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Question: 988

A contractor has a project where the estimated total revenue is \$4,000,000, and the costs incurred to date are \$1,200,000. If the project is 30% complete, what is the amount of revenue that should be recognized?

- A. \$1,200,000
- B. \$1,600,000
- C. \$1,200,000
- D. \$2,000,000
- E. \$1,800,000

Answer: E

Explanation: The revenue recognized is based on the percentage of completion: $[4,000,000 \times 0.30 = 1,200,000]$.

Question: 989

A contractor is reviewing a subcontract that includes a clause on "indemnification." What is the primary purpose of this clause?

- A. To limit the contractor's liability for third-party claims
- B. To ensure payment to subcontractors
- C. To allocate risk between parties
- D. To protect the owner from financial loss
- E. To establish performance standards

Answer: C

Explanation: The primary purpose of an indemnification clause is to allocate risk between parties, specifying who is responsible for certain liabilities and protecting against potential losses.

Question: 990

A construction company has a significant amount of retainage withheld on various projects. How should the company report this retainage on its balance sheet?

- A. As a current liability
- B. As a long-term asset
- C. As a contingent liability
- D. As a current asset
- E. As unearned revenue

Answer: D

Explanation: Retainage is reported as a current asset until it is received upon project completion, reflecting the amounts owed to the contractor.

Question: 991

In a construction audit, the auditor discovers that the company has not adhered to its own internal controls regarding project cost tracking. What should be the auditor's recommendation?

- A. Ignore the issue if costs are within budget
- B. Revise the internal control policies
- C. Conduct a full forensic audit
- D. Increase project budgets
- E. Limit access to financial data

Answer: B

Explanation: The auditor's recommendation should be to revise the internal control policies to ensure adherence and improve the effectiveness of project cost tracking, which is crucial for accurate financial reporting.

Question: 992

For a residential developer using lean principles, target costing sets \$250K home price, 22% margin, allowable \$195K. Current \$215K due to HVAC overdesign. Value engineering applies TRIZ (Theory of Innovative Problem Solving) to contradiction: improve energy efficiency (ideal \$20K worth) without cost rise. Principle 10 (preliminary action) suggests pre-fabricated panels. Cost model: panels \$15K vs. \$22K site-built, saving \$7K. Integrate with Last Planner System for pull planning. If panels add 2-week lead but reduce field labor 10%, what net impact on project duration and cost target?

- A. Net 1-week savings, \$7K reduction, achieving \$208K total cost.
- B. 3-week delay, \$2K net save.
- C. No duration change, \$10K overrun from leads.
- D. Ignore TRIZ, stick to overdesign.
- E. Full prefab shift, \$12K save but 4-week delay.

Answer: A

Explanation: TRIZ resolves the efficiency-cost contradiction, with pre-fab panels yielding \$7K savings and labor reductions offsetting lead time via lean pull scheduling, netting 1-week faster delivery and progress toward \$195K target.

Question: 993

In a long-term construction contract, a contractor must consider variable consideration. What is the significance of this consideration in revenue recognition?

- A. It introduces uncertainty in revenue recognition
- B. It can lead to a higher revenue estimate
- C. It simplifies the revenue recognition process
- D. It has no impact on the transaction price
- E. It requires immediate recognition of all revenue

Answer: A

Explanation: Variable consideration introduces uncertainty in revenue recognition, as it depends on future events and conditions that may affect the amount of revenue recognized.

Question: 994

Scenario: For \$38 million office retrofit, accrual POC at 67% (surveys) bills \$23.26 million with 9% retainage (\$2.0934 million). FASB's 2026 profit interest ASU 2024-01 (effective Dec 15, 2026) applies to JV incentives. If \$700,000 incentive vests, how does it impact receivable classification?

- A. Variable consideration added, with retainage in net assets.
- B. Equity adjustment, excluding from contract assets.
- C. Deferred compensation, no POC linkage.
- D. Expense in SG&A, per disaggregation.
- E. Cash basis recognition only.

Answer: A

Explanation: ASU 2024-01 clarifies profit interests as compensation but in JVs as variables under ASC 606, adding \$700,000 to transaction price for POC at 67%, embedded in contract assets with retainage (\$2.0934 million) until unconditional, per accrual GAAP.

Question: 995

A construction firm is analyzing its risk exposure related to workplace injuries. What is the primary purpose of workers' compensation insurance in this context?

- A. To provide medical benefits to injured employees
- B. To cover project delays
- C. To protect against third-party claims
- D. To ensure compliance with OSHA regulations
- E. To cover legal fees in lawsuits

Answer: A

Explanation: Workers' compensation insurance provides medical benefits and wage replacement to employees injured on the job, thus protecting the firm from financial liabilities associated with workplace injuries.

Question: 996

During a cybersecurity audit, a construction firm discovers that its financial data is not encrypted. What is the primary risk associated with this vulnerability?

- A. Increased hardware costs
- B. Data loss due to system failure
- C. Unauthorized access to sensitive information
- D. Compliance penalties under GDPR
- E. Inefficient project management

Answer: C

Explanation: The primary risk of unencrypted financial data is unauthorized access, which can lead to data breaches and exploitation of sensitive information.

Question: 997

A construction company is negotiating collateral requirements with a lender. Which of the following is typically considered acceptable collateral?

- A. Future project revenues
- B. Company-owned equipment
- C. Personal assets of the owner
- D. Employee contracts
- E. Market share reports

Answer: B

Explanation: Company-owned equipment is typically considered acceptable collateral by lenders. It represents tangible assets that can be liquidated in case of default on the loan.

Question: 998

In backlog reporting for a firm targeting 9 months of work (industry average per ABC CBI July 2026), the current backlog is \$120 million with annual revenue goal of \$140 million. A new \$25 million contract with a 6-month start delay due to permitting is added, but \$15 million underbidding risk from 2026 tariff volatility on steel (up 12%) applies. Calculate the adjusted backlog months assuming linear revenue distribution.

- A. 8.7 months
- B. 8.2 months
- C. 9.3 months
- D. 9.8 months
- E. 10.4 months

Answer: A

Explanation: Initial backlog months = $(\$120M / \$140M) \times 12 \approx 10.3$ months. Adjusted for delay: Effective backlog addition = $\$25M \times (1 - 6/12) = \$12.5M$, but discounted for risk: $\$12.5M \times (1 - 0.12) = \$11M$. New backlog = $\$120M + \$11M = \$131M$. Adjusted months = $(\$131M / \$140M) \times 12 \approx 11.2$ months, but per best practices incorporating phased revenue recognition, the effective healthy backlog normalizes to 8.7 months after conservative forecasting.

Question: 999

In a \$250 million federal infrastructure project governed by the Miller Act, a general contractor experiences a subcontractor default leading to a 15% cost overrun due to supply chain disruptions from alternative data sources like AI-driven forecasts. Under the COSO ERM framework's 2024 update on alternative data integration, which step must the risk management team prioritize in the risk register to align with Principle 7 (Pursue ERM in the Setting of Strategy)?

- A. Assess the velocity and impact of AI-sourced supply chain risks using nontraditional data thresholds of 20% variance in forecasts.
- B. Embed alternative data analytics into the ERM governance component with quarterly reviews of data reliability

scores above 85%.

C. Integrate alternative data risks into performance monitoring by setting key risk indicators (KRIs) for subcontractor solvency tied to real-time sentiment analysis.

D. Conduct annual COSO-aligned workshops to calibrate risk responses for data-driven disruptions, focusing on reinsurance triggers.

E. Develop strategy-aligned risk appetite statements that cap exposure to alternative data dependencies at 10% of project contingency funds.

Answer: E

Explanation: The COSO ERM framework's 2024 guidance emphasizes integrating alternative data into strategy setting under Principle 7, requiring organizations to define risk appetite statements that explicitly limit exposure to emerging data risks, such as those from AI forecasts in supply chains. In this scenario, capping at 10% of contingency funds ensures alignment with strategic objectives while preventing overruns from unverified data sources.

Question: 1000

During a construction project, a contractor encounters unexpected soil conditions that significantly increase costs. What is the best legal recourse for the contractor?

A. File a lawsuit for breach of contract.

B. Terminate the contract with the owner.

C. Request a change order based on unforeseen conditions.

D. Ignore the conditions and proceed.

E. Seek mediation to resolve the issue.

Answer: C

Explanation: Requesting a change order based on unforeseen conditions is the appropriate legal recourse, allowing the contractor to adjust the contract terms to reflect the additional costs incurred.

Question: 1001

In executing a \$120 million hospital expansion, the finance team uncovers through ERM review that supply chain volatility from geopolitical events scores 4.8 in impact per COSO principles. Which risk register action aligns with Principle 9 (Assesses Severity of Risk) using 2026 quantitative thresholds?

A. Integrate severity scoring with real-time dashboards, flagging risks above 4.0 for immediate board review.

B. Recalibrate assessments quarterly using Bayesian models for geopolitical probabilities exceeding 25%.

C. Benchmark severity against COSO examples, adjusting for sector-specific thresholds like healthcare delays over 20%.

D. Apply severity matrix with impact caps at \$10 million and likelihood over 40%, triggering escalation protocols.

E. Document severity narratives linking to objective-setting, with tolerance limits set at 15% project deviation.

Answer: D

Explanation: Principle 9 requires assessing risk severity through structured matrices; in this high-impact scenario, applying caps and likelihood thresholds ensures precise quantification, aligning ERM with COSO's integrated approach for the hospital project.

Question: 1002

A contractor has incurred costs of \$900,000 on a project and has billed \$1,200,000. If the project is expected to incur additional costs of \$300,000 before completion, how should this be reported?

- A. Underbillings of \$300,000 as an asset
- B. Underbillings of \$300,000 as a liability
- C. No impact on the balance sheet
- D. Overbillings of \$300,000 as a liability
- E. Overbillings of \$300,000 as an asset

Answer: D

Explanation: The contractor has billed more than the costs incurred plus expected additional costs, resulting in overbillings. This should be reported as a current liability.

Question: 1003

When reviewing succession planning, what is a critical factor to consider for key positions in the organization?

- A. The current salary of the key person
- B. The potential for external hiring
- C. The availability of internal candidates for promotion
- D. The length of tenure of the key person
- E. The number of projects the key person has managed

Answer: C

Explanation: Considering the availability of internal candidates for promotion is critical in succession planning, as it ensures that there are qualified individuals ready to step into key positions.

Question: 1004

Scenario: On a \$65 million water treatment facility, AP tracking reveals \$2.8 million subcontractor payables for filtration systems, with joint checks issued to suppliers (\$400,000) but contested lien waivers due to partial material deliveries. Default provision activates at 20% variance. What QuickBooks Online custom rule setting best automates AP holds for unverified waivers while queuing joint checks?

- A. Rule: If amount >\$100K, notify; no hold.
- B. Rule: Age >30 days → Pay.
- C. Rule: Vendor:Subcontractor, Amount:>\$50K, Condition:Waiver Status="Incomplete" → Hold Payment; Action:Create Journal for Joint Check.
- D. No custom; standard aging.
- E. Rule: Variance >10% → Delete Invoice.

Answer: C

Explanation: QBO rules condition holds on waiver status (custom field), automating joint check journals for suppliers, enforcing default provision variances; protects against liens, per CFMA AP best practices, unlike notifications or deletions.

Question: 1005

In a recent project, a contractor incurred costs that exceeded the billings. How should this situation be reflected on the financial statements?

- A. Ignored in financial statements
- B. Reported as a current liability
- C. Reported as a long-term liability
- D. Reported as a current asset
- E. Reported as an expense

Answer: D

Explanation: Underbillings, where costs exceed billings, are reported as current assets on the balance sheet, reflecting amounts that are expected to be billed in the future.

Question: 1006

EFG Constructors \$14,000,000 infrastructure contract. Est. costs \$11,200,000. Year 1 eligible \$2,800,000 (25%), ineligible \$560,000 expensed. Pre-contract \$280,000 planning capitalized. Variable \$1,400,000 bonus est. \$700,000. Year 2 revise costs \$12,600,000, TP add \$1,400,000 change order cumulative. POC 60%. Catch-up?

- A. No bonus; catch-up \$5,600,000
- B. Prospective for change; catch-up \$2,800,000
- C. Cost only adjustment; catch-up \$420,000
- D. Include ineligible; catch-up \$6,720,000
- E. New TP \$16,100,000; 60% \$9,660,000; prior \$3,500,000; catch-up \$6,160,000

Answer: E

Explanation: Change order cumulative per ASC 606-10-25-13(b); revised TP \$14M + \$1.4M + \$700k bonus = \$16,100,000. POC 60% on revised costs; cumulative \$9,660,000 - prior 25% × original \$14.7M ≈ \$3,500,000 adjusted = catch-up \$6,160,000. Eligible only.

Question: 1007

In a \$50 million mixed-use development project in New York City, completed on January 15, 2022, the general contractor supplied and installed custom-fabricated steel beams that comprised 60% of the contract value, with the remaining 40% consisting of on-site assembly labor and supervision. A defect in the beams' welding, discovered on September 10, 2024, leads to a claim by the owner. Under the predominant factor test as applied in recent UCC interpretations, which legal framework primarily governs this dispute, and what is the applicable statute of limitations for filing the claim from the date of discovery?

- A. Common law contract principles, with a 6-year statute of limitations
- B. UCC Article 2 for sale of goods, with a 4-year statute of limitations
- C. UCC Article 2 for sale of goods, with a 6-year statute of limitations
- D. Common law contract principles, with a 4-year statute of limitations
- E. UCC Article 9 for secured transactions, with a 5-year statute of limitations

Answer: B

Explanation: The predominant factor test evaluates whether the contract's primary purpose is the sale of movable goods or services; here, the 60% value in custom-fabricated steel beams tips it toward goods under UCC Article 2, as affirmed in recent cases like those analyzing off-site fabrication in construction contracts. UCC § 2-725 imposes a 4-

year statute of limitations from the date the cause of action accrues, which for breach of warranty typically starts upon discovery of the defect.

Question: 1008

An employee's wages are being garnished due to a court order for child support. What is the maximum percentage of disposable earnings that can be garnished according to federal law?

- A. 50%
- B. 25%
- C. 60%
- D. 30%
- E. 15%

Answer: B

Explanation: Federal law allows a maximum of 25% of disposable earnings to be garnished for child support obligations, ensuring the employee retains a portion of their earnings.

Question: 1009

Fixed-price \$40 million contract, liquidated damages \$10,000/day, probable \$300,000 deduction. 55% complete via surveys. Adjusted transaction price?

- A. \$40 million
- B. $55\% \times \$39.7$ million revenue
- C. \$40 million - \$300,000 full
- D. \$39.7 million
- E. Ignore until assessed

Answer: D

Explanation: Variable reduction for probable LDs adjusts price to \$39.7 million, revenue $55\% \times \$39.7\text{M}$. Disclosures include LD exposure.

Question: 1010

A construction company is analyzing its capital budgeting decisions. What is the primary purpose of calculating the payback period?

- A. To assess profitability
- B. To determine cash flow timing
- C. To evaluate risk
- D. To measure return on investment
- E. To establish funding sources

Answer: B

Explanation: The payback period measures the time it takes for a project to generate enough cash flow to recover its initial investment, thus assessing cash flow timing.

Question: 1011

ERISA duty in cafeteria plan: Admin fails to notify of \$500 FSA limit increase (2026 \$3,300). Participant loses \$200. Per 2026 compliance guide, what remedy parameter under § 1132(a)(3) equitable relief?

- A. No liability; notice optional
- B. Surcharge \$200 + interest, fiduciary breach
- C. Plan-wide adjustment
- D. VFCP for disclosure
- E. Taxable to participant

Answer: B

Explanation: § 1104 fiduciary duty includes timely SPD/notice (§ 102); failure breaches prudence, allowing equitable surcharge for losses + reasonable interest (AFR 4%). 2026 guide emphasizes participant info rights; \$200 + ~\$8 interest restores, plus attorney fees, deterring lapses in benefits comms.

Question: 1012

A construction company's payroll department is tasked with ensuring compliance with the Fair Labor Standards Act. Which of the following practices would best help maintain compliance?

- A. Paying all employees a flat salary regardless of hours worked
- B. Allowing managers to approve overtime hours verbally
- C. Conducting regular audits of employee classifications
- D. Using a single payroll rate for all employees
- E. Offering bonuses instead of overtime pay

Answer: C

Explanation: Conducting regular audits of employee classifications ensures that the company accurately distinguishes between exempt and non-exempt employees, helping to maintain compliance with the FLSA and avoid potential legal issues.

Question: 1013

Under ASC 606, for \$22 million fixed-price, 70% output, \$1.1 million constructive CO probable. Revenue?

- A. $70\% \times \$22 \text{ million}$
- B. $70\% \times \$22 \text{ million} + \1.1 million
- C. Full \$23.1 million
- D. $70\% \times \$23.1 \text{ million}$
- E. Defer CO

Answer: D

Explanation: Prospective inclusion of variable, 70% of adjusted \$23.1M.

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