

CPA EXAM STUDY KIT

Topic Study Template

Olivia Anderson · True North Accounting & Business Solutions · Study notes for educational use. Always confirm details against the current AICPA Blueprints and authoritative standards.

How to create your own CPA study materials. Use this template for every topic you're assigned so your whole study group's notes look and work the same way.

The Template

Topic Header

- **Section:** AUD, FAR, REG, BAR, ISC or TCP
- **Area:** Area I, II, III and so on
- **Topic:** the full topic name from the blueprint
- **Weight:** the area's percentage from the blueprint
- **Skill level:** Remembering and Understanding, Application, Analysis or Evaluation
- **Created by:** your name
- **Date created:**

Part 1: What the Blueprint Says

Copy the representative tasks from the blueprint for this topic, word for word.

Example for AUD Area I, the AICPA Code of Professional Conduct:

- Understand the principles, rules and interpretations included in the AICPA Code of Professional Conduct
- Apply the principles, rules and interpretations to situations
- Apply the conceptual framework for members in public practice and members in business

Part 2: Authoritative Sources

- **Primary sources:** the specific sections of the authoritative literature
- **Where to find them:** the website or library database you used

- **Secondary resources:** IRS publications, free videos or other free materials you referenced. Don't copy from paid review courses.

Example for the AICPA Code: the full Code, especially the Preface, Part 1 (members in public practice), Part 2 (members in business), Part 3 (other members) and the conceptual framework sections.

Part 3: Summary Notes (Two to Three Pages)

Write this in your own words, using these headings.

WHAT IS THIS?

Two or three sentences on what the topic covers.

Example: The AICPA Code of Professional Conduct sets the ethical standards for CPAs. It is made up of principles, rules and interpretations, and it applies differently depending on whether you're in public practice, in business or in another role.

KEY CONCEPTS

The main ideas in short bullets.

Example:

- Six principles: Responsibilities, Public Interest, Integrity, Objectivity and Independence, Due Care, and Scope and Nature of Services
- Independence is required for attest engagements such as audits, reviews and examinations
- The conceptual framework applies when no specific rule addresses a situation
- Threats to compliance: adverse interest, advocacy, familiarity, management participation, self-interest, self-review and undue influence

HOW IT WORKS

Explain the process step by step.

Example for independence:

1. Decide whether the engagement is an attest engagement.
2. If it is, apply the independence rules, such as no direct financial interest in the client.
3. If no specific rule applies, use the conceptual framework: identify threats, evaluate their significance, apply safeguards and document your reasoning.

DETAILS TO MEMORIZE

Lists, thresholds, numbers and key terms.

Example:

- A direct financial interest held by a covered member impairs independence no matter how small.

- An indirect financial interest impairs independence only if it is material to the covered member.
- **Immediate family:** spouse, spousal equivalent and dependents.
- **Close relatives:** parents, siblings and nondependent children.
- A covered member includes individuals on the attest engagement team and those who can influence it.

COMMON PITFALLS

Example:

- Both independence in fact and independence in appearance are required.
- Immediate family and close relatives follow different rules. Mixing them up is a classic exam trap.
- Independence must be maintained for the whole period of the engagement and the period covered by the financial statements, not just on the report date.

Part 4: Examples You Create

Write three to five scenarios that test the concept.

Example: You're on the engagement team for the audit of ABC Company. Your spouse owns 100 shares of ABC worth \$500, a tiny fraction of your household's net worth. Are you independent?

Answer: No. Your spouse is immediate family, so the shares are treated as your own direct financial interest. Direct financial interests impair independence regardless of materiality. You can't serve on the engagement unless your spouse disposes of the shares.

Why it works: It tests the difference between direct and indirect interests, and the fact that materiality doesn't matter for direct interests.

Part 5: Practice Questions

Write five to ten multiple-choice questions in exam format, each with an explanation.

Example: Which of the following is least likely to impair a CPA's independence with respect to an audit client?

- A.** The CPA's brother owns five shares of the client's stock.
- B.** The CPA serves on the client's board of directors.
- C.** The CPA's firm provides bookkeeping services and makes management decisions for the client.
- D.** The CPA's dependent daughter is employed as the client's CFO.

Answer: A. A brother is a close relative, not immediate family. A close relative's financial interest impairs independence only if the CPA knows about it and it is material to the brother or gives him significant influence over the client. Five shares is unlikely to meet that test. B is a management relationship, C is a management participation threat that impairs independence, and D places immediate family in a key position.

Part 6: Memory Aids

Example mnemonic for the six principles: "Real People In Offices Don't Scream": Responsibilities, Public Interest, Integrity, Objectivity and Independence, Due Care, and Scope and Nature of Services.

Add flowcharts, decision trees or tables that help you remember.

Part 7: Connections to Other Topics

- **Same section:** for example, AICPA independence connects to SEC and PCAOB independence rules and to engagement acceptance.
- **Other sections:** for example, Circular 230 in REG applies a similar ethical framework to tax practice.

Part 8: Self-Assessment

- **Understanding:** Beginner, Intermediate or Advanced
- **Confidence:** Low, Medium or High
- **Still unclear:**
- **Date completed:**
- **Date reviewed by the group:**
- **Feedback received:**

A Fully Worked Example

Topic Header

- **Section:** AUD
- **Area:** Area II, Assessing Risk and Developing a Planned Response (25–35%)
- **Topic:** Understanding internal control
- **Skill level:** Application and Analysis

Part I: What the Blueprint Covers

- Understand the components of internal control and how they relate
- Distinguish entity-level controls from transaction-level controls
- Document the understanding of internal control
- Identify and assess risks of material misstatement
- Decide whether to test controls, and design tests of controls

- Identify and communicate control deficiencies

Part 2: Authoritative Sources

- AU-C 315, Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement
- AU-C 330, Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained
- AU-C 265, Communicating Internal Control Related Matters Identified in an Audit
- COSO Internal Control — Integrated Framework (2013), available at coso.org

Part 3: Summary Notes

WHAT IS THIS?

Internal control is a process designed and carried out by management to provide reasonable assurance about achieving objectives for operations, reporting and compliance. Auditors must understand a client's internal control to identify where misstatements could occur and to design the right audit procedures.

THE FIVE COSO COMPONENTS

1. **Control environment:** the tone at the top and management's attitude toward control
2. **Risk assessment:** how the entity identifies and responds to risks
3. **Control activities:** the policies and procedures that carry out management's directives
4. **Information and communication:** how information flows through the organization
5. **Monitoring activities:** how the entity evaluates its controls over time

TYPES OF CONTROLS

- **Entity-level controls** affect the whole organization, such as a code of conduct or audit committee oversight.
- **Transaction-level controls** cover specific processes, such as purchase approval or a three-way match.
- **Preventive controls** stop errors before they happen, such as access passwords.
- **Detective controls** find errors after they happen, such as a bank reconciliation.
- **IT general controls (ITGCs)** cover access, program changes and operations across IT systems.
- **Application controls** operate inside specific software, such as edit checks.

THE AUDITOR'S PROCESS

1. **Obtain an understanding** through inquiry, observation, inspection and walkthroughs.
2. **Identify risks** by asking where material misstatements could occur and which controls address them.
3. **Assess risk.** Inherent risk and control risk together make up the risk of material misstatement.
4. **Choose a strategy.** If controls appear effective and testing them is efficient, test them. Otherwise, assess control risk as high and rely on substantive procedures.
5. **Document and communicate** the understanding and any deficiencies.

DETAILS TO MEMORIZE

- **Deficiency:** a control is missing or not working as designed.
- **Significant deficiency:** less severe than a material weakness but important enough to merit the attention of those charged with governance.
- **Material weakness:** a reasonable possibility that a material misstatement won't be prevented or detected and corrected on a timely basis.
- Significant deficiencies and material weaknesses must be communicated **in writing** to management and those charged with governance.

COMMON PITFALLS

- Understanding internal control is required on every audit. Testing controls is a choice, unless substantive procedures alone can't provide enough evidence.
- Don't confuse the COSO components with types of controls.
- A material weakness is more severe than a significant deficiency.
- In a financial statement audit, a material weakness affects the audit approach. It does not by itself change the opinion on the financial statements.

Part 4: Examples

Weak control environment. The owner of a family business makes every decision, often overrides procedures and says, "We trust our people, we don't need rules." This is a weak control environment and a fraud risk factor. The auditor should assess control risk as high, expand substantive procedures and focus on areas where management could override controls.

Deciding to test controls. A client has strong automated controls over revenue that check credit limits and match shipping documents to orders. Testing them is likely efficient, but the auditor must first be able to rely on the IT general controls. If the ITGCs are effective, testing the automated controls can significantly reduce detailed revenue testing.

Classifying a deficiency. One employee approves invoices, can issue payments and can add new vendors, and no one reviews changes to the vendor file. Purchases are \$50 million a year. This is likely a material weakness because it creates a reasonable possibility of a material fraudulent disbursement going undetected. It must be communicated in writing.

Part 5: Practice Questions

Question 1. Which of the following is a detective control?

- A. Requiring dual authorization for wire transfers over \$10,000
- B. Reconciling bank statements monthly and investigating differences
- C. Separating the duties of receiving cash and recording it
- D. Using prenumbered checks

Answer: B. A bank reconciliation is performed after transactions occur and detects errors or irregularities. A and C prevent errors. Prenumbered checks mainly prevent unauthorized checks.

Question 2. What is the primary purpose of obtaining an understanding of internal control in a financial statement audit?

- A.** To determine whether the controls are operating effectively
- B.** To comply with generally accepted auditing standards
- C.** To provide a basis for recommendations to management
- D.** To identify risks and plan the nature, timing and extent of further audit procedures

Answer: D. The understanding is used to assess risks and plan the audit. Understanding a control does not test whether it works, so A is wrong. B is true but is not the purpose, and C is a helpful byproduct.

Part 6: Memory Aids

- **COSO components, "CRIME":** Control environment, Risk assessment, Information and communication, Monitoring, and (control) Existing activities. The E is a stretch, but it sticks.
- **Deficiency severity, least to most:** deficiency, significant deficiency, material weakness.

Part 7: Connections

- **AUD:** fraud risk assessment, the nature, timing and extent of procedures, and communicating deficiencies
- **ISC:** IT general controls and application controls in more depth

Your Turn

Pick a topic from your assigned area and fill out this template. Start small to get the hang of it.

Good starter topics:

- AUD: the AICPA Code of Professional Conduct (Area I)
- FAR: cash and cash equivalents (Area II)
- REG: filing status (Area IV)

After two or three topics, you'll have a system and can move faster.