

VI. CPA EXAMINATION CONTENT SPECIFICATIONS

Auditing & Attestation

The Auditing and Attestation section covers knowledge of auditing procedures, auditing standards generally accepted in the United States of America (GAAS) and other standards related to attest engagements and the skills needed to apply that knowledge in auditing and other attestation engagements. This section tests such knowledge and skills in the context of the five broad engagement tasks in the outline that follows.

- I. Plan the engagement, evaluate the prospective client and engagement, decide whether to accept or continue the client and the engagement, and enter into an agreement with the client (22% - 28%)
 - A. Determine nature and scope of engagement
 1. Auditing standards generally accepted in the United States of America (GAAS)
 2. Standards for accounting and review services
 3. Standards for attestation engagements
 4. Compliance auditing applicable to governmental entities and other recipients of governmental financial assistance
 5. Other assurance services
 6. Appropriateness of engagement to meet client's needs
 - B. Assess engagement risk and the CPA firm's ability to perform the engagement
 1. Engagement responsibilities
 2. Staffing and supervision requirements
 3. Quality control considerations
 4. Management integrity
 5. Researching information sources for planning and performing the engagement
 - C. Communicate with the predecessor accountant or auditor
 - D. Decide whether to accept or continue the client and engagement
 - E. Enter into an agreement with the client about the terms of the engagement
 - F. Obtain an understanding of the client's operations, business, and industry
 - G. Perform analytical procedures
 - H. Consider preliminary engagement materiality
 - I. Assess inherent risk and risk of misstatements from errors, fraud, and illegal acts of clients
 - J. Consider other planning matters
 1. Using the work of other independent auditors
 2. Using the work of a specialist
 3. Internal audit function
 4. Related parties and related party transactions
 5. Electronic evidence
 6. Risks of auditing around the computer
 - K. Identify financial statement assertions and formulate audit objectives
 1. Significant financial statement

- 2. Accounting estimates
 - L. Determine and prepare the work program defining the nature, timing, and extent of the procedures to be applied
- II. Consider internal control in both manual and computerized environments (12% - 18%)
- A. Obtain an understanding of business processes and information flows
 - B. Identify controls that might be effective in preventing or detecting misstatements
 - C. Document and understanding of internal control
 - D. Consider limitations of internal control
 - E. Consider the effects of service organizations on internal control
 - F. Perform tests of controls
 - G. Assess control risk
- III. Obtain and document information to form a basis for conclusions (32% - 38%)
- A. Perform planned procedures
 - 1. Applications of audit sampling
 - 2. Analytical procedures
 - 3. Confirmation of balances and/or transactions with
 - 4. Physical examination of inventories and other assets
 - 5. Other tests of details
 - 6. Computer-assisted audit techniques, including analysis
 - 7. Substantive tests before the balance sheet date
 - 8. Tests of unusual year-end transactions
 - B. Evaluate contingencies
 - C. Obtain and evaluate lawyers' letters
 - D. Review subsequent events
 - E. Obtain representations from management
 - F. Identify reportable conditions and other control deficiencies
 - G. Identify matters for communication with audit committees
 - H. Perform procedures for accounting and review services engagements
 - I. Perform procedures for attestation engagements
- IV. Review the engagement to provide reasonable assurance that objectives are achieved and **evaluate information obtained to reach and to document engagement conclusions** (8% - 12%)
- A. Perform analytical procedures
 - B. Evaluate the sufficiency and competence of audit evidence and document engagement conclusions
 - C. Evaluate whether financial statements are free of material misstatements
 - D. Consider whether substantial doubt about an entity's ability to continue as a going concern exists

- E. Consider other information in documents containing audited financial statements
 - F. Review the work performed to provide reasonable assurance that objectives are achieved
- V. Prepare communications to satisfy engagement objectives (12% - 18%)
- A. Reports
 1. Reports on audited financial statements
 2. Reports on reviewed and compiled financial statements
 3. Reports required by Government Auditing Standards
 4. Reports on compliance with laws and regulations
 5. Reports on internal control
 6. Reports on prospective financial information
 7. Reports on agreed-upon procedures
 8. Reports on the processing of transactions by service organizations
 9. Reports on supplementary financial information
 10. Special reports
 11. Reports on other assurance services
 12. Reissuance of reports
 - B. Other required communications
 - C. Other matters

Financial Accounting & Reporting

The Financial Accounting and Reporting section tests knowledge of accounting principles generally accepted in the United States of America (GAAP) for business enterprises, not-for-profit organizations, and governmental entities, and the skills needed to apply that knowledge. Content covered in this section includes financial accounting concepts and standards, and their application. To demonstrate such knowledge and skills, candidates will be required to

- Obtain and document information for use in financial statement presentations
 - Evaluate, analyze, and process entity information for reporting in financial statements
 - Communicate entity information and conclusions
 - Analyze information and identify data relevant to financial accounting and reporting
 - Identify financial accounting and reporting methods and select those that are suitable
 - Perform calculations
 - Formulate conclusions
 - Present results in writing in a financial statement format or other appropriate format
- I. Concepts and standards for financial statements (17% - 23%)
- A. Financial accounting concepts

1. Process by which standards are set and roles of standard-setting bodies
 2. Conceptual basis for accounting standards
 - B. Financial accounting standards for presentation and disclosure in general-purpose financial statements
 1. Consolidated and combined financial statements
 2. Balance sheet
 3. Statement(s) of income, comprehensive income and changes in equity accounts
 4. Statement of cash flows
 5. Accounting policies and other notes to financial statements
 - C. Other presentations of financial data (financial statements prepared in conformity with comprehensive bases of accounting other than GAAP)
 - D. Financial statement analysis
- II. Typical items: recognition, measurement, valuation, and presentation in financial statements in conformity with GAAP (27% - 33%)
- A. Cash, cash equivalents, and marketable securities
 - B. Receivables
 - C. Inventories
 - D. Property, plant and equipment
 - E. Investments
 - F. Intangibles and other assets
 - G. Payables and accruals
 - H. Deferred revenues
 - I. Notes and bonds payable
 - J. Other liabilities
 - K. Equity accounts
 - L. Revenues, cost and expense accounts
- III. Specific types of transactions and events: recognition, measurement, valuation, and presentation in financial statements in conformity with GAAP (27% - 33%)

A. Accounting changes and corrections of errors	J. Income taxes
B. Business combinations	K. Interest costs
C. Contingent liabilities and commitments	L. Interim financial reporting
D. Discontinued operations	M. Leases
E. Earnings per share	N. Non-monetary transactions
F. Employee benefits, including stock options	O. Related parties
G. Extraordinary items	P. Research and development costs
H. Financial instruments, including derivatives	Q. Segment reporting
I. Foreign currency transactions and translation	R. Subsequent events

- IV. Accounting and reporting for governmental entities (8% - 12%)
 - A. Governmental accounting concepts
 - 1. Measurement focus and basis of accounting
 - 2. Fund accounting concepts and application
 - 3. Budgetary process
 - B. Format and content of governmental financial statements
 - 1. Government-wide financial statements
 - 2. Governmental funds financial statements
 - 3. Conversion from fund to government-wide financial statements
 - 4. Proprietary fund financial statements
 - 5. Fiduciary fund financial statements
 - 6. Notes to financial statements
 - 7. Required supplementary information, including management's discussion and analysis
 - 8. Comprehensive annual financial report (CAFR)
 - C. Financial reporting entity including blended and discrete components units
 - D. Typical items and specific types of transactions and events: recognition, measurement, valuation, and presentation in governmental entity financial statements in conformity with GAAP
 - 1. Net assets
 - 2. Capital assets and infrastructure
 - 3. Transfers
 - 4. Other financing sources and uses
 - 5. Fund balance
 - 6. Non-exchange revenues
 - 7. Expenditures
 - 8. Special items
 - 9. Encumbrances
 - E. Accounting and financial reporting for governmental not-for-profit organizations
- V. Accounting and reporting for nongovernmental not-for-profit organizations (8% - 12%)
 - A. Objectives, elements and formats of financial statements
 - 1. Statement of financial position
 - 2. Statement of activities
 - 3. Statement of cash flows
 - 4. Statement of functional expenses
 - B. Typical items and specific types of transactions and events: recognition, measurement, valuation, and presentation in the financial statements of not-for-profit organizations in conformity with GAAP
 - 1. Revenues and contributions
 - 2. Restrictions on resources
 - 3. Expenses, including depreciation and functional expenses
 - 4. Investments

Regulation

The Regulation section tests candidates' knowledge of federal taxation, ethics, professional and legal responsibilities, business law and the skills needed to apply that knowledge.

Ethics, Professional and Legal Responsibilities, and Business Law

This portion covers knowledge of a CPA's professional and legal responsibilities and the legal implications of business transactions, particularly as they relate to accounting and auditing, and the skills needed to apply that knowledge. This section deals with federal and widely adopted uniform state laws. If there is no federal or uniform state law on a topic, the questions are intended to test knowledge of the law of the majority of jurisdictions. Professional ethics questions are based on the AICPA Code of Professional Conduct because it is national in its application.

Federal Taxation

This portion tests knowledge of principles and procedures for federal income, estate, and gift taxation and their application in practice. To demonstrate such knowledge, candidates will be required to—

- Analyze information and identify data relevant for tax purposes
- Identify issues, elections, and alternative tax treatments
- Research issues and alternative tax treatments
- Formulate conclusions

I. Ethics & professional and legal responsibilities (15% - 20%)

- A. Code of Professional Conduct
- B. Proficiency, independence and due care
- C. Ethics and responsibilities in tax practice
- D. Licensing and disciplinary systems imposed by the professional and state regulatory bodies
- E. Legal responsibilities and liabilities
 1. Common law liability to clients and third parties
 2. Federal statutory liability
- F. Privileged communication and confidentiality

II. Business Law (20% - 25%)

- A. Agency
 1. Formation and termination
 2. Duties and authority of agents and principals
 3. Liabilities and authority of agents and principals
- B. Contracts
 1. Formation
 2. Performance

3. Third-party assignments
4. Discharge, breach, and remedies
- C. Debtor-creditor relationships
 1. Rights, duties, and liabilities of debtors, creditors, and guarantors
 2. Bankruptcy
- D. Government regulation of business
 1. Federal securities acts
 2. Other government regulation (antitrust, pension and retirement plans, union and employee relations, and legal liability for payroll and social security taxes)
- E. Uniform commercial code
 1. Negotiable instruments and letters of credit
 2. Sales
 3. Secured transactions
 4. Documents of title and title transfer
- F. Real property, including insurance

III. Federal tax accounting issues (8% - 12%)

- A. Federal tax procedures
- B. Accounting periods
- C. Accounting methods including cash, accrual, percentage of completion, completed contract, and installment sales
- D. Inventory methods, including uniform capitalization rules

IV. Federal taxation of property transactions (8% - 12%)

- A. Types of assets
- B. Basis of assets
- C. Depreciation and amortization
- D. Taxable and nontaxable sales and exchanges
- E. Income, deductions, capital gains and capital losses, including sales and exchanges of business property and depreciation recapture

V. Federal taxation – individuals (12% - 18%)

- A. Gross income – inclusions and exclusions
- B. Reporting of items from pass-through entities, including passive activity losses
- C. Adjustments and deductions to arrive at taxable income
- D. Filing status and exemptions
- E. Tax computations, credits and penalties
- F. Alternative minimum tax
- G. Retirement plans

- H. Estate and gift taxation, including transfers subject to the gift tax, annual exclusion, and items includible and deductible from gross estate

VI. Federal taxation – entities (22% - 28%)

- A. Similarities and distinctions in tax reporting among such entities as sole proprietorships, general and limited partnerships, Subchapter C corporations, Subchapter S corporations, limited liability companies, and limited liability partnerships
- B. Subchapter C corporations
 1. Determination of taxable income and loss, and reconciliation of book income to taxable income
 2. Tax computations, credits, and penalties, including alternative minimum tax
 3. Net operating losses
 4. Consolidated returns
 5. Entity/owner transactions, including contributions and distributions
- C. Subchapter S corporations
 1. Eligibility and election
 2. Determination of ordinary income, separately stated items, and reconciliation of book income to taxable income
 3. Basis of shareholder's interest
 4. Entity/owner transactions, including contributions and liquidating and nonliquidating distributions
 5. Built-in gains tax
- D. Partnerships
 1. Determination of ordinary income, separately stated items, and reconciliation of book income to taxable income
 2. Basis of partner's interest and basis of assets contributed to the partnership
 3. Partnership and partner elections
 4. Partner dealing with own partnership
 5. Treatment of partnership liabilities
 6. Distribution of partnership assets
 7. Ownership changes and liquidation and termination of partnership
- E. Trusts
 1. Types of trusts
 2. Income and deductions
 3. Determination of beneficiary's share of taxable income

Business Environment & Concepts

The Business Environment & Concepts section tests knowledge of general business environment and business concepts that candidates need to know in order to understand the underlying business reasons for and accounting implications of transactions, and the skills needed to apply that knowledge in performing financial statement audit and attestation engagements and other functions normally performed by CPAs that affect the public interest. Content covered in this section includes knowledge of business structure; economic concepts essential to obtaining an understanding of an entity's operations, business and industry; financial management; information technology; and planning and measurement.

I. Business structure (17% - 23%)

- A. Advantages, implications and constraints of legal structures for business
 - 1. Sole proprietorships and general and limited partnerships
 - 2. Limited liability companies (LLC), limited liability partnerships (LLP), and joint ventures
 - 3. Subchapter C and subchapter S corporations
- B. Formation, operation, and termination of businesses
- C. Financial structure, capitalization, profit and loss allocation and distributions
- D. Rights, duties, legal obligations and authority of owners and management (directors, officers, stockholders, partners and other owners)

II. Economic concepts essential to obtaining an understanding of an entity's business and industry

(8% - 12%)

- A. Business cycles and reasons for business fluctuations
- B. Economic measures and reasons for changes in the economy, such as inflation, deflation and interest rate changes
- C. Market influences on business strategies, including selling, supply chain, and customer management strategies
- D. Implications to business of dealings in foreign currencies, hedging and exchange rate fluctuations

III. Financial management (17% - 23%)

- A. Financial modeling, including factors such as financial indexes, taxes and opportunity costs, and models such as economic value added, cash flow, net present value, discontinued payback and internal rate of return.
 - 1. Objectives
 - 2. Techniques
 - 3. Limitations
- B. Strategies for short-term and long-term financing options, including cost of capital and derivatives

- C. Financial statement and business implications of liquid asset management
 - 1. Management of cash and cash equivalents, accounts receivable, accounts payable, and inventories
 - 2. Characteristics and financial statement and business implications of loan rates (fixed vs. variable) and loan covenants

IV. Information technology (IT) implications in the business environment (22% - 28%)

- A. Role of business information systems
 - 1. Reporting concepts and systems
 - 2. Transaction processing systems
 - 3. Management reporting systems
 - 4. Risks
- B. Roles and responsibilities within the IT function
 - 1. Roles and responsibilities of database/network/Web administrators, computer operators, librarians, systems programmers, and applications programmers
 - 2. Appropriate segregation of duties
- C. IT fundamentals
 - 1. Hardware and software, networks, and data structure, analysis, and including operating systems, security, file organization, types of data database management systems
 - 2. Systems operation, including transaction processing modes, such as batch, real-time, and distributed processing, and application processing phases, such

capture; edit routines; master file maintenance; reporting, accounting, control,

management; query, audit trail, and ad hoc reports; and transaction flow
- D. Disaster recovery and business continuity, including data backup and data recovery procedures, alternate processing facilities (hot sites), and threats and risk management
- E. Financial statement and business implications of electronic commerce, including electronic fund transfers, point of sale transactions, internet-based transactions and electronic data interchange

V. Planning and measurement (22% - 28%)

- A. Planning and budgeting
 - 1. Planning techniques, including strategic and operational planning
 - 2. Forecasting and projection techniques

3. Budgeting and budget variance analysis
- B. Performance measures
 1. Organizational performance measures, including financial and nonfinancial scorecards
 2. Benchmarking, including quality control principles, best practices, and benchmarking techniques
- C. Cost measurement
 1. Cost measurement concepts (standard, joint product, and by-product costing)
 2. Accumulating and assigning costs (job order, process, and activity-based costing)
 3. Factors affecting production costs