

CPA EVOLUTION · 3+1 MODEL

CPA Exam Study Guide

240+ high-yield terms & concepts
across FAR, AUD, REG + your
choice of BAR, ISC, or TCP



240+ High-Yield Terms & Concepts Across the CPA Evolution Sections

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How to Use This Guide

The Uniform CPA Examination is the 16-hour licensing exam for Certified Public Accountants in the United States, developed, maintained, and scored by the AICPA, administered at Prometric test centers in partnership with NASBA and the 55 boards of accountancy. Since the CPA Evolution model took effect in January 2024, every candidate takes the same three Core sections -- Auditing and Attestation (AUD), Financial Accounting and Reporting (FAR), and Regulation (REG) -- plus ONE Discipline section of their choice: Business Analysis and Reporting (BAR), Information Systems and Controls (ISC), or Tax Compliance and Planning (TCP). Each section is 4 hours, scored on a 0-99 scale, and requires a 75 to pass. This guide maps the exam the way it runs. Part 1 covers the rules of the test itself -- the Evolution model, timing, scoring, the 30-month credit window, testing windows, and eligibility. Parts 2-4 cover FAR (financial reporting, balance sheet accounts, and transactions). Parts 5-8 cover AUD (ethics and professional responsibilities, risk assessment, evidence, and reporting). Parts 9-13 cover REG (tax procedures, business law, property transactions, individual taxation, and entity taxation). Part 14 covers the BAR discipline, Part 15 the ISC discipline, and Part 16 the TCP discipline. Each concept pairs key facts with a strategy tip and a worked example, so the same page works for a first pass and a last-week review. Work Parts 1-4 in order first if your CPA journey starts with FAR, or jump to your enrolled section for a fast content pass. Honest positioning: this is an independent study aid, NOT approved, endorsed, or produced by the AICPA or NASBA. The official AICPA Blueprints, the NASBA candidate resources, and your state board are the ground truth for everything administrative -- content allocations, fees, eligibility, and windows change, so confirm them before you register.

Part 1: The CPA Evolution Exam & How It Works (18 Concepts)

The rules of the test itself: what the CPA Exam is, the current Evolution structure, timing, scoring, credits, windows, and eligibility.

#	Term	Key Facts	Strategy Tip	Example
1	CPA (Certified Public Accountant)	The state-issued license to practice public accounting in the United States. Candidates must pass the Uniform CPA Examination, meet education requirements (commonly the 150-hour rule), and satisfy experience and ethics requirements set by their state board.	Treat the exam as one gate of several -- research your state board's education and experience rules before you start paying for sections.	A candidate passes all four sections and still must complete one year of work experience under a licensed CPA before the state board certifies the license.
2	Uniform CPA Examination	The exam used by the regulatory bodies of all 50 states plus DC, Guam, Puerto Rico, the US Virgin Islands, and the Northern Mariana Islands. Developed, maintained, and scored by the AICPA; administered at Prometric centers with NASBA and state boards.	Because every jurisdiction uses the same exam, your section credits transfer if you serve clients across states -- but eligibility rules still vary by board.	A candidate eligible in Texas sits for the same FAR section paper as a candidate eligible in California.
3	CPA Evolution Model	The current exam structure effective January 2024. The old fourth section (BEC) was retired, and the exam became a 3+1 model: three Core sections plus one Discipline section of the candidate's choice, four sections total, 16 hours.	Marketing and prep books from before 2024 that drill BEC content are outdated for the exam you will actually sit.	A 2022 study book's "Business Environment and Concepts" chapter no longer maps to any section on the current exam.
4	Core Sections	AUD, FAR, and REG -- the three sections required of		

EVERY candidate regardless of the discipline they choose. Core content is the shared foundation of the profession.

Schedule cores early and protect them: they are the

A candidate planning BAR still must pass AUD, FAR, and

candidate selects exactly one at registration. BAR extends financial accounting and analysis; ISC covers information systems, cybersecurity, and SOC engagements; TCP covers tax compliance and planning.

Pick the discipline that

matches your career path and your firm's needs -- it is a real specialization signal to employers.

An auditor targeting IT audit

6	CPA Exam Study Guide	16 Hours, 4 Sections	The full exam is 16 hours of testing: four sections at 4 hours each. Candidates may take sections in separate sittings and may sit up to two sections in a single day.	Space your sections across sittings and windows; crashing two sections into one 8-hour day is rarely a score-winning plan.	A candidate schedules FAR and REG in one long day at the test center, with a break between.
7		Testlet Structure	Each 4-hour section is built from five testlets: multiple-choice testlets first, then task-based simulation (TBS) testlets. A standardized 15-minute break between testlets three and four pauses the timer; all other breaks run the clock.	Practice the break protocol at home so the 15-minute pause is a planned reset, not a surprise.	After the second MCQ testlet and the first TBS testlet, a candidate takes the standardized 15-minute stop-and-stretch break.
8		MCQ / TBS Question Mix	All sections combine multiple-choice questions (MCQs) and task-based simulations (TBSs). Scoring weight is 50/50 for every section EXCEPT ISC, which is 60% MCQ / 40% TBS.	If simulations are your weak spot, budget dedicated TBS practice -- they are half your score on five of the six sections.	FAR's score is computed equally from its MCQ testlets and its seven task-based simulations.
9		Question Counts by Section	AUD: 78 MCQs + 7 TBS. FAR: 50 MCQs + 7 TBS. REG: 72 MCQs + 8 TBS. BAR: 50 MCQs + 7 TBS. ISC: 82 MCQs + 6 TBS. TCP: 68 MCQs + 7 TBS.	Memorize your section's mix to build a time budget: it changes how much time to reserve for simulations.	An AUD candidate knows 7 simulations carry half the weight and budgets nearly two hours for them.
10		Passing Score: 75	Each section is scored on a 0-99 scale and a 75 is required to pass. A 75 is a scaled, equated score -- NOT a percentage of questions answered correctly.	Never interpret "75" as "get 75% right" -- the scaled standard is set by equating across forms.	A candidate answers 70% of questions correctly and still earns 82 because the form was harder and equating adjusts.
11		Scaled Scoring & Equating	Scores are computed using item response theory: credit depends on correctness AND the relative difficulty of each question, with forms equated so one passing standard holds across test versions.	Cramming definitions is weaker than drilling application -- difficult items carry more score weight.	A hard simulation answered correctly moves the scaled score more than an easy MCQ.
12		Borderline Review (74-75)	Exams landing at the pass/fail margin are flagged for automatic manual quality-control review of the TBSs, which can add days to a score release.	Treat a delayed score at the 74-75 borderline as expected, not as a sign of trouble.	A candidate's AUD file is pulled for manual TBS review because the initial computed score sat at 75.
13		Score Release	Scores are released on AICPA-published target dates. Core sections release on a rolling cadence every few weeks; discipline sections release less frequently because their testing pools are smaller.	Book discipline sections early in their window so a slow release does not eat your 30-month clock.	A TCP taker in the April window plans June for the result, not the same rolling schedule cores enjoy.
14		Continuous Testing & Discipline Windows	Continuous testing (since July 2020) removed blackout periods for Core sections -- they run almost year-round. Discipline sections are administered only in the first month of each quarter (January, April, July, October).	Calendar the discipline months first, then plan cores around them -- discipline availability is the binding constraint.	A BAR candidate must sit inside January, April, July, or October; missing the window means waiting a quarter.
15		30-Month Credit Window	Passed section credits expire after a rolling 30 months in most jurisdictions (the pre-2024 18-month rule was extended). The clock starts on the DATE YOU TOOK the first passed section -- not the date the score is released.	Count 30 months from your first test date, not your first score letter, and back-schedule every remaining section.	A candidate passes FAR on January 15; the clock for all remaining sections runs from January 15, even though the score arrives in February.
16		Retakes & Fees	A failed section can be retaken; the penalty is the re-exam fee plus the risk that other credits expire under the 30-month clock. Under continuous testing there is no penalty for re-sitting promptly after a score release.	Reserve one retake of runway inside your 30 months -- the calendar is the plan, not hope.	A candidate's REG attempt in April fails; they rebook for the next available window while FAR credit still has 20 months left.
17		Eligibility & the 150-Hour			

One of the 55 boards of

accountancy declares eligibility. Requirements vary but almost always include a US bachelor's degree and accounting course credits; many states require the equivalent of 150 semester hours (five years of study) before certification, some before sitting.

Verify YOUR state's credit-hour

A candidate with a 120-hour

18	CPA Exam Study Guide	National Pass Rates	The AICPA publishes pass rates quarterly. Recent full-year rates: AUD about 46%, FAR about 41%, REG about 63%, BAR about 41%, ISC about 63%, TCP about 76%; the exam historically passes under 50% overall.	Use pass rates to set expectations, not excuses -- FAR and BAR are the hardest gates; plan extra lead time there.	A candidate sees FAR's ~41% pass rate and front-loads far more FAR study time than REG.
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Part 2: FAR -- Financial Reporting & Statements (18 Concepts)

Financial Accounting and Reporting (FAR) tests US GAAP financial reporting: the statement framework, the balance sheet accounts, and the transactions that move them. Area I (Financial Reporting, 30-40%) covers these fundamentals.

#	Term	Key Facts	Strategy Tip	Example
19	Financial Statements Framework	The FASB conceptual framework underlies US GAAP: qualitative characteristics (relevance, faithful representation), elements (assets, liabilities, equity, revenues, expenses, gains, losses), and recognition/measurement concepts.	Answer framework MCQs by matching the characteristic to its definition verbatim -- the exam tests terminology precisely.	"Faithful representation" means the numbers capture the economic substance completely, neutrally, and free of material error.
20	Accounting Equation	Assets = Liabilities + Equity. Every transaction keeps the equation in balance; equity includes contributed capital, retained earnings, and other comprehensive income.	Solve TBS unknowns by plugging the equation -- three of four values give you the fourth.	A company has 500 assets and 300 liabilities; equity is 200.
21	Accrual Basis Accounting	Revenues recognized when earned, expenses when incurred -- regardless of cash movement. The accrual basis is required under GAAP for external reporting.	Convert cash-basis figures to accrual in TBSs by adding/subbing receivables, payables, and deferrals.	A firm earns 1,000 in December, collects in January; December income still records the 1,000 revenue.
22	The Classified Balance Sheet	Presents assets and liabilities as current vs non-current and equity in layers: assets = current + long-term; liabilities = current + long-term; equity = paid-in + retained earnings + AOCI.	Classify by realization/obligation timing -- current means realizable or payable within the operating cycle.	Inventory due for sale next quarter is current; a 10-year bond payable is long-term.
23	Income Statement Formats	Two formats: single-step (all revenues minus all expenses) and multi-step (gross profit, operating income, other income, income before tax, net income). Extraordinary items were eliminated from GAAP reporting.	Multi-step TBSs reward knowing where each item lands: COGS below revenue, interest above or below operating income by purpose.	For a retailer, sales minus COGS = gross profit; selling and admin expenses then yield operating income.
24	Statement of Retained Earnings	Retained earnings roll forward: beginning RE + net income - dividends = ending RE. Prior-period error corrections also hit RE directly.	In TBSs, solve for the unknown dividend or net income by rolling the statement forward.	Beginning RE 100 + net income 50 - dividends 20 = ending RE 130.
25	Statement of Cash Flows	Three sections: operating, investing, financing. Prepared under the indirect method (reconciling from net income) or direct method (cash receipts/payments); GAAP requires reconciliation of net income to operating cash when the direct method is used.	Classify by the activity's purpose: operations (income-related), investing (assets/securities), financing (owners/debt providers).	Interest paid on debt is operating under US GAAP; buying equipment is investing; issuing stock is financing.
26	Operating Section -- Indirect Method	Starts with net income and adjusts for non-cash items (depreciation, amortization, gains/losses), and working-capital changes (AR, inventory, AP).	Sign logic: increases in current OPERATING assets subtract cash; increases in operating liabilities add.	AR rises 10 -> cash from operations falls 10; AP rises 10 -> cash from operations rises 10.
27	Comprehensive Income	Net income plus other comprehensive income (OCI): unrealized gains/losses on available-for-sale debt securities, foreign currency translation adjustments, and certain pension adjustments.	OCI items bypass net income but accumulate in AOCI on the balance sheet.	An unrealized gain on an AFS debt security appears in OCI, not in net income.
28	Earnings Per Share (EPS)	Basic EPS = (net income -		

preferred dividends) /
weighted-average common
shares. Diluted EPS adds the
effect of convertible and option
securities under the
treasury-stock method.

Compute weighted-average

shares by weighting each
share block by the months
outstanding.

100 shares outstanding all year

29	CPA Exam Study Guide	Revenue Recognition -- Core Principle	ASC 606: recognize revenue when control of the promised good or service transfers to the customer, in the amount of the consideration expected, via five steps: identify contract, identify performance obligations, determine transaction price, allocate price, recognize when obligations are satisfied.	Apply the five steps in order on TBSs; the allocation step splits the price by standalone selling prices.	A phone bundle includes hardware and a year of service: revenue for each piece recognized as each performance obligation is satisfied.
30		Percentage-of-Completion vs Completed Contract	Long-term construction contracts use percentage-of-completion (revenue/expense recognized as work progresses -- the default when estimates are reliable) or completed-contract (all at completion, used only when outcomes cannot be estimated).	On TBSs, recognize revenue = total contract price × (costs to date / total estimated costs) when using POC.	A 100 contract with 40 of estimated 80 costs so far recognizes 50 of revenue (100 × 40/80).
31		Statement of Financial Position Components	Assets, liabilities, and equity presented in the classified statement; investments and certain instruments can be measured at fair value with unrealized changes to net income or OCI depending on classification.	Match measurement basis (cost, amortized cost, fair value) to the instrument's classification.	A trading security is marked to fair value through earnings; an AFS debt security through OCI.
32		Subsequent Events	Events after the balance sheet date: recognized if they provide evidence about conditions existing at the balance sheet date; disclosed (not recognized) if conditions arose afterward.	Ask "did the condition exist on the balance sheet date?" -- yes = recognize; no = disclose only.	A lawsuit settlement for a case pending at year-end is recognized; a fire after year-end is disclosed.
33		Prior-Period Adjustments	Corrections of material errors are reported as adjustments to beginning retained earnings, with the prior periods restated. Changes in accounting principle likewise flow through beginning RE with restatement.	Error corrections NEVER flow through current net income -- they restate prior years.	A 2025 audit finds 2024 revenue was overstated by 30; beginning 2025 RE is reduced by 30.
34		Segment & Related-Party Disclosures	Reportable segments (10% thresholds) are disclosed with disaggregated revenue, profit, and assets; related-party transactions require disclosure of the relationship and the amounts.	Connect disclosures to audit planning: related-party transactions are a fraud-risk indicator AUD candidates should flag.	A firm discloses sales to its CEO's other company under related-party rules.
35		Interim Reporting	Interim periods use the same recognition principles as annual reporting; costs are matched to the periods benefited, and some annual items (e.g., income taxes) are estimated across the full year.	Use the "integral view": interim reports are part of the annual picture, not standalone statements.	An interim tax provision estimates the full-year effective rate and applies the year-to-date portion.
36		Not-for-Profit & Governmental Basics	NFP uses net-asset classifications (without donor restrictions / with donor restrictions) and reports a statement of activities and cash flows. Governmental accounting uses fund accounting with the modified accrual basis for governmental funds.	Know the NFP net-asset model and the basic fund types -- FAR tests them heavily and BAR deepens them.	A donor restricts a contribution for scholarships; it is presented as net assets with donor restrictions.

Part 3: FAR -- Select Balance Sheet Accounts (18 Concepts)

Area II (Select Balance Sheet Accounts, 30-40%): the accounts themselves -- cash, receivables, inventory, fixed assets, intangibles, investments, payables, bonds, leases, equity, and deferred taxes.

#	Term	Key Facts	Strategy Tip	Example
37	Cash & Cash Equivalents	Cash includes currency, deposits, and highly liquid investments with original maturities of three months or less (e.g., T-bills, money market funds). Restricted cash		

38	Accounts Receivable & Allowance	AR is reported net of the allowance for doubtful accounts (contra-asset). The
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Classify by original maturity, not remaining maturity, for the three-month test.	A six-month CD with two months left is NOT a cash equivalent.
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allowance is estimated
(percentage of sales, aging)
and bad debt expense is
recorded when the allowance
is established.

Write-offs reduce both AR and
the allowance; they do NOT
affect expense in the write-off

An aging schedule shows 20 expected uncollectible; the allowance is 20 and net AR

LIFO, and weighted-average determine COGS and ending inventory. FIFO matches current costs to ending inventory; LIFO matches current costs to COGS.

Rising prices: LIFO gives lower

Prices rise; FIFO reports a

40	CPA Exam Study Guide	Lower of Cost or Market / NRV	Inventory is written down when cost exceeds market (replacement cost within a ceiling/floor under LCM) or, under current guidance, net realizable value (NRV). Write-downs are permanent.	Test floor = NRV minus normal profit margin; ceiling = NRV; apply the middle value when using the older LCM rule.	Inventory costing 50 is worth 40 to sell; it is reported at 40 with a 10 loss.
41		Perpetual vs Periodic Inventory	Perpetual tracks every purchase and sale in real time; periodic computes COGS at period end from the physical count. Both can use FIFO/LIFO/weighted-average.	Match the method to the system: perpetual LIFO layers form as purchases occur; periodic LIFO layers form at year-end.	A periodic system counts units once a year; COGS = beginning + purchases - ending count.
42		Property, Plant & Equipment (PP&E)	Fixed assets recorded at cost (all costs to get ready for use) and depreciated over useful life. Land is NOT depreciated; land improvements are.	Capitalize purchase price + freight + installation + testing; expense routine maintenance as incurred.	A machine costs 100, plus 10 freight and 5 installation: the depreciable base is 115 (land-free).
43		Depreciation Methods	Straight-line (cost - salvage)/life; double-declining (2× rate on book value, switch when useful); units-of-production based on output.	DDB ignores salvage in the rate but never depreciates below salvage value.	A 100 asset, 5-year life, 10 salvage: DDB year 1 = 40, year 2 = 24 (both capped at salvage).
44		Impairment of Long-Lived Assets	Held-and-used assets: recoverability test (undiscounted future cash flows < carrying value -> impaired); then write down to fair value. Held-for-sale assets are written to fair value minus cost to sell.	Recoverability compares to UNDISCOUNTED cash flows; the loss equals carrying value minus fair value.	Carrying value 100, undiscounted cash flows 80, fair value 70 -> impairment loss 30.
45		Intangible Assets	Finite-life intangibles (patents, copyrights, licenses) amortize over useful life; indefinite-life intangibles (goodwill, trademarks with no limit) do not amortize but are tested for impairment.	Amortization is systematic; impairment testing for indefinite intangibles happens at least annually.	A 20-year patent costing 40 amortizes 2 per year; goodwill acquired in an acquisition never amortizes.
46		Goodwill & Business Combinations	Goodwill = purchase price - fair value of identifiable net assets acquired. It is recognized only in acquisitions and tested for impairment (not amortized).	Impairment test: compare the reporting unit's fair value to carrying value including goodwill.	Buying a firm for 500 whose identifiable net assets are worth 420 creates 80 of goodwill.
47		Investments -- Classification	Trading (fair value through earnings), available-for-sale debt (fair value through OCI), held-to-maturity debt (amortized cost), and equity method (20-50% ownership, significant influence).	Less than 20% equity without market = cost method; 20-50% = equity method; over 50% = consolidation.	Owning 30% of another firm's voting stock suggests the equity method for reporting the investment.
48		Equity Method Accounting	Investor records the investment at cost, increases it by its share of the investee's income, decreases it by share of dividends. Goodwill is embedded, not separately amortized.	The equity-method investor's share of income increases the investment AND income; dividends reduce the investment only.	Investee earns 100; the 30% investor recognizes 30 income and carries the investment up by 30.
49		Bonds Payable -- Premium & Discount	Bonds issue at par, premium, or discount. Premiums/discounts amortize to interest expense over the life (straight-line or effective-interest). Carrying value converges to face at maturity.	Effective-interest method: interest expense = carrying value × market (yield) rate; cash interest = face × coupon.	A 100,000 face bond at 90 (90,000) with yield 6% records interest expense on the 90,000 carrying value.
50		Leases -- Lessee Accounting	ASC 842: lessees recognize a right-of-use (ROU) asset and a lease liability for ALL leases longer than 12 months, with finance vs operating classification affecting the expense pattern.	The lease liability = present value of lease payments; the ROU asset starts at the liability plus initial direct costs.	A 5-year equipment lease creates an ROU asset and lease liability equal to the PV of the 5 years of payments.
51		Deferred Taxes (Income Taxes)	Deferred tax assets/liabilities arise from temporary differences between book and tax (e.g., warranty reserves, depreciation). DTA valuation allowance offsets DTAs not		

52	Contingencies -- Recognition	Loss contingencies are accrued when probable AND	Permanent differences (e.g., municipal bond interest) never create deferred taxes; temporary differences do.	Book depreciation is faster than tax MACRS this year -> a deferred tax liability builds for future years.
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reasonably estimable;
reasonably possible ones are
disclosed; remote ones are
ignored. Gain contingencies
are disclosed but NOT
accrued.

The "probable + estimable"
double test governs

A pending lawsuit with a
probable 30 loss and an

additional paid-in capital (APIC), treasury stock (contra-equity at cost), retained earnings, and accumulated other comprehensive income (AOCI).

Treasury stock purchases

shares at 60 each debits treasury stock 60 per share, reducing equity.	\$39
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54	Dividends & Stock Splits	Cash dividends reduce RE when declared; stock dividends reclassify RE to paid-in capital; stock splits adjust par and share count with no equity change.	Declaration date is the accounting event for cash dividends -- not the payment date.	A 2:1 split doubles shares and halves par; total equity is unchanged.
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Part 4: FAR -- Select Transactions (16 Concepts)

Area III (Select Transactions, 25-35%): revenue, leases, pensions, income taxes, business combinations, foreign currency, and the statement-level items that tie the accounts together.

#	Term	Key Facts	Strategy Tip	Example
55	Variable Consideration	Under ASC 606, variable amounts (discounts, rebates, refunds) are included in the transaction price using the expected value or most likely amount, constrained so revenue is recognized only when a significant reversal is unlikely.	Apply the constraint: if the estimate could reverse materially, recognize the lower end.	A contract with a 50/50 performance bonus includes the bonus only to the extent a reversal is unlikely later.
56	Principal vs Agent	Principal recognizes gross revenue (controls the good before transfer); agent recognizes net commission. Judged by control indicators, not legal form.	Identify who bears inventory risk and sets prices -- that party is the principal.	A marketplace that never takes title records only its commission as revenue.
57	Leases -- Lessor Accounting	Lessors classify leases as sales-type, direct-financing, or operating. Sales-type/direct-financing remove the underlying asset and record a lease receivable; operating leases keep the asset and rent income.	If the lease transfers control of the underlying asset, it is a sales-type for the lessor.	A lessor of a full-term asset lease records a lease receivable and derecognizes the equipment.
58	Pension Accounting Basics	Defined-benefit plans record pension expense (service cost, interest cost, expected return on assets, amortizations) with the funded status (assets minus projected benefit obligation) reported on the balance sheet.	The projected benefit obligation (PBO) grows with service and interest; plan assets buffer it.	Funded status = 800 plan assets - 950 PBO -> a 150 liability on the balance sheet.
59	Business Combination -- Acquisition Method	The acquirer records net assets at fair value, recognizes identifiable intangibles, and books goodwill for the excess. In-process R&D is capitalized.	Bargain purchases are rare; a gain occurs only when fair value of net assets exceeds consideration.	Acquiring net assets worth 900 for 800 creates a 100 bargain-purchase gain (rare).
60	Foreign Currency -- Remeasurement vs Translation	Translation (functional currency = local) uses current rates; changes go to OCI. Remeasurement (functional currency = parent's) uses historical/current mix; changes go to net income.	Which currency is functional decides everything: local = translate (OCI); parent = remeasure (income).	A subsidiary operating independently in euros translates to USD with FX changes in OCI.
61	Discontinued Operations	Discontinued operations (a component held for sale or disposed of) report results and gain/loss on disposal separately from continuing operations, net of tax.	Presenting items below the line means they are excluded from continuing-operations analysis.	A firm sells its restaurant division; the division's year income plus the disposal gain appear as discontinued operations.
62	EPS -- Diluted	Diluted EPS includes the effect of assumed conversions: convertible bonds (if-converted), preferred (if-converted), options/warrants (treasury-stock method -- incremental shares only when in the money).	Anti-dilutive securities are excluded -- only conversions that LOWER EPS count.	In-the-money options add incremental shares; out-of-the-money options are ignored in diluted EPS.
63	Governmental Funds Overview	Governmental funds (general, special revenue, capital projects, debt service, permanent) use the MODIFIED accrual basis and current financial resources focus.	Modified accrual: revenues recognized when measurable AND available; expenditures when the liability is incurred.	Property taxes collected within 60 days of year-end are "available" and recognized in the current year.
64	Proprietary & Fiduciary Funds	Proprietary funds (enterprise, internal service) use full accrual and economic		

resources. Fiduciary funds (trust, agency) also use accrual but are reported only in fund statements.

The fund type determines the basis: governmental = modified accrual; proprietary/fiduciary =

A city water utility (enterprise fund) records depreciation and full accrual revenue.

65	CPA Exam Study Guide	Government-Wide Statements	Government-wide statements (statement of net position, statement of activities) use full accrual for ALL activities, with governmental activities and business-type activities columns.	Internal service funds are typically eliminated in the government-wide statements.	The statement of activities shows governmental activities netting program revenues against expenses.
66		NFP -- Contributions & Pledges	Unconditional promises to give are recorded as receivables; conditional promises are recognized when conditions are substantially met. Donor-restricted contributions are reported as restricted support.	Unconditional = receivable now; conditional = wait until the condition is met.	A donor promises 1,000 IF the charity matches it; nothing is recorded until the match occurs.
67		NFP -- Revenue & Expense Classification	NFP reports expenses by function and by nature, and net assets split between with/without donor restrictions. Special events and program vs support classifications matter for expense reporting.	Program expenses serve the mission; management/general and fundraising are supporting services.	A charity reports food-distribution payroll as program expense; accounting salaries as management and general.
68		Error Correction & Restatement Mechanics	Material errors are corrected through restatement: adjust beginning RE, restate comparative prior periods, and disclose the nature and effect of the correction.	Recognize the correction pattern: current-period error -> fix current year; prior error -> restate.	A 2025 error misstated 2024 depreciation; 2024 statements are restated and 2025 beginning RE adjusts.
69		Fair Value Measurement Hierarchy	Level 1: quoted prices in active markets. Level 2: observable inputs (comparable prices, yield curves). Level 3: unobservable inputs (models).	More level-3 inputs = more judgment = more disclosure and audit risk.	A bond quoted on an exchange is Level 1; a private-company valuation model is Level 3.
70		Cash Flow -- Direct Method Reporting	The direct method reports operating cash receipts and payments (collections from customers, payments to suppliers/employees); GAAP requires a reconciliation from net income when used.	Direct method rows mirror the income statement converted to cash: collections, payments, interest, taxes.	A retailer reports "cash collected from customers" and "cash paid to suppliers" as operating rows.

Part 5: AUD -- Ethics, Professional Responsibilities & General Principles (16 Concepts)

Auditing and Attestation (AUD) tests the audit process end to end. Area I (Ethics, Professional Responsibilities and General Principles, 15-25%) is the language of the profession.

#	Term	Key Facts	Strategy Tip	Example
71	AICPA Code of Professional Conduct	The code's principles (public interest, integrity, objectivity, independence, due care, scope and nature of services) anchor both the exam and practice. Rules cover independence, integrity and objectivity, confidential client information, and contingent fees.	Know the principles' names verbatim -- MCQs phrase them as match-the-term items.	A member acts in the public interest when declining a client's request to misstate revenue.
72	Independence -- Conceptual Framework	Independence is a state of mind (objectivity) AND the absence of compromising relationships/investments. The conceptual framework requires identifying threats, evaluating their significance, and applying safeguards.	Threat->safeguard logic is heavily tested: name the threat, then name what reduces it.	A self-interest threat (auditor owns client stock) is addressed by disposing the investment -- an acceptable safeguard.
73	Integrity & Objectivity	Members must not subordinate judgment to others, misrepresent facts, or knowingly mislead. Conflicts of interest must be evaluated and disclosed.	Objectivity is impaired whenever personal interest could bias professional judgment -- even if it does not.	An auditor declines a gift from the client's CFO to protect objectivity.
74	Professional Skepticism	An attitude that includes a questioning mind and critical assessment of evidence -- remaining alert to conditions that may indicate misstatement, including fraud.	Skepticism shows in evidence evaluation: corroborate, challenge management, and don't accept explanations at face value.	An auditor questions a manager's casual explanation for a large late adjustment and requests supporting documentation.
75	Due Professional Care	The level of care of a reasonably prudent professional in the		

circumstances: plan and supervise, apply professional standards, and gather sufficient appropriate evidence.

Due care ? guarantee: an audit provides reasonable assurance, not absolute

Following the audit program
and reviewing staff work
demonstrates due professional

76	Quality Management (SQMS 1/2)	Firm-level quality management:
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leadership/governance,
relevant ethical requirements,
acceptance and continuance,
engagement resources,
engagement performance, and
monitoring/remediation.

Link quality management to the
audit firm's system, not the

77	CPA Exam Study Guide	Generally Accepted Auditing Standards (GAAS)	The AU-C sections organize requirements by topic: general principles and responsibilities, risk assessment, evidence, reporting, and special considerations. PCAOB standards govern issuers.	Standards map to the audit phases: planning -> risk -> response -> reporting -- use them to order your study.	An auditor planning an engagement applies the AU-C planning standards before fieldwork begins.
78		Audit vs Review vs Compilation	Audit = reasonable assurance (evidence gathering). Review = limited assurance (inquiry and analytical procedures). Compilation = no assurance (presenting financials from client-provided data).	The level of assurance drives the report wording: "present fairly" vs "not aware of material modifications" vs no conclusion.	A bank loan covenant needs a reviewed statement; an IPO requires an audited one.
79		Attestation Engagements (SSAE)	Attestation standards (AT-C) apply to examinations, reviews, and agreed-upon procedures on subject matter other than financial statements (e.g., SOC reports, MD&A, prospective financial information).	Attestation = a written assertion about subject matter, with criteria -- three types: examination, review, AUP.	A SOC 1 report is an examination engagement of controls relevant to user entities' internal control over financial reporting.
80		The Audit Report Components	Unmodified report: title, addressee, opinion, basis for opinion, key audit matters (issuer audits), responsibilities of management/auditor sections, signature, and date.	The opinion paragraph names the statements and the framework; the basis paragraph cites the standards.	An unmodified opinion addresses the balance sheet and statements of income, equity, and cash flows "in accordance with GAAP."
81		Management's Responsibilities	Management is responsible for the financial statements, internal control, and providing the auditor with access and evidence -- including a written representation letter at the end.	Every engagement needs management's written representations; the auditor requests them from those with responsibility for the financial statements.	The engagement letter states management's responsibility for preventing and detecting fraud as part of internal control.
82		Auditor's Responsibilities	The auditor is responsible for planning and performing the audit to obtain reasonable assurance about whether the statements are free of material misstatement, whether due to error or fraud, and for communicating findings.	Reasonable assurance is high but not absolute -- detection of all material misstatements is not possible.	The auditor designs procedures to detect material misstatement due to fraud while acknowledging inherent limitations.
83		Materiality -- Definition	Misstatements are material if they could reasonably influence the economic decisions of users. Materiality is a matter of professional judgment, set at planning and revised as the audit proceeds.	Materiality is applied at the financial-statement level and lower (performance materiality) for procedures.	A 2 million misstatement in a 2 billion-asset company is likely immaterial; it matters in a 20 million-asset company.
84		Performance Materiality	An amount set BELOW overall materiality to reduce the risk that the aggregate of uncorrected misstatements exceeds materiality.	Set performance materiality (often 50-75% of overall) before designing procedures -- it drives sample sizes.	Overall materiality 100; performance materiality 60 means procedures target misstatements above 60.
85		Financial Statement Assertions	Management's claims embedded in the statements: existence/occurrence, completeness, accuracy, valuation/allocation, rights/obligations, presentation/disclosure, and cut-off.	Match the assertion to the test: existence is tested by vouching FROM records; completeness by tracing FROM source.	Vouching a recorded sale to shipping documents tests existence; tracing shipments to recorded sales tests completeness.
86		Fraud -- Professional Responsibilities	Auditors must assess fraud risk, identify classes of transactions susceptible to fraud, and respond with procedures -- fraud can be financial reporting fraud or misappropriation of assets.	The three fraud conditions: incentive/pressure, opportunity, and rationalization -- know them as the fraud triangle.	A pressured CFO with weak segregation of duties rationalizes a revenue cut-off scheme; the auditor modifies risk assessment accordingly.

Part 6: AUD -- Assessing Risk & Developing a Planned Response (19 Concepts)

Area II (Assessing Risk and Developing a Planned Response, 25-35%): understanding the entity and its internal control, then turning risk into an audit plan.

#	Term	Key Facts	Strategy Tip	Example
87	Risk Assessment Procedures	Inquiry of management and others, analytical procedures, and observation/inspection provide the understanding of the entity, its environment, and its internal control used to assess risk.	Risk assessment procedures are NOT audit procedures on the financial statements -- they inform the plan.	The auditor asks management about new products and reads the industry report to understand revenue pressures.
88	The Audit Risk Model	Audit risk (AR) = Inherent risk (IR) × Control risk (CR) × Detection risk (DR). Auditors assess IR and CR and set DR inversely to achieve a target AR.	DR moves opposite IR/CR: higher assessed risk -> lower acceptable detection risk -> more/different procedures.	IR high and CR high -> DR must be low -> expanded substantive testing.
89	Inherent Risk	The susceptibility of an account/assertion to material misstatement before considering internal control -- affected by the nature of the account, complexity, and judgment.	High-inherent-risk areas (estimates, complex transactions) get more rigorous procedures by default.	Accounts with significant estimates, like fair value measurements, carry high inherent risk.
90	Control Risk	The risk that a misstatement could occur and NOT be prevented or detected by the entity's internal control. Assessed based on the design and operating effectiveness of controls.	Control risk can be assessed lower only with evidence that controls operate effectively (tests of controls).	A strong automated approval system lowers assessed control risk for purchase cut-off.
91	Detection Risk	The risk that the auditor's procedures will fail to detect a material misstatement. The auditor manages it through the nature, timing, and extent of procedures.	Nature (more substantive), timing (year-end), extent (more samples) all lower detection risk.	An auditor adds a year-end inventory count observation to lower detection risk for inventory.
92	Understanding Internal Control -- COSO	Internal control has five components per COSO: control environment, risk assessment, control activities, information and communication, and monitoring activities.	The control environment is the tone at the top -- its deficiencies influence everything downstream.	A company with a strong control environment still needs control activities like reconciliations and approvals.
93	Control Environment	The "tone at the top": integrity and ethical values, board participation, management's philosophy, organizational structure, and commitment to competence.	Weakness here raises control risk across the entity; note it in the plan.	Management that overrides approvals for speed signals a weak control environment.
94	Control Activities	Policies and procedures that ensure directives are carried out: authorizations, segregation of duties, reconciliations, physical controls, and IT application/general controls.	Segregation of duties (authorize, record, custody) is the single most-tested control activity.	The person who authorizes purchases does not also record them or hold custody of inventory.
95	IT General & Application Controls	ITGCs govern the IT environment (access, change management, operations, program development); application controls operate within programs (input validation, edit checks, totals).	ITGC failures can override otherwise-strong application controls -- test the environment first.	A bank's edit check rejects out-of-range amounts (application control); admin access logging is an ITGC.
96	Fraud Risk Assessment & Response	Auditors identify fraud risks, evaluate the entity's programs/controls addressing them, and respond: overall responses (more skeptical, more personnel), changes to procedures, and procedures addressing management override.	Management override of controls is presumed a fraud risk on EVERY audit -- address it with journal-entry testing.	The auditor tests unusual journal entries and reviews estimates for bias to address management override.
97	Understanding of the Entity & Environment	Includes industry/regulatory factors, the entity's nature, objectives/strategies, and business risks that could result in material misstatement.	Business risks (new competitors, supply shocks) connect to account-level risks -- trace the chain.	A supply disruption raises inventory and going-concern risks, which flow into the audit plan.
98	Significant Risks	Risks identified during risk assessment that require special audit consideration (e.g., fraud, unusual transactions, significant		

Significant risks demand substantive procedures presented specifically -- related to the risk -- including testing of controls when relying on them.	Revenue recognized on complex multi-element contracts is treated as a significant risk with tailored substantive tests.
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99	CPA Exam Study Guide	The Audit Plan & Strategy	The overall audit strategy sets scope, timing, and direction; the audit plan details the nature, timing, and extent of procedures for each material class of transactions, account balance, and disclosure.	Strategy = the map; plan = the mile markers. Changes during fieldwork update both.	A strategy document notes IT reliance; the plan lists the specific ITGCs to test and the substantive tests to run.
100		Materiality -- Application	Applied at planning and revised as the audit proceeds; the basis (e.g., pre-tax income) and percentage are judgment calls documented in the file.	Revisit materiality after interim results: falling profits lower the threshold and expand testing.	When client profit misses budget, the auditor reduces materiality and extends substantive testing.
101		Tests of Controls	Procedures to evaluate the OPERATING EFFECTIVENESS of controls: inquiry, inspection of evidence, observation, and reperformance. Sourced from walkthroughs and prior-year knowledge.	A walkthrough (tracing a transaction end to end) confirms understanding but is not by itself a test of operating effectiveness.	Reperforming a supervisor's monthly bank reconciliation tests whether the control operates as designed.
102		Substantive Procedures	Procedures designed to detect material misstatements at the assertion level: tests of details (of transactions, balances, disclosures) and substantive analytical procedures.	When controls are weak, substantive procedures carry the burden -- increase detail testing.	Confirming a receivable balance is a substantive test of existence and accuracy.
103		Substantive Analytical Procedures	Evaluating financial relationships/plausibility (ratios, trends, expectations) to identify unusual items; the auditor develops an independent expectation and investigates significant differences.	The more precise the expectation, the stronger the evidence -- budgets and independent data beat client-provided averages.	The auditor models expected 2026 payroll from headcount x average salary and investigates variances beyond tolerance.
104		Sampling Basics	Audit sampling applies procedures to less than 100% of a population to draw conclusions. Statistical sampling allows quantification of sampling risk; nonstatistical does not.	Sampling risk is the risk of wrong conclusion; nonsampling risk is human error (bad procedures, misapplied judgment).	Testing 40 of 2,000 sales invoices to estimate the error rate in the population is audit sampling.
105		Dual-Purpose Tests	Tests that simultaneously test operating effectiveness of controls AND detect material misstatements (e.g., a transaction test that also verifies an approval control).	Dual-purpose tests are efficient but must satisfy the requirements of both types of procedures.	Testing a sample of sales for proper approval AND correct amounts serves both control testing and substantive purposes.

Part 7: AUD -- Performing Further Procedures & Obtaining Evidence (16 Concepts)

Area III (Performing Further Procedures and Obtaining Evidence, 30-40%): the evidence toolkit.

#	Term	Key Facts	Strategy Tip	Example
106	Sufficiency & Appropriateness of Evidence	Evidence must be SUFFICIENT (amount/quantity) and APPROPRIATE (relevance + reliability). Quality of evidence affects the amount needed; the more reliable, the less needed.	Reliability hierarchy: external independent & internal generated; direct & indirect; auditor-created & client-provided; originals & copies.	A bank confirmation (external, direct) is more reliable than a client-prepared schedule of cash balances.
107	Inspection of Records & Assets	Examining internal/external records in hard copy or electronic form, and physically inspecting tangible assets.	Physical inspection proves existence of the asset, not its value or rights -- pair it with valuation tests.	Count the warehouse inventory to verify existence; test cost layers separately for valuation.
108	Observation	Watching a process or procedure being performed (e.g., a client's inventory count).	Observation is useful but limited -- the observed behavior may differ when the auditor is not watching.	Observing a year-end physical inventory count is a classic audit procedure; note that it covers the moment observed.
109	Inquiry	Obtaining written or oral information from management and others. It is a common procedure but weak as the ONLY evidence -- it is not corroborative.	Corroborate every inquiry with an independent procedure -- inquiry alone is never sufficient for a material assertion.	Asking the warehouse manager about obsolete inventory is followed by testing the slow-moving inventory report.
110	External Confirmations	Direct communication with third parties (banks, customers, lawyers). Positive confirmations request a response; negative ones request a response only if the balance is wrong.	Bank confirmations verify existence, rights, and completeness of cash; lawyer letters address contingencies and litigation.	The auditor confirms the client's receivable with a customer, receiving direct third-party evidence of the balance.

114	Recalculation & Reperformance	Recalculation checks the mathematical accuracy of documents/records; reperformance independently re-executes a control or procedure.	Recalculation catches extension and addition errors; reperformance validates a control's effectiveness.	Recalculating depreciation on a sample of fixed assets verifies the math of the recorded expense.
112	Analytical Procedures -- Uses	Used in risk assessment (planning), as substantive procedures, and in the overall review at the end of the audit (final review of unusual fluctuations).	The overall-review analytical procedures are REQUIRED near the end -- investigate any significant unexpected differences first.	In final review, the auditor compares 2026 gross margin to 2025 and investigates why it moved.
113	Audit Documentation	Working papers must be prepared sufficiently detailed to enable an experienced auditor with no prior connection to the engagement to understand the work performed, results, and conclusions.	Document who did what, when, and the conclusion; assemble the file by the report date and retain per regulations (generally 7 years).	Each workpaper is indexed, initialed, and dated, linking the procedure performed to the conclusion reached.
114	Cash Audit Procedures	Bank confirmations, bank reconciliations, cutoff testing, and proof of cash verify existence, completeness, and cut-off of cash balances.	A standard-proof approach: reconcile per books to per bank and test the reconciling items for both directions.	Preparing a proof of cash catches deposits-in-transit and outstanding checks misstated in either period.
115	Inventory Audit Procedures	Observation of the count, test counts, cut-off testing, cost testing, and lower-of-cost-or-NRV evaluation.	Inventory is often the largest balance sheet item -- pair existence (count) with valuation (cost tests) and completeness (cut-off).	After observing the count, the auditor traces selected count tags to the perpetual records and vices versa.
116	PPE & Depreciation Procedures	Vouch additions, verify retirements, recompute depreciation, review repair-vs-capitalize treatment, and test for impairment indicators.	The repair-vs-capitalize judgment is a favorite: improvements that extend life are capitalized; maintenance is expensed.	A new roof that extends a building's life is capitalized; repainting the same building is expensed as maintenance.
117	Subsequent Events Procedures (Audit)	Review minutes, inquiries, and post-balance-sheet transactions up to the report date; evidence about conditions at the balance sheet date is recognized, later events are disclosed.	The auditor performs procedures through the report DATE -- additional responsibility exists for facts discovered after.	A customer bankruptcy announced after year-end but before the report date triggers evaluation of the year-end receivable.
118	Attorney Letters	The auditor requests a letter from the client's legal counsel describing litigation, claims, and assessments.	The lawyer's description of the probability of loss (probable/reasonably possible/remote) feeds the contingency evaluation.	Counsel writes that a lawsuit's outcome is "reasonably possible"; the auditor ensures it is disclosed, not accrued.
119	Going Concern	The auditor evaluates whether substantial doubt exists about the entity's ability to continue as a going concern for a reasonable period (usually 12 months from the financial statements).	Conditions (recurring losses, loan defaults, negative cash flow) raise the question; management's plans are evaluated for feasibility.	A company with debt defaults and negative equity gets an emphasis/disclosure evaluation in the audit report.
120	Using the Work of Specialists & Internal Auditors	The auditor may use management's specialists (evaluate competence/objectivity) and internal auditors (evaluate their work) -- but the external auditor retains responsibility for the opinion.	Specialists and internal auditors reduce work; they never reduce the auditor's responsibility.	Using a client's valuation specialist for fair value still requires the auditor to evaluate the specialist's methods and data.
121	Related Parties & Estimates	Auditors specifically evaluate related-party relationships/transactions (a fraud indicator) and management's accounting estimates, including the risk of management bias.	For estimates, evaluate the method, data, and assumptions; consider a range and the entity's history of estimates.	The auditor compares prior-year estimates to actual outcomes to assess management's estimation bias.

Part 8: AUD -- Forming Conclusions & Reporting (14 Concepts)

Area IV (Forming Conclusions and Reporting, 10-20%): opinions, modifications, and other reports.

#	Term	Key Facts	Strategy Tip	Example
122	Unmodified (Clean) Opinion	Issued when the financial statements are presented fairly in all material respects. The report includes opinion, basis for opinion, and the required		

123	Qualified Opinion	Issued when there is a material
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An unmodified opinion does NOT certify the statements -- it states fair presentation.	A fully supported small-company audit receives an unmodified opinion with standard sections.
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but NOT pervasive misstatement (or a scope limitation) -- "except for" the matter, the statements are fairly presented.

Map severity:

material-but-not-pervasive =
qualified; material AND
pervasive = adverse or
disclaimer.

Inventory is misstated by a

124	CPA Exam Study Guide	Adverse Opinion	Issued when misstatements are material AND pervasive -- the statements do NOT present fairly.	Every adverse opinion lists the basis in the basis paragraph before the opinion paragraph.	Fraudulently inflated revenue, distorts nearly every line: the auditor issues an adverse opinion.
125		Disclaimer of Opinion	Issued when the auditor cannot obtain sufficient appropriate evidence and the possible effects are material and pervasive -- no opinion is expressed.	A disclaimer explains why no opinion is expressed; it is not a "bad opinion" but a no-opinion.	A client refuses to allow access to its records, preventing sufficient evidence -- a disclaimer results.
126		Emphasis-of-Matter & Other-Matter Paragraphs	Emphasis-of-matter draws attention to a matter presented/disclosed in the statements (e.g., a significant subsequent event); other-matter addresses matters not presented (e.g., compliance reporting).	These paragraphs do NOT modify the opinion -- the opinion remains unmodified.	After a fire, the auditor adds an emphasis paragraph about the disclosed going-concern uncertainty.
127		Communicating Internal Control Matters	Deficiencies in internal control significant enough to matter are communicated in writing to those charged with governance and management -- material weaknesses are distinguished from significant deficiencies.	Material weakness = significant deficiency (or combination) that could result in a material misstatement of the financial statements.	The auditor's management letter flags a missing segregation-of-duties control as a material weakness.
128		Key Audit Matters (Issuers)	For audits of listed issuers, the auditor communicates key audit matters -- those of most significance in the audit -- in a separate section of the report.	KAMs personalize the report: the most significant risks, judgments, and audit responses are spelled out.	An issuer audit report lists revenue recognition and goodwill impairment as key audit matters with the auditor's responses.
129		Reports on Internal Control (PCAOB AS 2201)	For issuers, the auditor ALSO opines on the effectiveness of internal control over financial reporting (an integrated audit), possibly reporting material weaknesses.	Material weakness in ICFR produces an adverse opinion on internal control even if financial statements are clean.	An integrated audit finds an uncorrected material weakness in revenue controls; the ICFR opinion is adverse.
130		Review of Interim/Financial Statements (SSARS)	Reviews give limited assurance: inquiry and analytical procedures -- the report states "we are not aware of any material modifications that should be made."	Reviews never include tests of controls or substantive detail procedures beyond inquiry/analytics.	A CPA firm performs an interim review for a borrower; the report gives limited assurance.
131		Compilation Engagements (SSARS)	Compilations present financial information from management's data with NO assurance; the report states management is responsible and the financials are not audited or reviewed.	Compilations require the CPA to possess accounting expertise but no assurance procedures at all.	A bookkeeping client asks the firm to compile its statements for a partner; the compilation report disclaims assurance.
132		Agreed-Upon Procedures (AUPs)	Parties agree on specific procedures the CPA performs and reports findings -- no opinion or assurance is expressed, only findings.	AUP reports list each procedure performed and its finding, without conclusions.	A lender asks the CPA to recalculate a set of cash receipts totals and report the results -- an AUP engagement.
133		Prospective Financial Information	Forecasts (expected conditions) and projections (hypothetical assumptions) can be examined/compiled; reports describe the assumptions and disclaim responsibility for achievability.	Examinations of prospective info report on the process, not on whether the future will match the numbers.	A startup's projected cash flows are compiled with the assumptions clearly stated and achievability disclaimed.
134		Communicating with Those Charged with Governance	The auditor communicates significant findings, difficulties, disagreements, and audit adjustments to the board/audit committee -- required under AU-C 260.	Governance communication is written for significant matters and covers independence when required.	The auditor writes the audit committee about a significant deficiency found and a proposed adjusting entry that management declined.
135		Written Representations	Management provides a letter at the end of the audit confirming its responsibilities, completeness of information, and key matters (fraud, litigation, subsequent events).	The representation letter is evidence, not a substitute for procedures -- and its date matches the report date.	Management's letter confirms no undisclosed fraud or litigation exists as of the report date.

Part 9: REG -- Ethics, Responsibilities & Federal Tax Procedures (10 Concepts)

Regulation (REG) Area I (Ethics, Professional Responsibilities and Federal Tax Procedures, 10-20%) opens the tax half of REG.

#	Term	Key Facts	Strategy Tip	Example
136	Tax Practitioner Responsibilities	Tax preparers must be diligent, exercise due care, and are subject to IRC penalties for understatements, negligence, and fraud. Circular 230 governs practice before the IRS (attorneys, CPAs, EAs).	Know the preparer penalty structure: understatement due to unreasonable positions, willful conduct, and disclosure rules.	A preparer who ignores a client's clear facts and claims a baseless deduction faces the \$6694 understatement penalty.
137	The Taxpayer Bill of Rights	Ten statutory rights for taxpayers: the right to be informed, quality service, pay no more than the correct amount, challenge the IRS, appeal, finality, privacy, confidentiality, retain representation, and a fair and just tax system.	MCQs match each right's name -- the right to "pay no more than the correct amount" is a favorite.	A taxpayer disputes a notice and requests an independent appeal -- exercising the right to appeal.
138	Filing Statuses	Single, married filing jointly, married filing separately, head of household, and qualifying surviving spouse. Status affects rates, standard deduction, and credits.	Head of household requires an unmarried taxpayer who pays more than half the cost of a home for a qualifying person.	A single parent who supports a dependent child and pays over half of household costs qualifies as head of household.
139	Dependents -- Qualifying Child & Relative	Qualifying child: relationship, age (under 19, or under 24 and a full-time student), residency, and support tests. Qualifying relative: not a qualifying child, relationship/income, and support tests.	The tie-breaker (who claims the child) is tested: custodial parent generally claims; special rules for divorced parents.	A child living with the taxpayer all year, under 19, who earns under the threshold is a qualifying child.
140	The Tax Year & Accounting Methods	Tax years are generally calendar; accounting methods include cash, accrual, and hybrids -- inventories usually force accrual.	Cash-basis taxpayers report income when constructively received; accrual when earned.	A cash-basis freelancer receives a check on December 31 but cashes it January 2: income is 2025, not 2026 -- constructive receipt.
141	Statute of Limitations	Generally 3 years from the filing date to assess additional tax; 6 years for substantial omissions (over 25% of gross income); no limit for fraud or failure to file.	Substantial omission (25%+) extends the window to 6 years -- the threshold is a classic test point.	A taxpayer omits 30% of gross income on the return: the IRS has six years to assess.
142	IRS Audits & Appeals	Examinations can be by correspondence or in person; taxpayers may appeal unagreed results to the IRS Office of Appeals, then to Tax Court (petition window 90 days for deficiency notices).	A 90-day petition window follows a deficiency notice; missing it makes the assessment final.	Receiving a 90-day letter, the taxpayer petitions Tax Court before the deadline to contest the deficiency.
143	Estimated Tax & Extension	Taxpayers pay income tax via withholding or quarterly estimated payments; filing extensions (Form 4868) extend the FILING date, not the PAYMENT date.	An extension avoids the late-filing penalty but not the late-payment penalty and interest.	A taxpayer files Form 4868 by April 15 but still pays the balance due with the request to avoid interest.
144	e-File & Recordkeeping	E-filing is required for many taxpayers; records must be kept as long as they may be needed under the statute of limitations.	Records generally should be kept at least three years, often longer for assets and business items.	A business keeps fixed-asset records until the asset is disposed and the statute period has run.
145	Underpayment & Accuracy Penalties	The accuracy-related penalty (20%) covers negligence, substantial understatement, and substantial valuation misstatements; the failure-to-file penalty (5%/month) and failure-to-pay (0.5%/month) apply to those misses.	Failure-to-file is capped at 25% and exceeds the failure-to-pay penalty when both apply.	A taxpayer who never files faces up to 25% of the tax due in failure-to-file penalties, plus interest.

Part 10: REG -- Business Law (14 Concepts)

REG Area II (Business Law, 15-25%): contracts, UCC, agency, entities, and related legal topics.

#	Term	Key Facts	Strategy Tip	Example
146	Contract Formation	Offer, acceptance, and consideration form a contract; capacity and legality are required. Bilateral (promise for promise) vs unilateral (promise for performance).	For exam purposes, a contract exists when offer + acceptance + consideration + capacity + legality are all present.	A signed offer to sell goods for 500 with the buyer's acceptance and payment forms an enforceable contract.

147	CPA Exam Study Guide	Consideration & Promissory Estoppel	Consideration is a bargained-for exchange of legal value; promissory estoppel enforces a promise without consideration when reliance was foreseeable and injustice otherwise results.	Consideration must be bargained for -- past consideration and preexisting obligations do not count.	A promise to pay a friend for services ALREADY rendered lacks consideration (past consideration).
148		Defenses to Contract Formation	Fraud, duress, undue influence, misrepresentation, mistake, and lack of capacity make contracts voidable; illegal subject matter makes them void.	Void = no contract ever; voidable = can be disaffirmed by the protected party.	A contract made under physical threats is voidable by the threatened party but enforceable against the threatener.
149		Statute of Frauds	Certain contracts must be in writing: land, suretyship, marriage, goods over 500, and contracts not performable within one year.	The UCC goods-over-500 rule is the most-tested writing requirement; merchant confirmations can satisfy it.	A 700 equipment purchase agreement must be in writing to be enforceable under the Statute of Frauds.
150		UCC -- Sales of Goods	Article 2 governs the sale of goods: firm offers, acceptance with additional terms (battle of the forms), risk of loss, warranties, and remedies.	Shipment contracts pass risk of loss to the buyer when goods are delivered to the carrier; destination contracts at arrival.	FOB shipping point means risk of loss transfers when the seller hands goods to the common carrier.
151		Express & Implied Warranties	Express warranties are promises about the goods; implied warranty of merchantability (fit for ordinary use) and fitness for a particular purpose (reliance on seller's skill).	Fitness-for-purpose arises only when the seller knows the buyer's special purpose and the buyer relies on the seller.	A buyer tells the seller the parts must withstand salt water; the seller's assurance creates a fitness warranty.
152		Agency Relationships	Agency: the principal authorizes the agent to act on their behalf. Creation can be express, implied, or apparent; an agent's authority binds the principal within its scope.	Actual authority (express/implied) vs apparent authority (principal's words/conduct) -- both can bind the principal.	A sales manager (agent) negotiates a price for the store (principal) within her apparent authority.
153		Principal/Agent Duties & Liability	Agents owe duties of loyalty, obedience, care, and accounting; principals are liable for agents acting within actual or apparent authority (respondeat superior for employees).	Vicarious liability attaches to employees acting within the scope of employment -- not normally to independent contractors.	A delivery driver crashes during a route: the employer is vicariously liable.
154		Business Entities -- Overview	Sole proprietorships, general partnerships (GP), limited partnerships (LP), limited liability partnerships (LLP), LLCs, S corporations, and C corporations differ in liability, taxation, and governance.	Liability shield: corporations/LLCs/LPs protect; sole proprietorships and GPs do not.	An LLC member's personal assets are generally shielded from business debts, unlike a sole proprietor's.
155		Partnership Formation & Operation	A general partnership forms by agreement; profits/losses split equally or per agreement; partners are jointly and severally liable; property and authority rules follow the UPA/RUPA.	A partner's act within the apparent scope binds the partnership -- partnership by estoppel can also arise.	Two friends run a joint consulting practice without a written agreement: partnership profits split 50/50.
156		Corporations -- Formation & Governance	Articles of incorporation + shareholders create the corporate shield; directors manage, officers execute, shareholders own. De facto corporations and piercing the veil are the limits of protection.	Piercing the veil requires undercapitalization, commingling, or fraud -- courts look behind the shield.	Paying personal bills from corporate accounts lets courts pierce the veil and hold shareholders liable.
157		S Corporations & LLCs -- Tax & Legal	S corps pass through income to shareholders (one class of stock, max 100 shareholders); LLCs can elect their tax classification (partnership default for multi-member).	The S election is a tax election -- the entity's legal status and tax status are separate questions.	A 5-member LLC files as a partnership by default but could elect corporate or S status.
158		Bankruptcy -- Overview	Chapter 7 (liquidation), Chapter 11 (reorganization), Chapter 13 (individual repayment). Automatic stay stops collections; exemptions protect some assets; priority claims order matters.	The automatic stay is the first and broadest protection -- creditors cannot collect once it is filed.	Filing Chapter 7 immediately halts a wage garnishment under the automatic stay.
159		Securities Regulation Basics	The 1933 Act governs registrations/offerings; the 1934 Act governs trading,		

reporting, and insider trading.
Exemptions (Reg D, intrastate,
small offerings) matter for
private placements.

The 10b-5 anti-fraud rule
prohibits insider trading and
misstatements in connection

An executive trading on undisclosed merger plans violates Rule 10b-5.

REG Area III (Federal Taxation of Property Transactions, 5-15%): basis, gains, and dispositions.

#	Term	Key Facts	Strategy Tip	Example
160	Basis -- Cost & Adjusted	Initial basis is generally cost (what you paid); adjusted basis adds capitalized improvements and subtracts depreciation/amortization.	Gain/loss = amount realized (cash + FMV of property + debt relief) ? adjusted basis.	Buy a rental for 200, add 20 in improvements, take 30 depreciation: adjusted basis 190.
161	Realized vs Recognized Gain	Realized gain = amount realized ? adjusted basis. Recognized gain is the portion REPORTED for tax, which may be deferred by nonrecognition provisions.	Exchanges and rollovers defer gains -- realized but not recognized.	Selling with a 50 realized gain but rolling it into a like-kind exchange means zero recognized gain currently.
162	Like-Kind Exchanges (§1031)	Real property held for business/investment can be exchanged tax-deferred. Personal property is no longer eligible; boot (cash/liabilities) triggers gain recognition.	Recognize gain up to the boot received; both legs must be business/investment real property.	Trading a 300 warehouse for a 320 building plus 20 cash: 20 gain recognized (the boot).
163	Capital vs Ordinary Assets	Capital assets = investment/personal property (not inventory, not receivables, not depreciable business property held short-term). Capital gains/rates and limitations apply.	§1231 property (business assets held a year+) nets business gains/losses at favorable rates when gains exceed losses.	Selling your personal stock collection generates capital gain; selling your business's inventory is ordinary income.
164	Depreciation Recapture	§1245 (personal property) recaptures depreciation as ordinary income up to gain; §1250 (real property) recaptures only excess depreciation but has the 25% unrecaptured-§1250 rate.	Sale of depreciated personal property: gain to the extent of prior depreciation is ordinary; the rest is §1231.	A machine sold with 40 of prior depreciation and an 60 gain: 40 ordinary, 20 §1231 gain.
165	Installment Sales	Gain is reported as payments are received (gross profit % × payment). Dealer sales and recaptured depreciation do not qualify fully.	Gross profit % = gross profit / contract price; each payment multiplies the percentage.	Selling at 100 with 40 gross profit and receiving 25 in year 1 recognizes 10 gain (40% × 25).
166	Wash Sales & Related-Party Losses	A wash sale (buying substantially identical stock within 30 days before/after the sale) disallows the loss and adds it to the new basis. Losses on sales to related parties are disallowed.	Related-party loss disallowance extends to the buyer's subsequent gain to the extent of the disallowed loss.	Selling stock at a 20 loss and rebuying it 10 days later: the 20 loss is disallowed.
167	Gift & Inherited Basis	Gift basis = donor's adjusted basis (carryover, with a gift-tax add-on); inherited basis = fair market value at death (stepped-up) generally.	Stepped-up basis at death is why holding appreciated assets to death erases the built-in gain.	A stock bought at 10 that is worth 100 at the owner's death gives the heir a 100 basis.
168	Casualty & Involuntary Conversions	Casualty/theft losses are deductible subject to limitations; involuntary conversion proceeds can defer gain if replacement property is acquired within the allowed period.	Gain on an involuntary conversion is deferred to the extent proceeds are reinvested in similar property within the period.	A building destroyed by fire pays 500 insurance; replacing with a 480 similar building defers gain on 480.
169	Primary Residence Exclusion	Up to 250,000 (500,000 married filing jointly) of gain on a principal residence is excluded, with a 2-of-5-year ownership-and-use test.	Qualifying limited-use periods (health, job change) allow partial exclusion before the 2-year mark.	A couple selling their home with 400 of gain and meeting 2-of-5 use excludes the full 400.

Part 12: REG -- Federal Taxation of Individuals (15 Concepts)

REG Area IV (Federal Taxation of Individuals, 22-32%): gross income, adjustments, deductions, and credits.

#	Term	Key Facts	Strategy Tip	Example
170	Gross Income	All income from whatever source derived unless specifically excluded: compensation, business income, interest, dividends, rents, royalties, gains, and other items.	Start with gross income and apply ONLY statutory exclusions -- nothing is excluded by default.	Wages, freelance pay, bank interest, and a winning raffle are all gross income unless a code section excludes them.
171	Exclusions from Gross Income	Gifts and inheritances, life insurance proceeds		

(generally), qualified scholarships, municipal bond interest, child support received, and certain employer-provided benefits (health insurance, retirement contributions, up to 50,000 of group term life).

Municipal bond interest exclusion is the classic test

Wages and tips are included;

cash tips over 20 in a month must be reported to the employer and to the IRS (Form 4137 for unreported tips).

Tips received count even if

173	CPA Exam Study Guide	Business Income (Sole Proprietor)	Reported on Schedule C: gross receipts minus business expenses (ordinary and necessary); self-employment tax applies to net earnings over the threshold.	Self-employment tax = Social Security (12.4%) + Medicare (2.9%) on 92.35% of net self-employment earnings.	Net Schedule C profit of 50,000 triggers SE tax on 46,175 (92.35% of 50,000). TemplateForge \$39
174		Capital Gains & Losses -- Individuals	Net long-term gains get preferential rates (0/15/20% by income); capital losses offset capital gains, then up to 3,000 of ordinary income; excess carries forward indefinitely.	Order matters: net short-term vs long-term, then apply the 3,000 ordinary loss limit.	A 5,000 long-term loss offsets 2,000 of gains and 3,000 of ordinary income; the remaining loss carries forward.
175		Deductions FOR vs FROM AGI	Adjustments (for AGI): traditional IRA, self-employed retirement, student loan interest, self-employment tax, health insurance for self-employed, alimony paid (pre-2019 agreements), moving/other items. Itemized deductions (from AGI): mortgage interest, state/local taxes, charity.	Adjustments are better (they reduce AGI) -- test items by classifying which side of AGI they land on.	A 6,500 traditional IRA contribution is an adjustment; 2,000 of charitable cash is itemized, if the taxpayer itemizes.
176		Standard Deduction	The flat deduction amount by filing status (e.g., married joint roughly double single); available to most taxpayers; additional standard deduction for age 65+/blind.	Itemize only when itemized deductions exceed the standard deduction -- the exam tests the comparison.	A single taxpayer with 10,000 of itemized deductions and a 14,000 standard deduction takes the standard.
177		Itemized Deductions	Home mortgage interest, state and local taxes (10,000 cap for SALT), charitable contributions (cash 60% AGI limit, noncash limits), medical expenses over 7.5% AGI, and gambling losses.	The SALT 10,000 cap and the medical 7.5% floor are the two frequently tested limits.	With 8,000 of property tax and 4,000 of state income tax, only 10,000 is deductible (the 10,000 SALT cap).
178		Tax Credits vs Deductions	Credits reduce tax dollar-for-dollar; deductions reduce taxable income at the marginal rate. Refundable credits (EITC, additional child tax credit) can exceed tax due.	A 1,000 credit saves 1,000; a 1,000 deduction saves only the marginal rate times 1,000.	A 1,000 education credit beats a 1,000 deduction for a taxpayer in the 22% bracket (1,000 vs 220 saved).
179		Child Tax Credit & Credits Overview	Child tax credit for qualifying children; education credits (American Opportunity -- partly refundable, Lifetime Learning -- nonrefundable); child and dependent care credit; Earned Income Tax Credit (refundable).	AOTC is the refundable education credit -- 40% of its first 1,000-ish is refundable; LLC is nonrefundable.	A student's first-four-years expenses qualify for AOTC; a mid-career course qualifies for LLC only.
180		Alternative Minimum Tax (AMT)	A parallel tax system: taxable income adjusted by preferences (AMT adjustments -- state taxes, exemption phaseouts) at 26/28% rates; the taxpayer owes AMT to the extent AMT exceeds regular tax.	AMT preferences add items back and the exemption phases out at high income -- the two drivers of the tax.	A taxpayer with large state tax deductions computes AMT because those deductions are added back.
181		Self-Employed Health Insurance & Retirement	Self-employed individuals can deduct health insurance premiums (adjustment) and contribute to SEP/SIMPLE/solo-401(k) plans (adjustment, with percentage/dollar caps).	SEP limit is 25% of net earnings (20% of net profit equivalent); solo-401(k) adds employee elective deferrals.	A freelancer contributes 22,500 as an elective deferral to a solo-401(k) plus an employer-share profit contribution.
182		Estimated Tax Payments & Safe Harbor	Taxpayers owing over a threshold must pay via withholding or quarterly estimates; safe harbor = 100% of prior-year tax (110% if AGI over 150,000) or 90% of current-year tax.	The safe harbor formula (90% current or 100/110% prior) is the classic penalty-avoidance test.	A taxpayer with a big current-year bonus pays using 100% of last year's tax and avoids the underpayment penalty.
183		Filing & Payment Deadlines	Individual returns due April 15 (or the next business day); extensions to October 15 (Form 4868, no payment extension); estates/trusts and partnerships have March deadlines (varies).	April 15 is the anchor for individuals; partnerships/estates and trusts March 15 (calendar-year).	A calendar-year partnership files by March 15 or extends to September 15.
184		Kiddie Tax	Unearned income of children		

subject to parental rates in excess of a threshold amount; earned income is taxed at the child's own rates.

Unearned income beyond the

threshold (roughly 2,500 range) lands at the parent's marginal rate.

A 12-year-old with 8,000 of

REG Area V (Federal Taxation of Entities, 23-33%): C corps, S corps, partnerships, and property inside entities.

#	Term	Key Facts	Strategy Tip	Example
185	C Corporation Taxation	C corps are separate taxpayers taxed at the flat 21% rate (after the TCJA). They file Form 1120, pay dividends from after-tax earnings, and suffer double taxation on distributions.	The 21% flat rate + double taxation are the two anchor facts for C corps.	A C corp earns 100, pays 21 tax, and distributes the remaining 79 as a taxable dividend to shareholders.
186	Corporate Income Computation	Taxable income = gross income ? deductions (business expenses, compensation, depreciation, interest); charitable limit 10% of taxable income; dividends-received deduction (DRD) 50/65/100% based on ownership.	The 10% charitable contribution limit for corporations is a distinct test point from the 60% individual limit.	A C corp with 1,000 taxable income before charity can deduct at most 100 of charitable contributions currently.
187	Dividends-Received Deduction	Corporations deduct 50% of dividends from domestic corporations (65% at 20%+ ownership, 100% for 80%+ affiliates).	The DRD rate follows ownership: 50% default, 65% at 20%+, 100% at 80%+.	A C corp owning 15% of another domestic C corp deducts half of the dividends it receives.
188	Corporate Formation (§351)	Transferring property to a controlled corporation in exchange for stock is tax-free if the transferors control 80%+ immediately after.	§351 defers gain at formation; the corporation takes a carryover basis.	Two founders contribute equipment (basis 40, value 100) and stock worth 60 for 80% control: no gain recognized at formation.
189	Distributions from C Corps	Distributions are dividends to the extent of accumulated E&P, then return of capital (reduce basis), then capital gain.	E&P ordering is the test: dividend first, basis recovery second, gain third.	A shareholder receives 30 while E&P is 20 and basis is 5: 20 dividend + 5 basis recovery + 5 capital gain.
190	Corporate Earnings & Profits (E&P)	E&P approximates economic ability to pay dividends; taxable income adjusted for non-taxable income, nondeductible expenses, and timing differences (similar but not identical to book).	Compute E&P by adjusting taxable income: add muni interest and life-insurance proceeds; subtract federal income tax paid and some nondeductibles.	A corporation's taxable income 100 plus tax-exempt interest 10 minus federal tax 21 -> current E&P 89.
191	Redemptions & Liquidations	Stock redemptions are treated as sales if the redemption is disproportionate or substantially disproportionate; otherwise dividends. Corporate liquidations generally recognize gain on asset sales and distribute at FMV.	The §302 tests (meaningful reduction, disproportionate, complete termination) determine sale vs dividend treatment.	A shareholder's stock is entirely redeemed (complete termination of interest): sale treatment, capital gain.
192	S Corporation Status & Requirements	S eligibility: domestic corporation, ?100 shareholders, one class of stock, only individuals/estates/certain trusts (no nonresident aliens). Election via Form 2553.	One class of stock and the 100-shareholder cap are the two most-tested eligibility rules.	A 5-owner domestic C corp files Form 2553 to become an S corp and pass income through to owners.
193	S Corporation Taxation	S corps pass income, deductions, and credits to shareholders pro rata (stock basis and distribution rules apply); built-in gains tax (BIG) can apply to pre-election appreciation recognized within 5 years.	A shareholder's basis increases with income and decreases with distributions/losses -- basis limits the deductibility of losses.	An S corp earns 20; each half-owner adds 10 to basis and reports 10 of income.
194	Partnership Taxation -- Pass-Through	Partnerships are flow-through: income/loss allocated per the partnership agreement (substantial economic effect required); no tax at the entity level; partners get K-1s.	Basis + at-risk + passive activity rules limit how much loss a partner can deduct.	A partnership allocates 60% of income to A per the agreement; A reports that share on the K-1.
195	Partner Basis & Guaranteed Payments	A partner's basis = contributions + share of income ? distributions ? share of losses. Guaranteed payments for services are deductible by the partnership and ordinary income to the partner.	Guaranteed payments are treated like salary to the partner and reduce the partnership's income.	A managing partner earns a 10,000 guaranteed payment -- ordinary income to them, deductible by the partnership.
196	Partnership Distributions			

Nonliquidating distributions

reduce basis (not taxable until basis is exhausted); liquidating distributions generate gain to the extent they exceed basis, with relief of liabilities treated as money.

Liability relief is treated as a

197	CPA Exam Study Guide	Qualified Business Income Deduction (\$199A)	Individuals/partners/S-corp shareholders deduct up to 20% of qualified business income, subject to W-2 wage / depreciable-property limits and income phaseouts for SSTBs.	The 50% wage + 25% of wages plus 2.5% of qualified property limit applies above the phase-in threshold.	A single filer under the threshold deducts a straight 20% of pass-through business income subject to the overall limit.
198		Employment & Payroll Taxes	Employers withhold income tax and the employee share of FICA, and pay the employer share; payroll tax deposits follow semiweekly/monthly schedules; Form 941 quarterly.	The employer matches FICA (7.65%) and pays FUTA (6% on the first 7,000, less credit for state UI).	A wage of 50,000 incurs employer FICA of 3,825 plus FUTA on the first 7,000 of wages.
199		Corporate AMT & NOL	The corporate AMT (15% on adjusted financial statement income above a threshold for large corps) returned under the IRA 2022; NOLs generally carry forward indefinitely with an 80% taxable income limit.	The 80% NOL limitation and indefinite carryforward are the tested mechanics.	A 100 NOL arising in 2025 offsets at most 80% of 2026 taxable income.
200		International Corporate Basics	US corporations are taxed on worldwide income with credits for foreign taxes; GILTI, FDII, and BEAT regimes apply to cross-border flows; foreign tax credit prevents double taxation.	The foreign tax credit is the anchor: foreign taxes paid can offset US tax on the same foreign income.	A US corp earning 100 abroad with 25 of foreign tax takes a foreign tax credit against US tax on that income.

Part 14: BAR -- Business Analysis & Reporting (18 Concepts)

The BAR discipline (Business Analysis and Reporting) extends financial reporting and adds business analysis: Area I Business Analysis 40-50%, Area II Technical Accounting and Reporting 35-45%, Area III State and Local Governments 10-20%.

#	Term	Key Facts	Strategy Tip	Example
201	BAR Discipline Overview	BAR is the deepest-accounting discipline: advanced financial reporting, financial statement analysis, managerial/cost accounting, economics, and state & local government accounting.	Choose BAR if your career is controller/analyst/audit of complex GAAP -- it is essentially "advanced FAR plus analysis."	A financial reporting specialist picks BAR and studies consolidations, derivatives, and variance analysis.
202	Financial Statement Analysis -- Ratios	Liquidity (current, quick), solvency (debt-to-equity, times-interest-earned), profitability (margin, ROA, ROE), and activity (turnover) ratios draw on the cheat-sheet family of formulas.	Compute the ratio family by category and interpret the trend -- BAR rewards interpretation, not just computation.	A rising inventory turnover with falling gross margin flags possible discounting or obsolete stock.
203	Ratio Analysis -- DuPont	$ROE = (\text{net income/margin}) \times (\text{asset turnover}) \times (\text{equity multiplier})$: net profit margin $\times$ total asset turnover $\times$ financial leverage.	DuPont decomposes ROE into operating, efficiency, and leverage drivers -- good for trend questions.	$ROE\ 15\% = 5\%\ \text{margin} \times 1.5\ \text{turnover} \times 2.0\ \text{leverage}$; a Margins dip explains the ROE decline.
204	Common-Size & Trend Analysis	Common-size statements express every line as a percentage of a base (sales for the income statement, total assets for the balance sheet); trend analysis indexes a base year to 100.	Common-size statements neutralize size differences -- compare a small firm to an industry benchmark directly.	An income statement with each line as a % of sales reveals costs creeping from 68% to 74% of revenue.
205	Managerial & Cost Accounting	Cost behaviors (variable, fixed, mixed), CVP analysis, contribution margin, break-even, and relevant costs drive decisions.	Break-even units = fixed costs / contribution margin per unit; contribution margin = price - variable cost.	Fixed costs 60,000, price 20, variable 12: break-even at 7,500 units (60,000/8).
206	Budgeting & Variance Analysis	Master, flexible, and static budgets; price/quantity (usage) and rate/efficiency variances for direct materials and labor.	Unfavorable vs favorable is sign-sensitive: actual > standard is unfavorable for costs.	Direct labor: 900 hours at 22 vs standard 1,000 hours at 20 -> rate (2 $\times$ 900) and efficiency ((100) $\times$ 20) variances.
207	Standard Costs & Flexible Budgets	Standard costs set expectations; flexible budgets recompute expected costs at ACTUAL activity so variances isolate price/efficiency, not volume.	Compare actual-to-flexible for price/efficiency; compare flexible-to-static for volume.	Actual output 9,000 units: the flexible budget uses 9,000 units' inputs to compute what costs SHOULD have been.
208	Capital Budgeting	NPV (discount cash flows at the cost of capital; accept if positive), IRR (rate where NPV = 0), payback, and profitability index rank investment opportunities.	NPV and IRR agree on accept/reject in normal projects; NPV wins ties and with nonconventional cash flows.	A project's cash flows discounted at 10% produce NPV +25,000 -- accept.

209	CPA Exam Study Guide	Relevant Costing & Decisions	Only future, differential cash flows matter: incremental revenues, avoidable costs, opportunity costs. Sunk costs (past outlays) are irrelevant.	Special-order decisions compare incremental revenue to incremental costs -- fixed costs already committed do not matter.	Accepting a one-time order at 15 when variable cost is 12 and capacity is idle adds 3 per unit of profit.
210		Economics for BAR	Supply/demand, elasticity, market structures, and macroeconomic indicators (GDP, inflation, unemployment) appear in the business-analysis area.	Connect economics to accounting: revenue elasticity and pricing power drive forecasts and estimates.	An elastic product's price increase lowers total revenue -- a fact reflected in forecasted sales.
211		Consolidations -- Control & Measuring	Consolidation is required when the investor has control (generally > 50% voting or control via other arrangements under ASC 810 -- VIE rules). Noncontrolling interest is presented in equity.	VIE consolidation turns on power over significant activities + variable interest exposure -- not just ownership %.	A 55% owning parent consolidates the subsidiary and reports the outside 45% as noncontrolling interest.
212		Consolidation -- Eliminating Entries	Intra-entity transactions (sales, receivables/payables, profits in inventory) are eliminated; goodwill and noncontrolling interest are pushed to the consolidated balance sheet.	Downstream sales profit in ending inventory is eliminated against the seller's income; upstream against the buyer's.	Parent sells goods to sub at a 10 profit still in sub's inventory: the profit is eliminated in consolidation.
213		Derivative & Hedging Basics	Derivatives (forwards, futures, options, swaps) are measured at fair value; hedge accounting (fair value vs cash flow) can defer gain/loss recognition to match the hedged item.	Fair-value hedges hit income with the hedged item; cash-flow hedges defer effective portions to OCI.	A cash-flow hedge of forecasted fuel purchases defers hedge gains in OCI until the fuel is purchased.
214		Foreign Currency Translation & Remeasurement	Translate (local functional currency) using current rates for assets/liabilities, historical for equity -- translation adjustment to OCI. Remeasure (parent functional currency) using historical/current mix -- adjustment to income.	The functional-currency question drives the treatment: local -> OCI; parent -> income.	A Japanese sub with the yen as functional currency translates its yen statements; FX adjustment flows to OCI.
215		Interim & Segment Financial Reporting	Interim disclosures follow the integral approach; reportable segments meet 10% thresholds on revenue, profit/loss, or assets with 75% coverage of external revenue required.	The 75% external-revenue coverage test decides whether more segments must be reported.	Three reportable segments cover 82% of external revenue -- no additional segments required.
216		Governmental Accounting -- GASB	GASB sets state & local government standards: fund accounting, modified accrual for governmental funds, the 3 measurement focuses, and the dual presentation (fund + government-wide).	Governmental funds use the current financial resources focus (modified accrual); proprietary/fiduciary use economic resources (full accrual).	Capital assets are expensed in a capital projects fund but capitalized in the government-wide statement.
217		Fund Balance Classification	Fund balance is classified in five categories: nonspendable, restricted, committed, assigned, and unassigned.	Spendable vs nonspendable and restriction source (external vs internal) drive classification.	Encumbered amounts are assigned; externally restricted grant proceeds are restricted fund balance.
218		GASB Financial Reporting Model	The comprehensive annual financial report (CAFR) has three sections: introductory, financial, and statistical; the basic financial statements include government-wide, fund, and notes.	The CAFR's financial section holds the basic financial statements plus required supplementary information (RSI).	A city's CAFR presents its government-wide statements followed by fund statements in the financial section.

Part 15: ISC -- Information Systems & Controls (18 Concepts)

The ISC discipline (Information Systems and Controls) covers systems, data, security, and SOC engagements: Area I Information Systems and Data Management 35-45%, Area II Security, Confidentiality and Privacy 35-45%, Area III SOC Engagements 10-20%. Scoring is 60% MCQ / 40% TBS.

#	Term	Key Facts	Strategy Tip	Example
219	ISC Discipline Overview	ISC is the tech discipline for auditors and IT professionals: information systems, data management, cybersecurity, privacy, and SOC reporting. The only section scored 60% MCQ / 40% TBS.	Choose ISC for IT audit, cybersecurity, or data-heavy roles -- it is the only discipline with a 60/40 MCQ/TBS split.	An IT audit specialist selects ISC and studies system development, security frameworks, and SOC reports.
220	Information Systems & Data Management	Covers databases, data governance, data lifecycle, and		

data analytics basics: how data flows from capture through storage, processing, reporting, and archival.

Map the data lifecycle stages to governance controls --

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221	CPA Exam Study Guide	Data Governance	The framework of policies, standards, roles, and processes that ensure data quality, availability, integrity, and security across the organization.	Data governance answers WHO owns and WHO may use the data -- assess it before testing application controls.	A governance board sets data stewards for customer data, defining retention and quality standards.
222		Data Analytics in Auditing	Auditors use analytics for journal-entry testing, matching, anomaly detection, and population stratification -- data can be tested in whole, not just sampled.	Modern ISC topics expect you to connect analytics to audit procedures (e.g., Benford's Law, duplicate detection).	An auditor runs a duplicate-invoice analysis on the full payables file instead of sampling 50 invoices.
223		Systems Development Life Cycle (SDLC)	Phases: planning, analysis, design, development, testing, implementation, and maintenance. Controls include change management, segregation of duties, and user acceptance testing.	Change management (authorization, testing, migration approval) is the highest-risk SDLC control area.	An unauthorized developer pushes a code change to production without approval -- a change-control failure.
224		IT Controls -- General & Application	ITGCs (access, change, operations) support the environment; application controls (input, processing, output) enforce accuracy within programs -- edits, validations, totals.	ITGC failures can undermine application controls -- assess ITGCs first when planning reliance.	Batch totals and edit checks protect payroll input accuracy; access logging protects the environment.
225		Access Controls & Authentication	Principle of least privilege, segregation of duties, authentication factors (something you know/have/are), and periodic access reviews.	Least privilege + periodic review are the two control outcomes most tested.	A terminated employee's access is revoked the same day and the quarterly access review confirms it.
226		Cybersecurity Frameworks	NIST Cybersecurity Framework (Identify, Protect, Detect, Respond, Recover) and the CIA triad (Confidentiality, Integrity, Availability) organize security programs.	Map controls to the NIST functions for scenario questions -- you rarely need every control name, just the function.	Firewalls and encryption protect; IDS and monitoring detect; incident response plans respond.
227		Threats & Vulnerabilities	Phishing, ransomware, malware, insider threats, social engineering, DDoS; vulnerabilities are weaknesses exploited by threats.	Risk = threat × vulnerability × impact -- controls reduce one or more components.	A phishing email exploits a training gap; user-awareness training and MFA reduce the risk.
228		Business Continuity & Disaster Recovery	BCP keeps the business running; DR restores IT systems. Key metrics: RTO (recovery time objective) and RPO (recovery point objective).	RPO = acceptable data loss (how far back); RTO = acceptable downtime (how fast back).	A bank sets RPO 1 hour (lose at most an hour of transactions) and RTO 4 hours to restore processing.
229		Encryption & Cryptography	Symmetric (same key -- fast, e.g., AES) vs asymmetric (key pair -- RSA, used for PKI/digital signatures); hashing ensures integrity (SHA).	Hashing proves integrity (no key needed); encryption protects confidentiality; signatures provide authentication/nonrepudiation.	A file's SHA-256 hash changes if any bit is altered -- detecting unauthorized modification.
230		Privacy Regulations & Concepts	Privacy programs align to laws like GDPR and state laws (CCPA/CPRA): consent, data subject rights, purpose limitation, and breach notification.	Privacy questions test the rights (access, erasure) and the accountability principle, not statute minutiae.	A customer requests erasure of their data; the company executes a defined deletion workflow within the required period.
231		SOC 1 vs SOC 2 vs SOC 3	SOC 1: controls relevant to user entities' internal control over financial reporting (ICFR). SOC 2: trust services criteria (security, availability, processing integrity, confidentiality, privacy). SOC 3: a general-use summary of SOC 2.	SOC 1 = financial reporting controls (user-auditor use); SOC 2 = the five trust categories (restricted use); SOC 3 = public summary.	A payroll service provider issues a SOC 1 for client auditors and a SOC 2 for its security posture.
232		SOC Examinations -- SSAE 18	Service organizations' control examinations are attestation engagements under SSAE 18 (AT-C 320): Type I (design as of a date) and Type II (design AND operating effectiveness over a period).	Type I = as-of design; Type II = period operating effectiveness -- the difference is a near-guaranteed point.	A SOC 1 Type II report covers July 1-December 31 and includes the service auditor's tests of controls.
233		Emerging Technology Risks	Cloud computing (shared responsibility), RPA, AI/ML, blockchain, and IoT introduce new risk and control		

Know the shared-responsibility
model: the cloud provider
secures the cloud; the
customer secures what is IN

An AI chatbot is monitored with human-in-the-loop review and bias testing before deployment.

Computer-assisted audit

techniques (extraction, query, ACL-type tools, audit modules) generate evidence from systems; consider reliability, completeness, and system security of the evidence.

CAATs test populations, not

accounts payable file with an SQL query lets the auditor test every duplicate risk in the population.

235	CPA Exam Study Guide	Systems & Process-Level Controls	Entity-level controls (tone, risk, monitoring) support process-level controls (transactions: order-to-cash, procure-to-pay, hire-to-retire) with automated and manual layers.	Test processes end to end and identify where automated controls replace manual ones -- automation shifts the evidence needed.	An automated three-way match in procure-to-pay performs the control that a clerk used to do manually.
236		Incident Response & Forensics	A prepared IR plan (detection, containment, eradication, recovery, lessons learned) limits damage; forensic preservation keeps evidence admissible.	Containment before eradication prevents spread; documentation supports legal action.	A ransomware hit is contained by isolating affected servers before forensic images are collected.

Part 16: TCP -- Tax Compliance & Planning (14 Concepts)

The TCP discipline (Tax Compliance and Planning) deepens tax: Area I individuals & PFP 30-40%, Area II entity tax compliance 30-40%, Area III entity tax planning 10-20%, Area IV property transactions 10-20%.

#	Term	Key Facts	Strategy Tip	Example
237	TCP Discipline Overview	TCP is the tax-specialist discipline: individual and entity tax compliance, entity tax planning, and property-transaction planning, with deeper planning and research than core REG.	Choose TCP for tax practice -- the content extends REG rather than repeating it.	A tax associate picks TCP and studies entity planning, gift/estate basics, and multistate tax.
238	Tax Research & Authority	The tax authority hierarchy (IRC, Treasury regulations, revenue rulings/procedures, court cases) determines how aggressively a position can be taken.	The more authoritative the source, the stronger the position; start research at the IRC and regs.	A planner supports a position with a Treasury regulation; the position withstands scrutiny better than a citing a blog.
239	Individual Tax Planning -- Timing	Deferring income and accelerating deductions lowers current tax (time value of money); the strategy inverts when rates are expected to rise.	Year-end planning is the classic scenario: push income across year-end when today's rates are lower than next year's.	A consultant bills January instead of December to defer taxable income into next year.
240	Entity Choice -- Tax Effects	C corp (21% + double tax), S corp (one layer, current pass-through), partnership/LLC (flexible allocation, self-employment implications), and sole proprietor (SE tax) each change the tax picture.	Match the entity to the cash-flow goal: retained earnings favor C; early losses favor pass-through.	A startup expecting losses for two years elects S or LLC partnership status so owners can deduct the losses.
241	Entity Tax Compliance Cycles	Forms by entity: 1120 (C), 1120-S (S), 1065 (partnership), 1040 (individual with schedules); filing deadlines (April 15 individual, March 15 partnerships/S corps/estates-extension cycles) and quarterly estimates.	Know which form goes with which entity -- the mapping is a fast MCQ point.	A partnership misses the March 15 deadline and extends to September 15 via Form 7004.
242	Qualified Business Income (§199A) Planning	The 20% QBI deduction with wage/property limits and SSTB phaseouts creates planning around entity structure (aggregation, wages, and owner compensation).	For high-income service businesses, wage-based limits often kick in -- model the phase-out before relying on the deduction.	A law firm owner above the SSTB threshold loses QBI eligibility gradually; wages paid affect the phase-out.
243	Passthrough Entity Tax (PTET)	Many states allow pass-through entities to elect entity-level tax, letting owners bypass the 10,000 SALT cap.	PTET elections convert SALT from an itemized deduction into a business deduction at the entity level.	An S corp elects PTET in its state, and owners claim the state tax credit on their personal returns.
244	Multistate Tax Basics	Nexus (physical/economic) determines where a business files; apportionment divides income by sales/property/payroll factors; combined reporting captures the unitary group.	Sales-factor apportionment is the modern driver -- economic nexus under Wayfair expands filing obligations.	A remote seller with economic nexus in a state apportions a share of income using its in-state sales ratio.
245	Gift & Estate Tax Basics	Annual gift exclusion (indexed; roughly 18,000-class per donee), lifetime exemption (multi-million), and the estate tax at death; portability lets spouses share the unused exemption.	Gifts below the annual exclusion need no return; larger gifts consume the lifetime exemption.	A grandparent gifts 15,000 to each grandchild annually -- below the exclusion, no gift tax return required.
246	Trusts & Estates --			

Trusts/estates are separate

taxpayers with their own brackets and a distribution deduction for income distributed to beneficiaries (DNI concept).

DNI caps the beneficiary's

247	CPA Exam Study Guide	Property Transactions -- Planning	Holding periods, capital vs ordinary, like-kind exchanges, installment sales, and like-kind/basis planning convert gains and defer recognition.	The 12-month holding period separates short- from long-term rates; planning pushes transactions across the line when beneficial.	A client about to sell an asset waits two months to cross the one-year mark for the long-term rate.
248		Depreciation & Cost Recovery Planning	Bonus depreciation and §179 expensing accelerate cost recovery; MACRS lives and conventions (half-year/quarter) determine the schedule.	§179 applies to business-use property up to income limits; bonus is first-year and broader.	A business buys 80 of equipment in December and elects §179 to expense it immediately.
249		International Tax -- Individuals & Entities	US citizens are taxed on worldwide income with the foreign tax credit and FEIE (foreign earned income exclusion); entities manage GILTI/FDII/BEAT and transfer pricing.	The tie-in: foreign tax credits avoid double taxation -- the anchor for both individuals and entities.	A US expat excludes around 120,000 of foreign earned income via the FEIE and credits the rest.
250		Tax Penalties & Professional Responsibility in Planning	Preparers and planners face penalties for understatements, aiding in understatement, and promoting abusive shelters; Circular 230 governs practice before the IRS.	Aggressive planning requires disclosure and a realistic possibility of success -- the professional-responsibility floor.	A planner refuses to sign a return taking a position with no realistic possibility of prevailing without disclosure.