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1. An audit partner owns a significant number of shares in the audit client. Which threat to independence does this create?

- A. Familiarity threat
- B. Self-interest threat
- C. Advocacy threat
- D. Intimidation threat

2. Under IAS 1, when an entity reclassifies amounts previously recognised in OCI to profit or loss, this transfer is called:

- A. A prior period adjustment
- B. A reclassification adjustment (recycling)
- C. An error correction
- D. An accounting policy change

3. Under IFRS 5, if the criteria for holding-for-sale classification are met after the balance sheet date but before the financial statements are authorised for issue:

- A. The asset is reclassified in the prior year balance sheet
- B. The entity always records the asset as held for sale retroactively
- C. The prior period is restated
- D. The asset is not classified as held for sale in the financial statements presented; but certain disclosures may be required if significant

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4. Under ZATCA regulations, the Automatic Exchange of Information (AEOI) for Saudi Arabia includes compliance with:

- A. Only the OECD Transfer Pricing Guidelines
- B. Only BEPS Action 13
- C. Only the UN Tax Committee frameworks
- D. The Common Reporting Standard (CRS) for automatic exchange of financial account information with treaty partners



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5. Under ISA 720, if the auditor identifies a material inconsistency between the other information and the financial statements, and the financial statements are correct, the auditor shall:

- A. Qualify the audit opinion
- B. Ask management to correct the other information, and if not corrected, include an 'other information' section in the audit report describing the inconsistency
- C. Ignore it as other information is outside the audit scope
- D. Issue a separate adverse opinion on the other information

6. Under IFRS 3, the identifiable assets acquired and liabilities assumed in a business combination are measured at:

- A. Historical cost
- B. Fair value on the date of the acquisition
- C. Book value in the acquiree's financial statements
- D. Net realizable value

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7. Under Saudi Labor Law, the maximum probationary period for a new employee is:

- A. 1 month
- B. 3 months
- C. 6 months
- D. 90 days (3 months), extendable with written agreement to a maximum of 180 days (6 months) for technical and specialized roles

8. In a Mudarabah contract, how are losses borne between the parties?

- A. Losses are shared proportionally between the capital provider and the manager
- B. Losses are borne solely by the capital provider (rab al-maal), unless due to the manager's misconduct
- C. Losses are borne solely by the manager (mudarib)
- D. Losses are split 50/50 regardless of capital contribution

9. Under IFRS 13 Fair Value Measurement, the fair value hierarchy prioritizes inputs. Which level gives the highest priority?

- A. Level 2 – Observable inputs other than quoted prices
- B. Level 1 – Quoted prices in active markets for identical assets or liabilities
- C. Level 3 – Unobservable inputs
- D. Level 0 – Management estimates



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10. What is the key difference between zero-rated and exempt supplies under Saudi VAT law?

- A. Zero-rated suppliers can reclaim input VAT; exempt suppliers cannot
- B. Zero-rated supplies are outside VAT scope; exempt supplies are taxed at 0%
- C. There is no practical difference between zero-rated and exempt
- D. Exempt suppliers can reclaim input VAT; zero-rated suppliers cannot

11. IFRS 6 is a temporary standard with limited scope. It applies to:

- A. All mining companies worldwide
- B. Only oil and gas companies
- C. All extractive industries regardless of stage
- D. Expenditures incurred by an entity in connection with the search for mineral resources before technical feasibility and commercial viability is established

12. What is the minimum passing score required in each subject of the SOCPA Fellowship exam?

- A. 60%
- B. 50%
- C. 70%
- D. 75%

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13. Under ISA 560, if an event that would have affected the financial statements had it been known at the audit report date occurs after that date and before the financial statements are issued, and the auditor's report has already been issued, the auditor shall:

- A. Do nothing — the audit is complete
- B. Automatically withdraw the audit opinion
- C. Issue a new audit report on all matters
- D. Consider whether the audit report needs to be revised; if financial statements are amended, the auditor issues a new report covering the original and amended statements



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14. An audit firm prepared the financial statements of a client and is now performing the audit of those same statements. Which threat to independence does this create?

- A. Self-interest threat
- B. Advocacy threat
- C. Familiarity threat
- D. Self-review threat

15. Under ISA 610, if the internal audit function is not sufficiently independent, objective, or competent to meet the external auditor's standards, the external auditor:

- A. Can still use internal audit work
- B. Shall always resign
- C. Must report to management
- D. Shall not use the internal audit work for audit evidence purposes

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16. Under ISA 250 Revised (2017), the auditor's responsibilities regarding non-compliance with laws and regulations are primarily to:

- A. Ensure the entity complies with all laws
- B. Certify legal compliance in the audit report
- C. Replace legal counsel in advising management
- D. Identify and respond to non-compliance that has a material effect on the financial statements

17. Under ISA 510, when a predecessor auditor's opinion on opening balances was modified, the current period auditor shall:

- A. Automatically qualify the current period opinion
- B. Decline the engagement
- C. Ignore the prior modification
- D. Evaluate whether the matter causing the modification has been resolved and its effect on the current period

18. Under Saudi Investment Law (Foreign Investment Law 2000 as amended), the Foreign Investment license allows foreign investors to:

- A. Invest in all sectors without restriction
- B. Invest in all sectors listed in the Negative List only
- C. Operate under the same rules as Saudi investors in the same sector
- D. Invest in sectors permitted by the Saudi General Investment Authority (now Ministry of Investment) and benefit from specified incentives



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19. Under IAS 23, when funds borrowed for specific purpose remain temporarily uninvested, the entity:

- A. Capitalises only the portion used
- B. Continues capitalising all borrowing costs without offset
- C. Stops capitalising until the funds are used
- D. Deducts investment income earned on those temporarily-invested funds from capitalised borrowing costs

20. Under IFRS 16, the interest expense on the lease liability is:

- A. Added to the right-of-use asset
- B. Recognised in OCI
- C. Recognised in the revaluation reserve
- D. Recognised as finance cost in profit or loss

21. Under IAS 21, non-monetary items measured at historical cost in a foreign currency are translated using:

- A. The closing rate
- B. The average rate for the period
- C. The exchange rate at the date of the transaction
- D. The rate on the last day of the period

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22. Under IFRS 9, a hedge relationship must meet certain qualifying criteria. Which of the following is NOT a qualifying criterion?

- A. The hedge relationship is formally designated and documented
- B. The hedging relationship meets hedge effectiveness requirements
- C. The entity expects the hedge to be highly effective
- D. There is zero expected hedge ineffectiveness



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23. Under IAS 33, treasury shares (own shares held) are excluded from the EPS denominator. The weighted average shares for EPS purposes treat treasury shares as:

- A. Issued but not outstanding
- B. Fully included
- C. Dilutive potential shares
- D. Excluded from the calculation — as they have no voting rights or economic claims on profit

24. Under IFRS 5, what happens to depreciation of a non-current asset once it is classified as held for sale?

- A. Depreciation is accelerated
- B. Depreciation rate is halved
- C. Depreciation continues at its normal rate
- D. Depreciation ceases on classification as held for sale

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25. In diminishing Musharakah, what is the key feature that distinguishes it from standard Musharakah?

- A. Profits decrease each year as the project matures
- B. The financier's ownership share is gradually bought out by the customer over time
- C. Both parties reduce their capital contributions annually
- D. The profit-sharing ratio decreases as the customer's creditworthiness improves

26. Under IFRS 8 Operating Segments, what threshold triggers separate segment disclosure?

- A. Revenue, profit, or assets represent 10% or more of combined totals
- B. Revenue represents 5% or more of total entity revenue
- C. The segment has more than 100 employees
- D. The segment operates in more than one country

27. The payback period method for capital investment appraisal calculates:

- A. The time required to recover the initial investment from net cash inflows
- B. The net present value of the project
- C. The internal rate of return
- D. The return on capital employed

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28. In financial analysis, 'earnings quality' refers to:

- A. The accuracy of the auditor's opinion
- B. Revenue growth rate
- C. Compliance with accounting standards
- D. The degree to which reported earnings accurately reflect the entity's true operating performance and are sustainable over time, with a close relationship to operating cash flows

29. Under ISA 230, a working paper that is crucial to understanding audit conclusions must be retained for at least:

- A. 1 year
- B. At least 5 years from the date of the audit report
- C. 3 years
- D. 7 years

30. Under ISA 320, when the auditor sets a lower level of materiality for a specific class of transactions because misstatements below overall materiality would still influence user decisions, this is called:

- A. Performance materiality
- B. Audit risk threshold
- C. Inherent materiality
- D. Tolerable error in sampling



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Answer Key & Explanations

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1. B — Self-interest threat

Owning shares in an audit client creates a self-interest threat because the auditor has a financial stake in the client's performance, which could impair independence and objectivity.

2. B — A reclassification adjustment (recycling)

IAS 1.92: a reclassification adjustment is the amount reclassified to P&L in the current or prior period that was previously recognised in OCI.

3. C — The prior period is restated

IFRS 5.12: if criteria are met after the reporting period but before the financial statements are authorised, classification as held for sale does not apply to the statements being presented.

4. A — Only the OECD Transfer Pricing Guidelines

Saudi Arabia adopted the OECD Common Reporting Standard (CRS) and is committed to automatic exchange of financial account information with other CRS participating jurisdictions.

5. B — Ask management to correct the other information, and if not corrected, include an 'other information' section in the audit report describing the inconsistency

ISA 720.16-17: if other information is materially inconsistent (and the financial statements are correct), the auditor requests management to correct it; if not corrected, the auditor describes the inconsistency in the audit report.

6. A — Historical cost

IFRS 3.18: identifiable assets acquired and liabilities assumed are measured at their acquisition-date fair values.

7. C — 6 months

Saudi Labor Law Article 53: the probationary period shall not exceed 90 days, but may be extended by written agreement for technical and specialised roles to a total not exceeding 180 days.

8. B — Losses are borne solely by the capital provider (rab al-maal), unless due to the manager's misconduct

In Mudarabah, the capital provider (rab al-maal) provides funds and bears all financial losses, while the mudarib (manager) contributes expertise. The mudarib only bears losses if they result from their own misconduct or negligence.

9. B — Level 1 – Quoted prices in active markets for identical assets or liabilities

IFRS 13 establishes a three-level fair value hierarchy. Level 1 inputs (quoted prices in active markets for identical assets or liabilities) receive the highest priority. Level 3 (unobservable inputs) receives the lowest priority. There is no Level 0.



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10. A — Zero-rated suppliers can reclaim input VAT; exempt suppliers cannot

Zero-rated supplies are taxable at 0%, meaning the supplier can reclaim input VAT on related purchases. Exempt supplies fall outside VAT scope, and the supplier cannot reclaim any input VAT on purchases related to exempt activities.

11. D — Expenditures incurred by an entity in connection with the search for mineral resources before technical feasibility and commercial viability is established

IFRS 6.1: IFRS 6 applies to exploration for and evaluation of mineral resources — specifically E&E expenditures before the technical feasibility and commercial viability of extracting a mineral resource is demonstrable.

12. A — 60%

Candidates must achieve at least 60% in each subject of the SOCPA Fellowship exam to pass. The exam has a maximum duration of 20 hours.

13. C — Issue a new audit report on all matters

ISA 560.16: after the audit report has been issued, if a material event is discovered before the financial statements are issued, the auditor works with management to amend the statements and issues a new audit report.

14. D — Self-review threat

When an auditor reviews or audits work they previously prepared (such as financial statements), this creates a self-review threat. The auditor may be less likely to critically evaluate their own prior work.

15. C — Must report to management

ISA 610.14: the external auditor may only use internal audit work if the function has adequate technical training, proficiency, and due professional care, and is sufficiently objective.

16. A — Ensure the entity complies with all laws

ISA 250.6 (revised): the auditor's responsibility is to identify non-compliance that may materially affect the financial statements — not to certify legal compliance.

17. D — Evaluate whether the matter causing the modification has been resolved and its effect on the current period

ISA 510.10: the current auditor evaluates whether the prior modification matters are resolved and their implications for the current period audit.

18. A — Invest in all sectors without restriction

Saudi Foreign Investment Law: licensed foreign investors may invest in non-restricted sectors and benefit from guarantees, incentives, and equal treatment with Saudi investors.

19. A — Capitalises only the portion used

IAS 23.12: when excess borrowed funds are temporarily invested before being expended, investment income earned is deducted from the amount of capitalised borrowing costs.

20. C — Recognised in the revaluation reserve

IFRS 16.47: the interest expense on the lease liability is recognised in P&L as a finance cost.

21. C — The exchange rate at the date of the transaction

IAS 21.23(b): non-monetary items measured at historical cost are translated using the exchange rate at the



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date of the transaction.

22. D — There is zero expected hedge ineffectiveness

IFRS 9.6.4.1: qualifying criteria include formal designation/documentation, an economic relationship between hedged item and instrument, credit risk does not dominate, and hedge ratio consistent with actual hedging. IFRS 9 removed the 80-125% effectiveness test and does not require zero ineffectiveness.

23. C — Dilutive potential shares

IAS 33.19: the weighted average number of shares used for basic EPS excludes treasury shares (own shares repurchased and held).

24. C — Depreciation continues at its normal rate

IFRS 5.25: assets classified as held for sale are not depreciated after classification.

25. B — The financier's ownership share is gradually bought out by the customer over time

In diminishing Musharakah, the customer progressively purchases the financier's ownership share over time until the customer becomes the sole owner. This structure is commonly used in real estate and home financing.

26. A — Revenue, profit, or assets represent 10% or more of combined totals

Under IFRS 8, a segment must be reported separately if any ONE of the following 10% tests is met: its reported revenue is 10%+ of combined revenues, its profit/loss is 10%+ of combined profit/loss, or its assets are 10%+ of combined assets.

27. A — The time required to recover the initial investment from net cash inflows

Payback period = time taken for cumulative net cash inflows to recover the initial investment. It is simple but ignores the time value of money and cash flows beyond the payback period.

28. D — The degree to which reported earnings accurately reflect the entity's true operating performance and are sustainable over time, with a close relationship to operating cash flows

Earnings quality: high-quality earnings are sustainable, reflect real economic performance, and are closely correlated with operating cash flows. Low-quality earnings involve non-recurring items, accounting choices that boost reported income, or aggressive revenue recognition.

29. B — At least 5 years from the date of the audit report

ISA 230.14: the auditor shall assemble audit documentation in a file and complete the assembly process within 60 days after the audit report date. Retention periods typically meet regulatory minimums of at least 5 years (ISQC 1.54: 5 years from the report date).

30. C — Inherent materiality

ISA 320.10: the auditor may set specific materiality amounts for particular classes of transactions, account balances, or disclosures if they are lower than overall materiality.



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