirement, while "should" allows for rare departures**
- D. No difference exists, both are mandatory

In an auditing context, understanding the distinction between "must" and "should" is crucial for interpreting audit standards and guidelines accurately. When the term "must" is used, it denotes an unconditional requirement that is mandatory and must be adhered to without exception. This means that the auditor is obliged to follow this requirement to maintain compliance with the established standards or regulations. On the other hand, "should" introduces a degree of flexibility, implying that while the auditor is expected to follow the guideline, there may be situations where it is appropriate to deviate from it. Such departures from the guidance should be rare and typically involve justified reasons or justifiable circumstances, allowing for professional judgment to play a role in the decision-making process. This differentiation is important for auditors as it helps them understand the non-negotiable aspects of auditing standards as opposed to those that provide room for judgment based on specific situations. Therefore, option C captures this essential distinction accurately, highlighting the mandatory nature of "must" and the conditional flexibility associated with "should."

5. Which factor is NOT considered when assessing independence threats in audits?

- A. Personal relationships
- B. Financial interests
- C. Career aspirations**
- D. Organizational structure

When evaluating threats to auditor independence, certain factors are meticulously analyzed to ensure that an auditor remains objective and impartial in their judgment. Personal relationships can create biases or conflicts of interest, particularly if the auditor has a close connection with an individual or entity involved in the audit. Financial interests are another critical element, since any stake the auditor has in the audited entity may compromise their ability to be unbiased. Organizational structure also plays a vital role, as the relationships within an organization can lead to pressures or influences that might threaten independence. Career aspirations, however, are not directly assessed when considering independence threats. While they could theoretically influence an auditor's decisions if they were influenced by a desire for advancement within a client organization, this is more of an indirect concern. It does not have the same clear, quantifiable implications that personal relationships, financial interests, and organizational structure present in the context of independence. Thus, career aspirations do not form part of the formal assessment of threats to auditor independence.

6. What should an accountant demonstrate when understanding a client's business?

- A. Staff qualifications and experience
- B. Uniformity in financial statement formats
- C. The transactions types and frequency
- D. Both a and c**

When an accountant seeks to understand a client's business, it is crucial to demonstrate both the staff's qualifications and experience as well as a thorough understanding of transaction types and their frequency. The qualifications and experience of the staff indicate their ability to handle the complexities of the business and to understand the specific nuances that may affect financial reporting and auditing. This competence enables them to assess risks and develop appropriate audit strategies tailored to the client's unique environment. Additionally, knowing the types of transactions and their frequency is vital for accountants as it provides insight into the operations of the business, including the volume of transactions, the nature of the industry, and potential areas where errors or risks might arise. Different types of transactions may have varying implications for accounting practices and financial statement presentation, influencing how the accountant approaches the audit. The combination of these two aspects—staff qualifications and a robust understanding of transaction dynamics—equips accountants to perform their duties more effectively, ensuring accurate financial reporting and compliance with applicable standards. Thus, the selection that encompasses both these elements is essential in demonstrating a comprehensive understanding of a client's business.

7. What role does the Accounting and Review Services Committee serve?

- A. To issue audit opinions on all financial statements
- B. To determine the independence of auditors
- C. To promulgate standards concerning unaudited financial statements**
- D. To regulate public company audits

The Accounting and Review Services Committee (ARSC) serves a vital role in establishing and promoting standards related to the preparation and reporting of unaudited financial statements, particularly those issued by non-public entities. This includes guidance for practitioners on reviews and compilations, which differ significantly from audits in terms of depth of scrutiny and assurance provided. Therefore, the committee's focus on setting standards for unaudited financial statements ensures that they are consistent and reliable, thereby enhancing the quality of financial reporting outside the audit context. The other options revolve around functions that fall outside the specific mandate of the ARSC. Issuing audit opinions pertains to the independent auditing process, which is primarily governed by other bodies such as the AICPA's Auditing Standards Board. Determining the independence of auditors is also a function that does not specifically fall within the purview of the ARSC, as this responsibility is typically addressed by audit regulatory bodies and independence standards that apply to auditors conducting audits. Lastly, regulating public company audits is primarily the responsibility of the Public Company Accounting Oversight Board (PCAOB), which oversees the audits of public companies to protect investors' interests. Thus, the focus of the ARSC on promulgating standards for unaudited financial statements makes the correct answer

8. What type of audit procedures should be conducted for cutoff assertions?

- A. Tests of controls
- B. Procedures analyzing transactions around year-end**
- C. Reconciliations of accounts
- D. Sampling methods

The appropriate audit procedures to address cutoff assertions involve analyzing transactions around year-end. Cutoff assertions relate to ensuring that transactions are recorded in the correct accounting period. This is critical for financial reporting as it directly impacts the accuracy of the financial statements. When auditors perform procedures that analyze transactions around year-end, they specifically look at the timing of transactions to verify that revenues and expenses are recognized in the appropriate period. This might involve examining invoices, shipping documents, and payment records that fall just before and after the year-end date to ensure proper cutoff. By doing so, auditors can determine whether all transactions are accounted for in the correct period and assess if there are any material misstatements related to the timing of these transactions. Other procedures, such as tests of controls, typically focus on evaluating the effectiveness of internal controls but may not directly address timing issues related to cutoff assertions. Reconciliations of accounts usually verify balances and transactions but might not specifically illuminate issues with transaction cutoffs. Sampling methods could be part of various audit approaches, but they would need to be applied strategically in conjunction with analyzing year-end transactions to effectively address cutoff assertions.

9. What is the primary responsibility of management regarding financial statements?

- A. Preparation and fair presentation
- B. Internal controls design and maintenance
- C. Providing auditor access to all necessary information
- D. All of the above**

The primary responsibility of management regarding financial statements encompasses several crucial components that ensure the reliability and integrity of the financial reporting process. Management is tasked with the preparation and fair presentation of financial statements in accordance with applicable accounting frameworks, such as Generally Accepted Accounting Principles (GAAP) or International Financial Reporting Standards (IFRS). This involves accurately reflecting the organization's financial position and performance. In addition to preparing financial statements, effective internal controls are essential. Management must design and maintain a robust system of internal controls to safeguard assets and ensure that the financial statements are free from material misstatement, whether due to fraud or error. This includes providing oversight, regular assessments of the control environment, and fostering a culture of compliance and accountability. Furthermore, management is responsible for providing auditors with access to all necessary information. This access is vital for auditors to perform their work effectively, evaluate internal controls, and gather sufficient evidence to form an opinion on the fairness of the financial statements. Thus, the comprehensive responsibility of management includes not just the preparation and fair presentation of financial statements, but also the design and maintenance of internal controls as well as facilitating auditor access to relevant information. This holistic view emphasizes that all the listed components are integral to fulfilling management's primary responsibilities concerning financial statements.

10. When selecting a sampling method, what factor should be considered regarding assessed control risk?

- A. Assessed risk has no impact on sample selection
- B. Higher control risk necessitates a smaller sample size
- C. Lower control risk should warrant a larger sample size**
- D. All sampling methods are equally effective regardless of risk

When determining the appropriate sampling method, one essential factor to consider is the assessed control risk. A lower assessed control risk implies a stronger likelihood that the internal controls are functioning effectively. If the control risk is rated lower, auditors can rely more on these controls, which often leads to a focus on ensuring that their sample size suffices to confirm the reliability of those controls. Using a larger sample size in such situations enhances the auditor's ability to detect any potential errors that may still exist, providing greater assurance about the effectiveness of the controls. This is important because, even with lower control risk, the potential for errors can still exist, so larger samples help enhance the reliability of the conclusions drawn from the audit evidence. Conversely, if control risk is assessed as high, it generally indicates that internal controls may not be reliable, which can lead auditors to adopt a different approach, such as a smaller sample size or focusing more on substantive testing rather than relying heavily on controls. Thus, the correlation between the level of assessed control risk and sample size is crucial in audit planning and execution.

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:

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

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