



CPA

Exam Guide

Next

▶ About the CPA Exam

The American Institute of Certified Public Accountants (AICPA) and the National Association of State Boards of Accountancy (NASBA) developed the Uniform Certified Public Accountant (CPA) Examination to assess the knowledge and skills needed to practice public accountancy

The CPA Exam consists of three mandatory Core exams that focus on the knowledge and skills that are universal to all CPAs:

- ▶ Auditing and Attestation (AUD)
- ▶ Financial Accounting and Reporting (FAR)
- ▶ Taxation and Regulation (REG)

Candidates must also pass one of three Discipline sections that focus on the knowledge and skills required of CPAs within a specialization:

- ▶ Business Analysis and Reporting (BAR)
- ▶ Information Systems and Controls (ISC)
- ▶ Tax Compliance and Planning (TCP)



What to expect from the CPA Exam

The Core and Discipline sections of the CPA Exam are four-hour exams comprised of both multiple-choice questions (MCQs) and task-based simulations (TBSs).

What to expect from the CPA Exam			
Section	Section time	Multiple-choice questions (MCQs)	Task-based simulations (TBSs)
AUD – Core	4 hours	78	7
FAR – Core	4 hours	50	7
REG – Core	4 hours	72	8
BAR – Discipline	4 hours	50	7
ISC – Discipline	4 hours	82	6
TCP – Discipline	4 hours	68	7



CPA Exam skill levels

Each section of the CPA Exam requires different skill levels that CPAs are expected to use in their daily operations and tasks.

CPA Exam skill levels

Skill Levels	
	Evaluation The examination or assessment of problems and use of judgment to draw conclusions.
	Analysis The examination and study of the interrelationships of separate areas in order to identify causes and find evidence to support inferences.
	Application The use or demonstration of knowledge, concepts or techniques.
	Remembering & Understanding The perception and comprehension of the significance of an area utilizing knowledge gained.

CPA Exam skill level assessment allocation

Section	Remembering and Understanding	Application	Analysis	Evaluation
AUD – Core	30-40%	30-40%	15-25%	5-5%
AUD – Core	5-15%	45-55%	35-45%	-
AUD – Core	25-35%	35-45%	25-35%	-
AUD – Core	10-20%	45-55%	30-40%	-
AUD – Core	55-65%	20-30%	10-20%	-
AUD – Core	5-15%	55-65%	25-35%	-

▶ Step-by-Step CPA Application Process for Indian Candidates

Step 1: Check Eligibility

Before applying for the CPA (US) exam, every candidate must meet the **educational eligibility requirements** set by the **State Board of Accountancy**. These typically include:

Minimum Academic Requirements:

Requirement	Description
To Sit for CPA Exam	120 credit hours of post-secondary education
To Get CPA License	150 credit hours (typically a master's level education)

Indian bachelor's degrees like **B.Com** usually account for **90–100 credit hours**, which often creates a **shortfall of 20–60 credit hours** depending on the state board's policy.

What If You Have a Credit Hour Shortage?

If your total credit hours are **less than 120 or 150**, you must **bridge the gap** before applying or to become eligible for licensure. Options include:

Bridge Course Options:

Postgraduate Degrees:	M.Com, MBA (Finance/Accounting)
Professional Qualifications:	CA (ICAI) – Some states accept it as equivalent to a Master's degree. CMA (India) or CS may also count partially.

Additional bridge course degree can be done from following universities:

- Ahmedabad University
- Christ University (Master degree only)
- Fakir Mohan University
- India Institute of Foreign Trade
- Jain University
- Lovely Professional University
- M.O.P Vaishnav College for Women (autonomous)
- Savitribai Phule Pune University
- Symbiosis Centre for Distance Learning
- University of Delhi
- University of Kerala
- Vellore Institute of Technology
- Amity University
- Devi Ahilya Vishwavidyalaya
- Himachal Pradesh University
- Institute of Chartered Financial Analysis of India University
- Karunya Institute of Technology
- Manipal University
- Indira Gandhi National Open University
- Sri Venkateswara University
- Symbiosis University
- University of Indore
- Utkal University

Step 2: Choose the Right State Board

Each state in the US has its own CPA requirements.

As an international candidate, choose a state that:

- Accepts non-US citizens and Indian qualifications.
- Has flexible work experience rules.
- Allows testing in international locations (like India).

Popular states for Indian students:

01

Colorado

02

Alaska

03

Guam

04

Montana

05

New Hampshire

Note: Selection of the state determines your licensing requirements later.

Step 3: Credential Evaluation

Required to convert Indian degrees to US credit hours.

Top Credential Evaluation Agencies for CPA (US):

Agency Name	Official Website	Notes
NASBA International Evaluation Services (NIES)	https://nasba.org/nies	Most preferred. Directly integrated with many state boards.
World Education Services (WES)	https://wes.org	Accepted by several boards, but not valid for all . Check state board list.
SpanTran: The Evaluation Company	https://spantran.com	Known for quicker turnaround and CPA-specific evaluations.
FCSA (Foundation for International Services)	https://fis-web.com	Accepted by select state boards only.

Documents Typically Required

- All semester-wise mark sheets (official copies)
- Degree certificates (e.g., B.Com, M.Com, MBA)
- Chartered Accountant certificates (if applicable)
- Name as per passport
- Transcripts sealed and sent directly by your university/ICAI

Evaluation Timeline: 2–6 weeks

Tip: Choose the evaluation agency based on your selected state board’s approved list.

Step 4: Submit CPA Exam Application

- Once the evaluation is approved, apply to the State Board for CPA examination.
- Submit documents and pay the applicable fee.
- On approval, you'll receive your **Notice to Schedule (NTS)**, which is valid for **6 months**.

Documents Needed:

Evaluation report

Passport (for ID verification)

Academic records

Step 5: Schedule the Exam

CPA exams can be taken in India at Prometric centers:

- Delhi, Mumbai, Bangalore, Hyderabad, Chennai, Ahmedabad

Use your NTS to book the exam at Prometric.

CPA Exam Sections (under CPA Evolution model):

AUD – Auditing & Attestation

FAR – Financial Accounting
& Reporting

REG – Regulation

BAR or ISC or TC
– Discipline-specific core exams

All exams are 4 hours each and can be taken independently within 18 months.

Step 6: Prepare Strategically

Use trusted CPA review providers:



Becker+

WILEY

SURGENT 
Continuing Education

Gleim

Consider enrolling in structured coaching.

Build a study plan to target at least 300–400 hours of preparation per section.

Step 7: Ethics Exam (If Applicable)

- Some states (like California, Ohio) require an **Ethics Exam** after the CPA exams.
- Usually offered by **AICPA** as an online take-home test.
- Passing score: **90%**

Step 8: Gain Required Work Experience

- Most states require **1–2 years of relevant experience** under a **licensed CPA**.
- Can be completed in India or the US (if working with CPA firms or MNCs).
- Some states require the CPA supervisor to verify and sign your experience.

Step 9: Apply for CPA License

After completing education, exams, ethics (if applicable), and experience:

- Apply for your CPA license with the state board.
- Submit verified work experience and supporting documents.

Once approved, you'll receive your official CPA license.

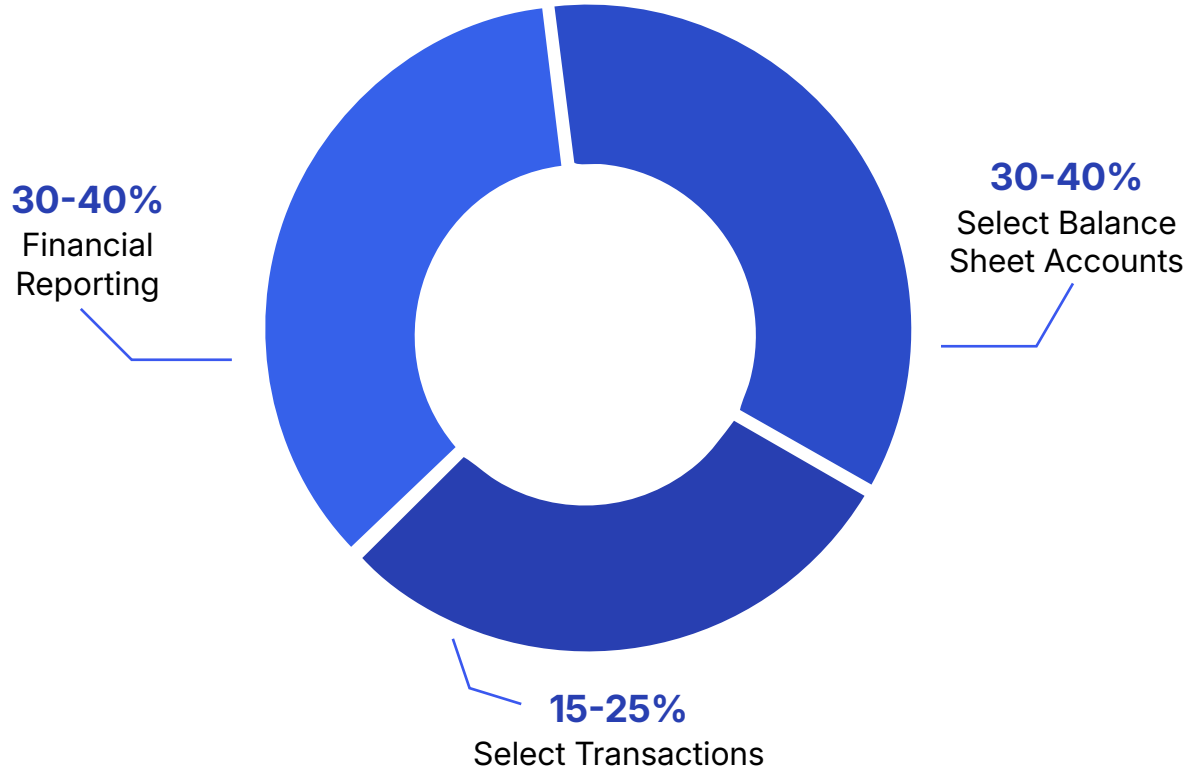
▶ Core sections

FAR

Financial Accounting and Reporting (FAR)

The FAR section consists of 50 MCQs and seven TBSs. It tests your knowledge of financial accounting and reporting frameworks used by for-profit, not-forprofit, and government entities. This section also covers accounting principles and how to reflect transactions and events in financial statements.

Content Area		Allocation
Area I	Financial Reporting	30-40%
Area II	Select Balance Sheet Accounts	30-40%
Area III	Select Transactions	25-35%

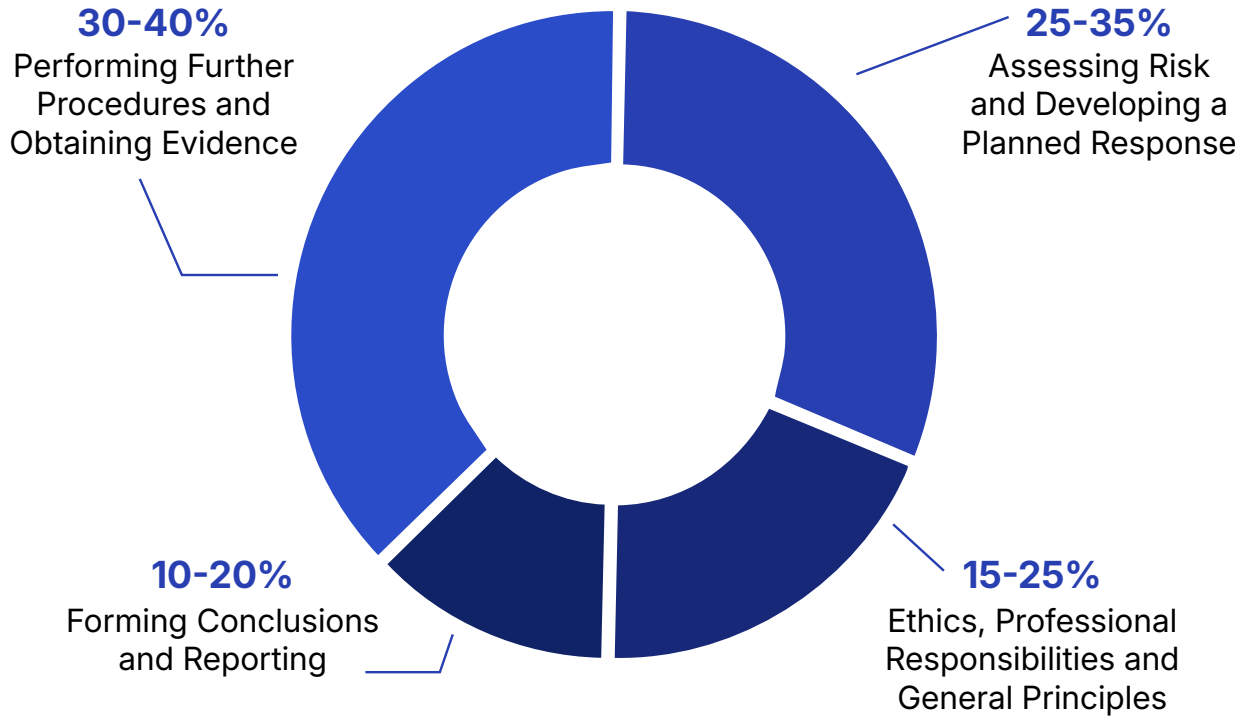


AUD

Auditing and Attestation (AUD)

The AUD section consists of 78 MCQs and seven TBSs. It covers the auditing process, including procedures, preparation, compilation and review, plus generally accepted auditing standards, attest engagements, and professional ethics.

Content Area		Allocation
Area I	Ethics, Professional Responsibilities and General Principles	15-25%
Area II	Assessing Risk and Developing a Planned Response	25-35%
Area III	Performing Further Procedures and Obtaining Evidence	30-40%
Area IV	Forming Conclusions and Reporting	10-20%



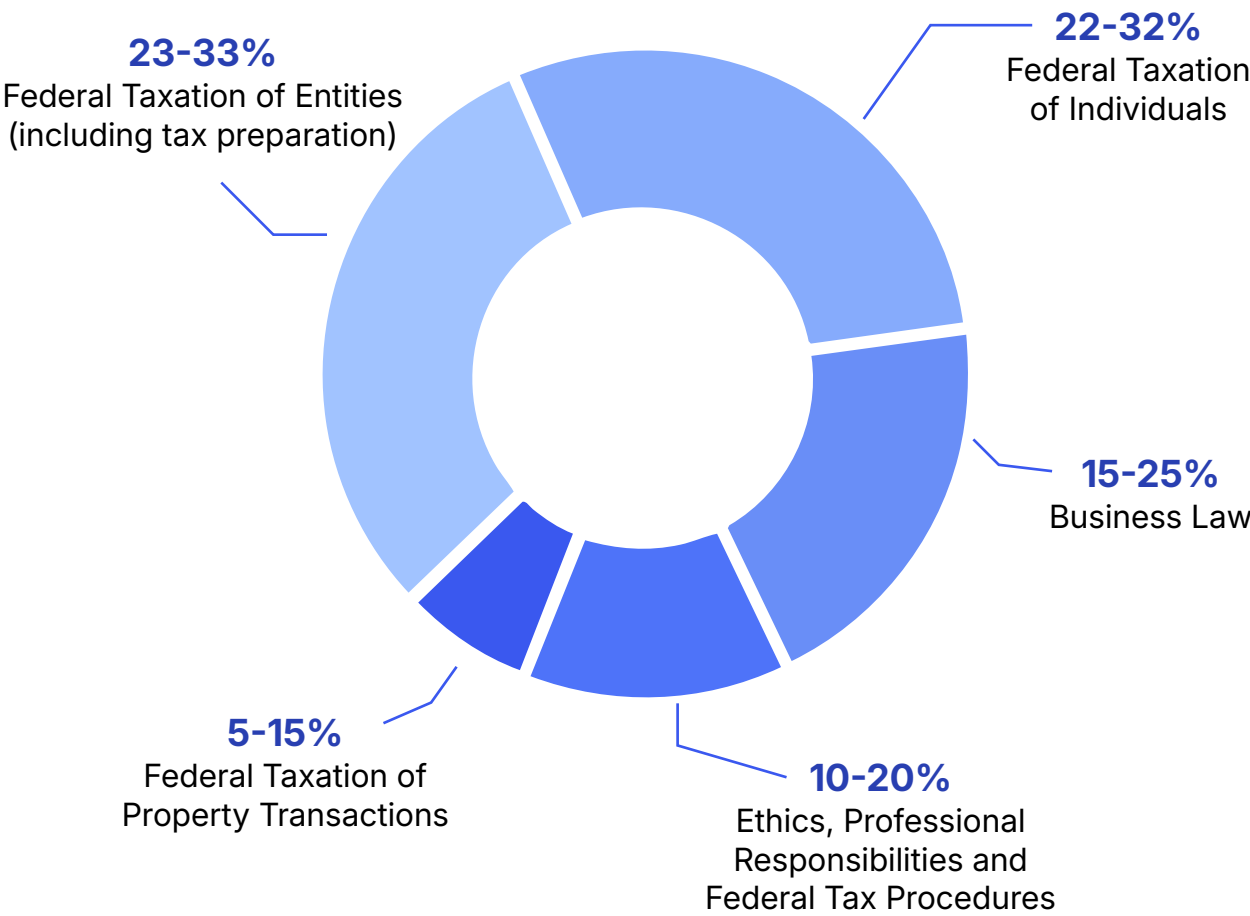
▶ Core sections

REG

Taxation & Regulation (REG)

REG consists of 72 MCQs and eight TBSs and tests your knowledge and skills related to tax practice. The exam includes ethics and professional responsibilities related to tax practice, U.S. business law and U.S. federal tax

Content Area		Allocation
Area I	Ethics, Professional Responsibilities and Federal Tax Procedures	10-20%
Area II	Business Law	15-25%
Area III	Federal Taxation of Property Transactions	5-15%
Area IV	Federal Taxation of Individuals	22-32%
Area V	Federal Taxation of Entities (including tax preparation)	23-33%



▶ Discipline sections

BAR

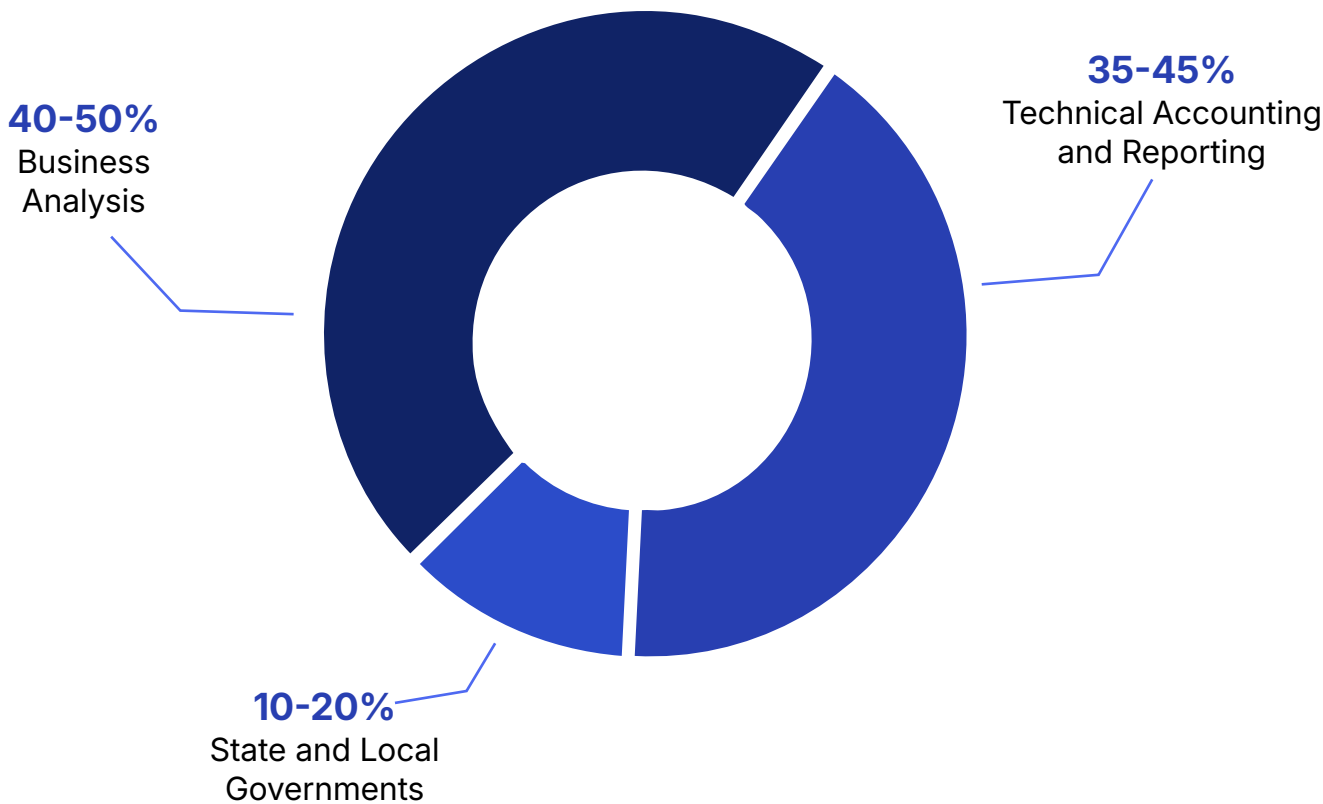
Business Analysis and Reporting (BAR)

The BAR Discipline section tests the knowledge and skills a newly licensed CPA must demonstrate concerning:

- ▶ Analyzing financial statements and financial information with a focus on a CPA's role in comparing historical results to budgets and forecasts; deriving the impact of transactions, events (actual and proposed) and market conditions on performance measures; and comparing investment alternatives
- ▶ Select technical accounting and reporting requirements under the FASB and SEC that apply to for-profit business entities (e.g., stock compensation, business combinations, derivatives) and higher-order skills related to revenue recognition and lease accounting.
- ▶ Financial accounting and reporting requirements under Governmental Accounting Standards Board® (GASB) that apply to state and local government entities.

The BAR Discipline Exam section tests you on more complex technical accounting topics. That said, certain topics appear on both the FAR Core section and the BAR Discipline section, such as revenue recognition and lease accounting.

Content Area		Allocation
Area I	Business Analysis	40-50%
Area II	Technical Accounting and Reporting	35-45%
Area III	State and Local Governments	10-20%



▶ Discipline sections

ISC

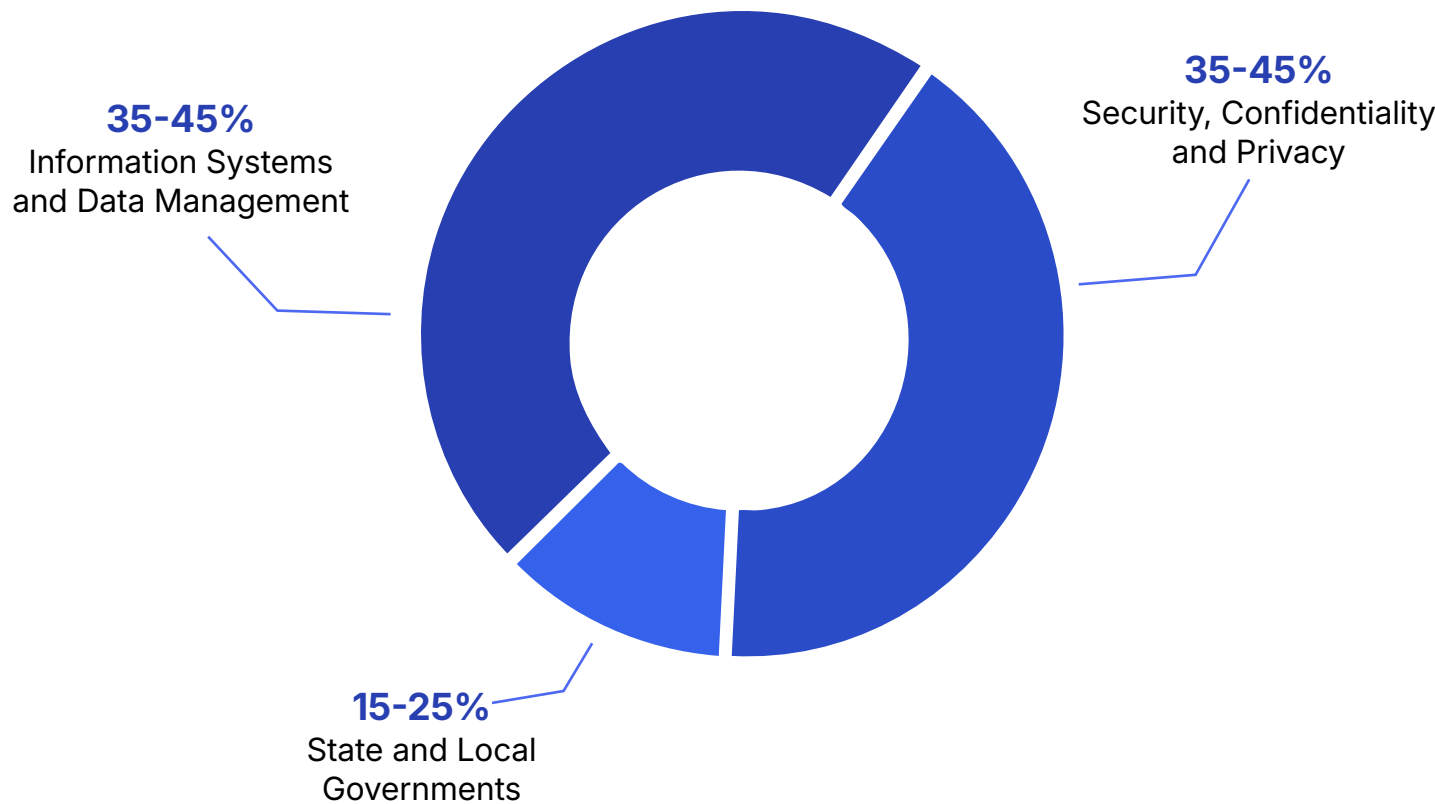
Information Systems and Controls (ISC)

The ISC Discipline section tests the knowledge and skills a newly licensed CPA must demonstrate with respect to information technology (IT) audit and advisory services, including System and Organization Controls (SOC) engagements. ISC also tests the knowledge and skills that newly licensed CPAs must demonstrate with respect to data management, including data collection, storage, and usage throughout the data life cycle.

With respect to SOC engagements, the ISC Discipline Exam section focuses on:

- ▶ The use of the Description Criteria for a Description of a Service Organization’s System and Trust Services Criteria for Security, Availability, Processing Integrity, Confidentiality, and Privacy in planning, performing, and reporting in a SOC 2® engagement
- ▶ Planning, certain procedures (excluding the testing of internal controls over financial reporting), and reporting on a SOC 1® engagement

Content Area		Allocation
Area I	Information Systems and Data Management	35-45%
Area II	Security, Confidentiality and Privacy	35-45%
Area III	Considerations for System and Organization Controls (SOC) Engagements	15-25%



▶ Discipline sections

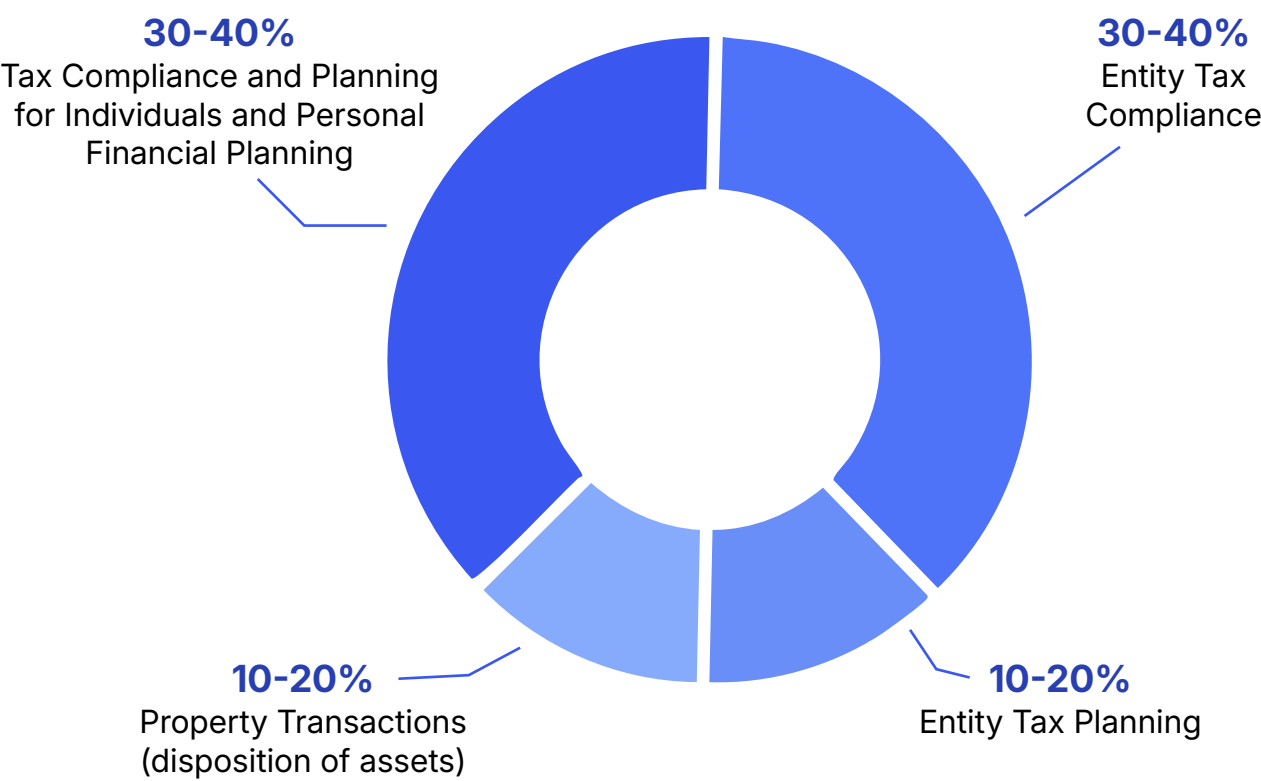
TCP

Tax Compliance and Planning (TCP)

The TCP Discipline section tests the knowledge and skills a newly licensed CPA must demonstrate concerning:

- ▶ U.S. federal tax compliance for individuals and entities with a focus on nonroutine and higher complexity transactions, U.S. federal tax planning for individuals and entities, and personal financial planning
- ▶ The assessment of federal tax compliance, including a newly licensed CPA's role in both the preparation and review of tax returns; the assessment of federal tax planning with a focus on a newly licensed CPA's role in determining the tax implications of proposed transactions, available tax alternatives or business structures
- ▶ The assessment of personal financial planning with a focus on planning strategies and opportunities that a newly licensed CPA typically identifies in connection with the preparation and review of individual tax returns

Content Area		Allocation
Area I	Tax Compliance and Planning for Individuals and Personal Financial Planning	30-40%
Area II	Entity Tax Compliance	30-40%
Area III	Entity Tax Planning	10-20%
Area IV	Property Transactions (disposition of assets)	10-20%



▶ How to Choose Your Discipline

The Discipline you choose allows you to set your area of specialization by building a deeper level of knowledge and skills in a particular area while allowing you to play to your strengths and interests. Having a specialty can help guide you on your career path and advance your position, so it's important to choose a Discipline that aligns with the area or field you want to pursue rather than one you think is "easier."

Discipline	Skills/Expertise	Job opportunities
BAR Business Analysis and Reporting	▶ Data analytics ▶ Financial risk management/planning ▶ Technical accounting and reporting ▶ State and local government accounting	▶ Auditor at a public accounting firm ▶ Work in the accounting department at a corporation ▶ Controller ▶ Chief accountant ▶ CFO or CEO
ISC Information Systems and Controls	▶ Data management ▶ Information systems ▶ Information security ▶ Business process models ▶ SOC engagements	▶ Data manager ▶ Data engineer/scientist ▶ CIO or CTO ▶ IT auditor
TCP Tax Compliance and Planning	▶ Advanced individual tax compliance ▶ Personal financial planning ▶ Advanced entity tax compliance/planning ▶ Property transactions	▶ Tax analyst ▶ Tax compliance officer ▶ Work for the tax department within a company, a public accounting firm, the government, banks or hedge funds ▶ Manage your own tax practice

▶ Preparing for success

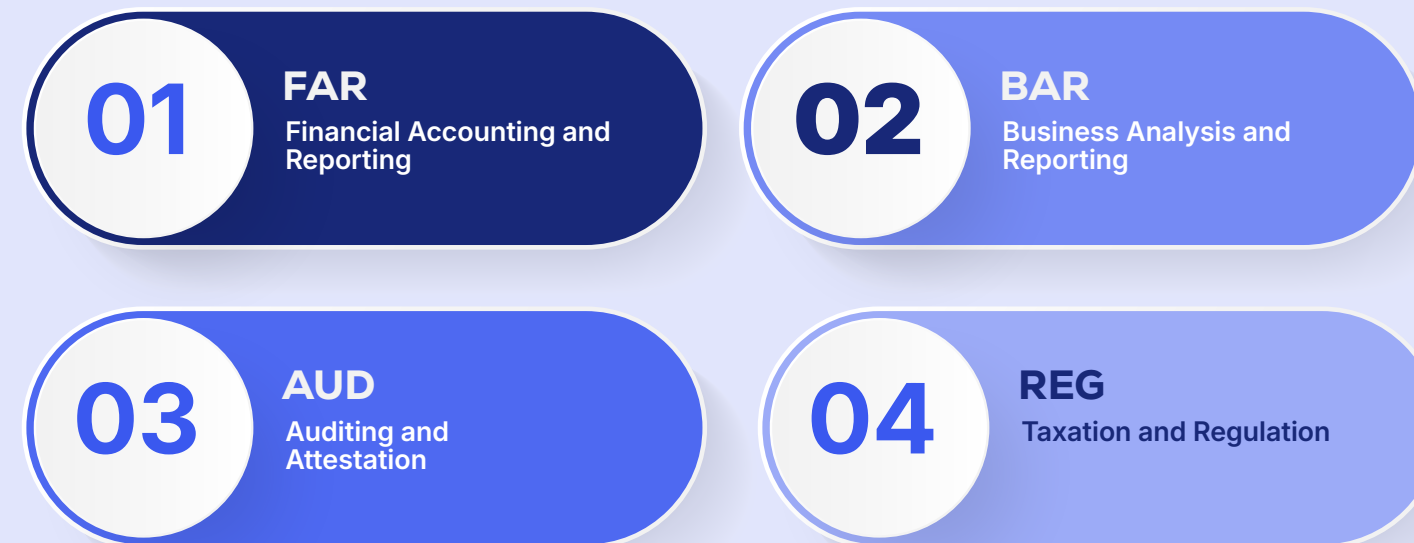
Choosing the best order to take the CPA Exam

We recommend building your exam order based on the Discipline section you plan to take. Each Discipline section includes more advanced but relateable concepts from a specific Core section.

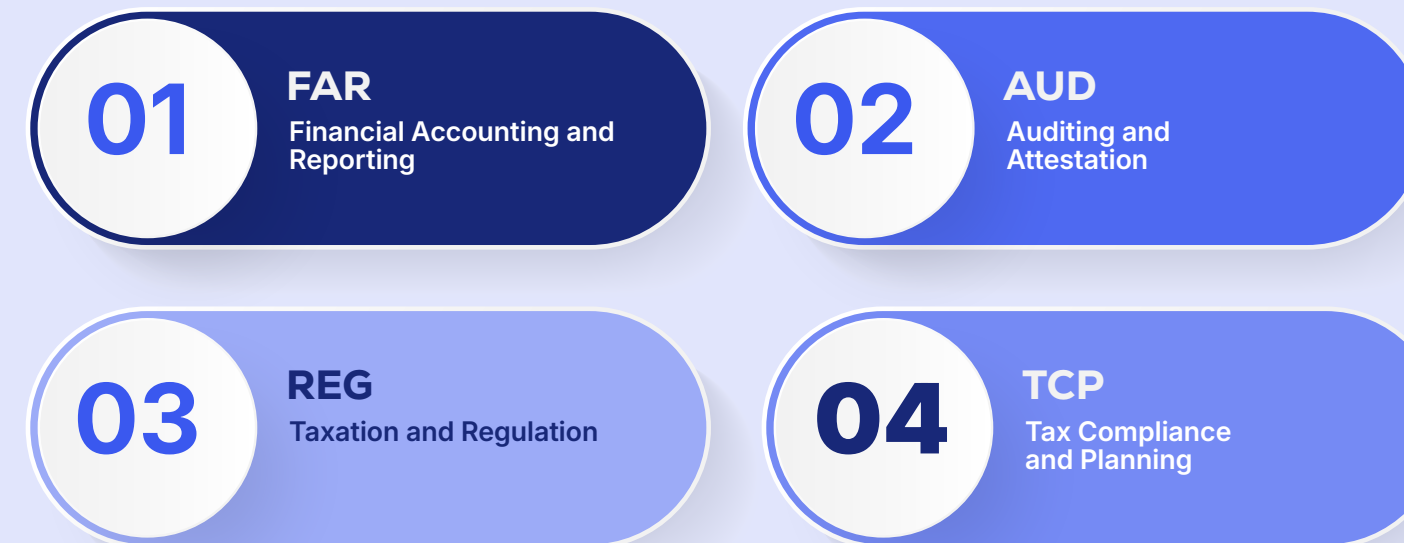
- ▶ BAR builds upon concepts in FAR
- ▶ ISC builds upon concepts in AUD
- ▶ TCP builds upon concepts in REG

In all instances, FAR is the best exam to take first because it strengthens your foundation in financial accounting, which will help you on all other exams.

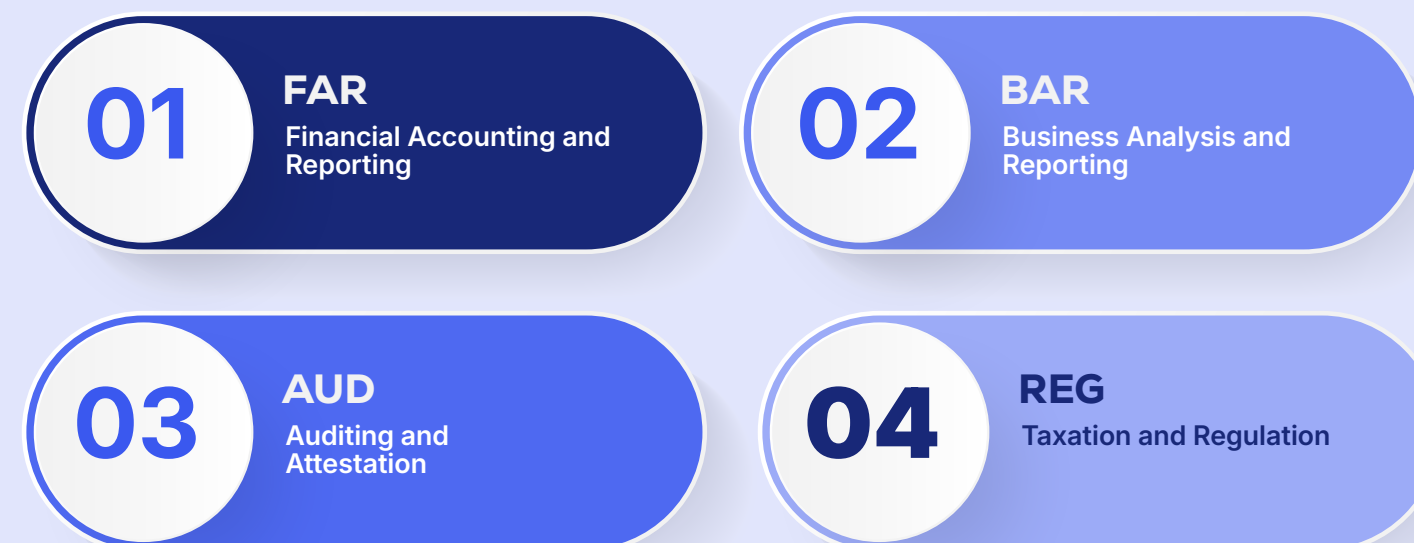
If **BAR** is the Discipline you select, test in this order:



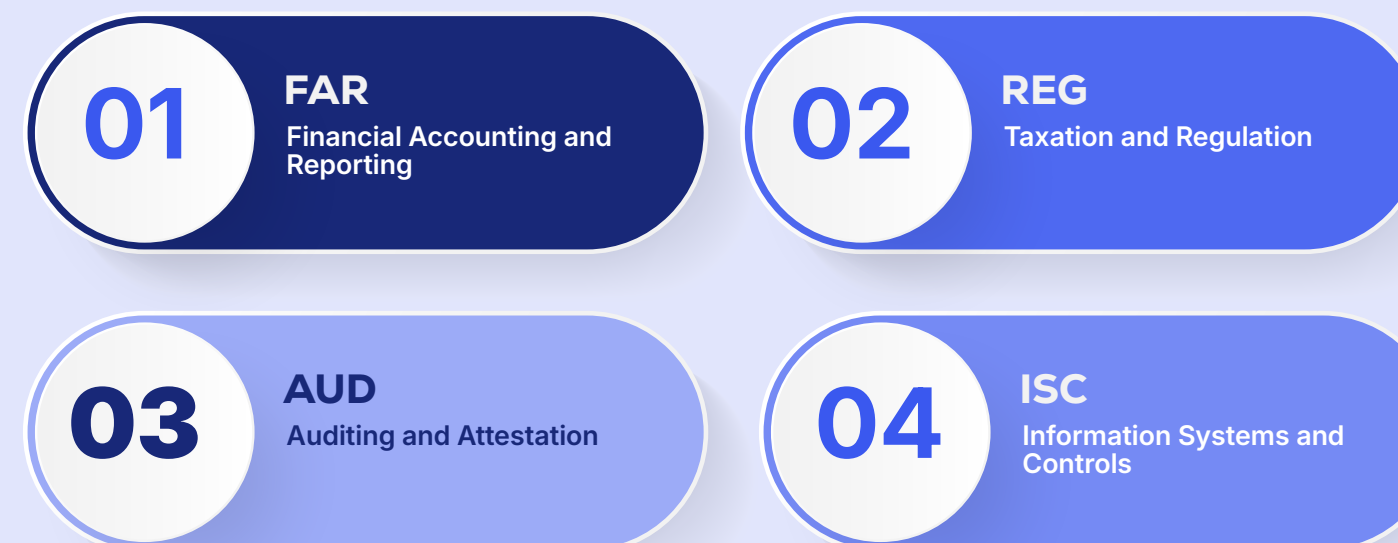
If **TCP** is the Discipline you select, test in this order:



If **ISC** is the Discipline you select, test in this order:



OR



▶ CPA Exam dos and don'ts

Do's



Utilize MY CPE ONE Academy's Exam Review Tools: Follow a structured study plan using the Academy's CPA Exam resources to get Exam Day Ready. Focus on understanding key concepts, formats, and scoring strategies.

Take Full-Length Simulated Exams: Practice with full-length mock exams to become familiar with the exam's timing and structure. This builds confidence and reduces surprises on the actual exam day.

Master Time Management: Learn how to effectively budget your time across each testlet. Practicing with time constraints helps you stay on track during the real exam.

Visit the Exam Center in Advance: Plan a trial drive to the testing site to avoid any last-minute navigation issues. This helps reduce anxiety and ensures you know the commute time.

Bring Required Identification: Carry your Notice to Schedule (NTS) or Authorization to Test (ATT), along with two valid IDs that feature your photo and signature. These are mandatory for admission.

Dress Comfortably and Practically: Wear comfortable, non-distracting clothing to stay focused during the exam. Avoid anything that could cause discomfort or become a distraction.

Don't



Don't Arrive Late to the Exam Center: Arriving late may result in being denied entry to the testing room. Plan ahead and give yourself ample time to reach the exam site without stress.

Don't Get Stuck on a Single Question: If a question is taking too long, move on. You can return to it later if time permits. Prioritize completing the testlet to maximize your score potential.

Don't Ignore the Introductory Screens: Be sure to read and complete all introductory screens before the countdown ends. If your session times out, it may not be recoverable, and your exam could be voided.

Don't Let Nerves Undermine Your Effort: Stay calm and confident. You've invested the time and effort to prepare-trust in your readiness and stay focused throughout the exam.

▶ Why choose MYCPE ONE Academy?

Choosing the right CPA exam prep course can make all the difference in your success. Here's why MY CPE ONE Academy stands out as the smart choice for aspiring CPAs:

1. Comprehensive curriculum aligned with the latest CPA exam requirements.

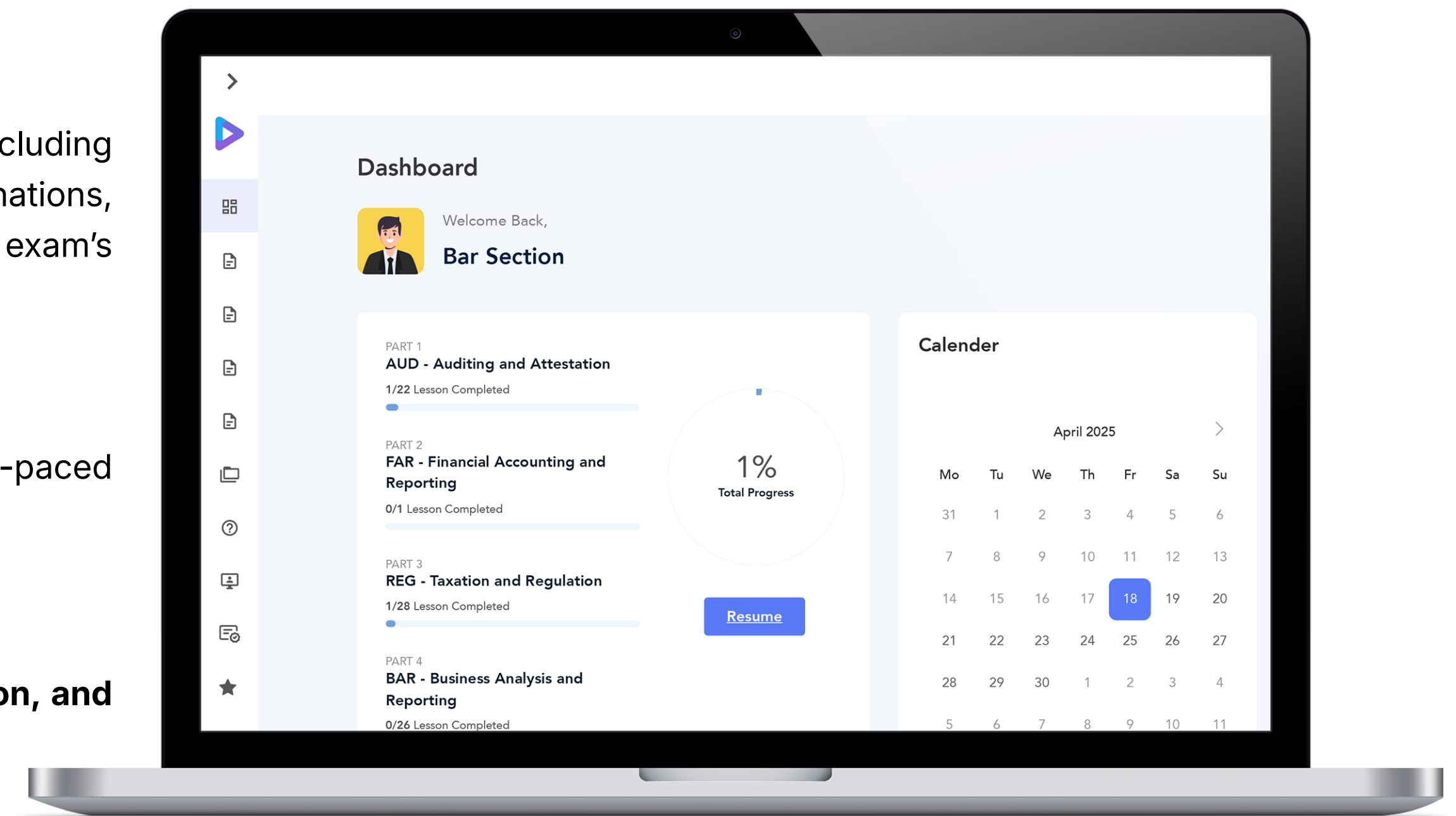
MY CPE ONE Academy provides a robust suite of resources to support your CPA exam success, including expert-led video lectures, interactive quizzes, topic-specific practice questions with detailed explanations, and full-length simulated exams. These tools are designed to help you thoroughly understand the exam's content, format, and timing—ensuring you walk into test day with confidence and clarity.

2. Personalized Learning Experience

Our platform adapts to your pace and learning style. Whether you prefer scheduled learning or self-paced sessions, MY CPE ONE Academy allows flexibility without compromising on structure.

3. Trusted by Professionals Nationwide

Thousands of candidates trust MY CPE ONE Academy for its **high pass rates, quality instruction, and student satisfaction**. Join a growing network of successful CPAs who started here.



AUD MCQ #1

When qualifying an opinion due to an inability to obtain sufficient appropriate audit evidence, an auditor of a nonissuer should include the reasons for that inability to obtain sufficient information in:

Options	Management's Options Responsibility Section	Basis for Qualified Opinion Section
A.	No	No
B.	Yes	No
C.	Yes	Yes
D.	No	Yes

Explanation

Choice "D" is correct. When a qualified opinion results from an inability to obtain sufficient appropriate audit evidence, the situation should be described in a Basis for Qualified Opinion section following the Qualified Opinion section and should be referred to in the Qualified Opinion section. The scope limitation is not mentioned in the Management's Responsibility paragraph.

Choice "A" is incorrect. The reasons for the inability to obtain sufficient appropriate audit evidence should be described in the Basis for Qualified Opinion section of the auditor's report.

Choice "B" is incorrect. The opposite is true. The Management's Responsibility section remains unchanged when a qualified opinion is issued, but the Basis for Qualified Opinion section should describe the reasons for the qualification.

Choice "C" is incorrect. The reasons for the inability to obtain sufficient appropriate audit evidence should only be described in the Basis for Qualified Opinion section of the auditor's report and the Management's Responsibility section should remain unchanged.

AUD MCQ #2

A company that retains a CPA with the appropriate knowledge, skills, and abilities to prepare timely and effective financial reporting is applying the ideas

Options

- A. Commitment to ethics and integrity
- B. Board independence and oversight
- C. Accountability
- D. Commitment to competence

Explanation

Choice "D" is correct. The commitment to competence principle of the control environment component of the Internal Control-Integrated Framework suggests stronger controls and encourages the company to retain qualified personnel to handle financial reporting.

Choice "A" is incorrect. The commitment to ethics and integrity principle of the control environment component of the Internal Control-Integrated Framework suggests stronger controls with high standards of ethical conduct for top management but does not address retention of qualified personnel to handle financial reporting.

Choice "B" is incorrect. The board independence and oversight principle of the control environment component of the Internal Control-Integrated Framework suggests strong controls and encourages the appropriate oversight over the development and performance of internal control. This principle does not address retention of qualified personnel.

Choice "C" is incorrect. The accountability principle of the control environment component of the Internal Control-Integrated Framework suggests strong controls and encourages management to hold individuals accountable for their internal control responsibilities but does not address retention of qualified personnel to handle financial reporting.

FAR MCQ #1

At the beginning of the year, a lessee signs a five-year lease that contains a written purchase option which the lessee is reasonably certain to exercise. In preparing the annual cash flow statement after year-end, the lessee's cash flow from operations will be:

Options

- A. Positively impacted by the portion of the lease payments that represents interest
- B. Negatively impacted by variable lease payments not included in the lease liability**
- C. Negatively impacted by the portion of the lease payments that represents principal
- D. Positively impacted by short-term lease payments not included in the lease liability

Explanation

Choice "B" is correct. Because this lease contains a written purchase option that the lessee is reasonably certain to exercise, it will qualify as a finance lease (it meets the "W" criteria in "OWNES"). Variable lease payments not included in the lease liability are treated as cash outflows from operations and will therefore have a negative impact on bottom-line cash flow from operations.

Choice "A" is incorrect. The interest portion of the lease payment will serve to reduce cash flow from operations, as it is a "CFO" outflow.

Choice "C" is incorrect. The portion of the lease payment that represents principal is a cash flow from financing outflow.

Choice "D" is incorrect. Short-term lease payments not included in the lease liability are treated as cash outflows from operations and will therefore have a negative impact on bottom-line cash flow from operations.

▶ FAR MCQ #2

The Marble Foundation Inc., a not-for-profit organization, is financially interrelated with its beneficiary organization, Boulder University. Receipts of the Marble Foundation would be displayed/ disclosed in the Boulder University financial statements as:

- Options
- A. A note disclosure

B. An equity transaction within the net asset classification on the balance sheet

C. A change in the university's interest in the foundation on the statement of activities

D. An increase and decrease in donor-restricted conditional support

Explanation

Choice "C" is correct. Beneficiaries (e.g., Boulder University) with a financial interest in recipient organizations (e.g., Marble Foundation) recognize the change in their interest of the recipient organization on their statement of activities. The interest in the net assets of the recipient is adjusted for the beneficiary's share of the change with the following entry:

	Debit (Dr)	Credit (Cr)
Interest in net assets	XXX	
Interest in Marble Foundation net assets (statement of activities)		XXX

Choice "A" is incorrect. Beneficiaries with a financial interest in recipient organizations do not limit their reporting of recipient equity to disclosures only.

Choice "B" is incorrect. Beneficiaries with a financial interest in recipient organizations report changes in recipient interest through their statements of activities, not directly within the net asset classification on the balance sheet.

Choice "D" is incorrect. "Conditional support" is a contradiction in terms and represents a distracter.

REG MCQ #1

Mark and Meredith Rowland are married with no children. Mark's cousin, Joe, lives with the Rowlands for the entire year. Joe lost his job and is looking for full-time employment. He is currently working odd jobs and has earned \$4,000 this year. Joe is 28 years old and is not married. The Rowlands pay all of Joe's living expenses. Which of the following statements is true?

Options

- A. Joe is a qualifying child of the Rowlands.
- B. Joe is a qualifying relative of the Rowlands.**
- C. Joe is not a qualifying relative of the Rowlands because he is Mark's cousin.
- D. Joe is not a qualifying child of the Rowlands because his gross income is too high.

Explanation

Choice "B" is correct. Joe is a qualifying relative of the Rowlands. He meets the SUPPORT tests:

Support: The Rowlands provide more than half of Joe's support.

Under: Joe's gross income is under \$4,700 (2023).

Precludes: Joe does not file a joint return.

Only: Joe is a U.S. citizen.

Relative: Joe does not meet the relative definition of qualifying relative, but he did live with the Rowlands for the entire year.

Taxpayer lives with the Rowlands for the entire year.

Choice "A" is incorrect. Joe is not a qualifying child of the Rowlands. He fails the "C" close-relative test and "A" age-limit test of the qualifying child tests of CARES.

Choice "C" is incorrect. Joe is a qualifying relative of the Rowlands. Although he does not meet the relationship test, he lived with the Rowlands for the entire year.

Choice "D" is incorrect. The gross income test does not apply to the qualifying child dependency definition.

REG MCQ #1

Mark and Meredith Rowland are married with no children. Mark's cousin, Joe, lives with the Rowlands for the entire year. Joe lost his job and is looking for full-time employment. He is currently working odd jobs and has earned \$4,000 this year. Joe is 28 years old and is not married. The Rowlands pay all of Joe's living expenses. Which of the following statements is true?

Options

- A. \$312,000
- B. \$300,000
- C. \$322,000
- D. \$317,000

Explanation

Choice "C" is correct. The percentage threshold limit for charitable contributions for a corporation is 10 percent of adjusted taxable income. Total taxable income is calculated before the deduction of any charitable contributions, the dividends-received deduction, or any capital loss carryback. Thus, the \$300,000 must be adjusted to add back the charitable contribution deduction of \$12,000 plus the \$10,000 of dividend income not included in the \$300,000. The base equals \$322,000.

Choice "A" is incorrect. This answer does not take into account the dividend income not included in the \$300,000.

Choice "B" is incorrect. This answer considers operating income without adjustments.

Choice "D" is incorrect. This answer reduced the \$322,000 for the \$5,000 dividends-received deduction that Roger Corp. is entitled to, but this should not go into the calculation of the allowable charitable contribution deduction.

BAR MCQ #1

Gerard Incorporated is a leader in the home health services industry with operations primarily in the western United States. Gerard owns 100 percent of Brighton Greens, a company that operates nursing care facilities in the same region. Wanting to devote all of its corporate resources to home health care and hoping to generate cash, Gerard should look to divest its operation under which of the following mechanisms?

Options

- A.** Sell-off
- B. Spin-off
- C. Tender offer
- D. Equity carve-out

Explanation

Choice "A" is correct. A sell-off would allow Gerard to raise cash while separating itself from Brighton Greens so that it can focus on its core business.

Choice "B" is incorrect. A spin-off would not result in cash for Gerard.

Choice "C" is incorrect. A tender offer is a form of business combination, not a divestiture.

Choice "D" is incorrect. An equity carve-out would allow Gerard to generate cash for the company through the sale of Brighton stock. However, equity carve-outs are typically used when the parent wants to retain control of the new entity, which is not the case in this question.

▶ **BAR MCQ #2**

When qualifying an opinion due to an inability to obtain sufficient appropriate audit evidence, an auditor of a nonissuer should include the reasons for that inability to obtain sufficient information in:

Options	Operating activities	Noncapital financing activities	Capital and related financing activities	Operating activities
A.	\$250,000	\$150,000	\$50,000	(\$125,000)
B.	\$250,000	\$25,000	\$50,000	\$0
C.	\$400,000	(\$125,000)	\$0	\$50,000
D.	\$275,000	\$0	\$50,000	\$0

Explanation

Choice "B" is correct. The transactions listed in the fact pattern would be distributed as follows:

- ▶ Cash payments from customers of \$250,000 are classified as cash flows from operating activities.
- ▶ Property tax receipts (sources of \$150,000) and operating transfers out (uses of \$125,000) would produce net noncapital financing activities of \$25,000 (source).
- ▶ Special assessments for capital improvements (such as enhanced wastewater infrastructure) would be displayed as capital and related financing activities.
- ▶ There are no investing activities.

Choice "A" is incorrect. Operating transfers out are classified as noncapital financing activities, not investing activities.

Choice "C" is incorrect. Property tax receipts are classified as noncapital financing activities, not operating activities. In addition, special assessments that fund capital improvements are classified as capital and related financing activities.

Choice "D" is incorrect. Property taxes and operating transfers are classified as noncapital financing activities, not operating activities.

ISC MCQ #1

An application that supports different business functions and integrates multiple departments by allowing them to communicate in real time while still functioning independently is:

Options

- A. An accounting information system
- B. transaction processing system
- C. A financial reporting system
- D. An enterprise resource planning system

Explanation

Choice "D" is correct. An enterprise resource planning (ERP) system is a comprehensive solution that supports business operations by seamlessly integrating various departments such as human resources, accounting, marketing, and manufacturing. Data from these different departments informs the ERP system so that management can make decisions using a holistic organizational view.

ERP systems provide real-time communication across systems by utilizing a centralized database and a user interface with multiple modules. These modules can function independently or as an interconnected system that shares data between business units.

Choice "A" is incorrect. An accounting information system (AIS) is software that finance and accounting employees use to record and report accounting data. An AIS does report on business activities that span across the company's departments, but it does not integrate those departments using a centralized database or common interface.

Choice "B" is incorrect. A transaction processing system (TPS) is an AIS subsystem that converts economic events into financial transactions. While a TPS does support multiple departments, it is not the software that integrates those departments.

Choice "C" is incorrect. A financial reporting system (FRS) is a subsystem of an AIS which consolidates daily financial data from the TPS to ensure that regulatory and internal financial reporting needs are met. It is not the central system that integrates multi-departmental company systems.

ISC MCQ #2

When a law firm sends its client an electronic form with sensitive information to sign, it seeks the most secure method of encryption. Which method of encryption is most likely used to enhance the security of transmitted information?

Options

- A. Password protection
- B. No encryption
- C. Symmetric encryption
- D. Asymmetric encryption

Explanation

Choice "D" is correct. Asymmetric encryption would most likely be used by a law firm to send a client an electronic form for digital signature. This data encryption method uses two keys, a public key and a private key. The public key is used to encrypt the message (similar to acting as a lock), and the private key to decrypt it (unlock the lock)-or vice versa. This adds extra security because only the two opposite keys can be used in tandem, which would make it ideal for a digital signature of an electronic document with sensitive information.

Choice "A" is incorrect. Although password protection can limit unauthorized access to sensitive information, the underlying information is not encrypted into cyphertext and therefore is not a method of encryption. Two of the most common types of encryption methods, symmetric and asymmetric, involve keys to decrypt cyphertext into plaintext. Asymmetric encryption would most likely be used by a law firm to send a client an electronic form for digital signature.

Choice "B" is incorrect. When handling sensitive information and transmitting data electronically, not using encryption would increase the risks associated with transmitting sensitive information and would be least likely to occur if the organization's goal is to protect data in transit. Asymmetric encryption would most likely be used by a law firm to send a client an electronic form for digital signature.

Choice "C" is incorrect. Although symmetric encryption is an encryption method, it has more risk than asymmetric encryption. Symmetric encryption does not facilitate non-repudiation, given that any person with the shared key can encrypt and decrypt messages. Asymmetric encryption would most likely be used by a law firm to send a client an electronic form for digital signature.

▶ TCP MCQ #1

Claude Martin is 15 years old and a dependent of his parents. In the current year, Claude has \$3,000 of taxable interest income and \$750 of earned income from mowing lawns. The current minimum standard deduction for dependents is \$1,250.

What amount of Claude's income is taxed at his parents' marginal tax rate?

Explanation

Choice "D" is correct. Claude's unearned income in excess of \$2,500 is taxed at his parents' marginal tax rate.

The net unearned income of a dependent child under age 18 (or a child aged 18 to 23 who is a full-time student and does not provide over half of his/her own support) is taxed at the parent's marginal tax rate. Net unearned income is gross unearned income reduced by \$2,500, which is the dependent child's minimum standard deduction of \$1,250 plus an additional \$1,250 that is taxed at the dependent child's marginal tax rate.

Gross unearned income	\$3,000
Minimum standard deduction	(1,250)
Taxable income	1,750
Income taxed at child's rate	(1,250)
Income taxed at parents' rate	\$500

Options

- A. \$3,750
- B. \$3,000
- C. \$1,750
- D. \$500

Choice "A" is incorrect. Only the amount of Claude's unearned income in excess of \$2,500 is taxed at his parents' marginal tax rate, not his entire gross earned and unearned income of \$3,750.

Choice "B" is incorrect. Only the amount of Claude's unearned income in excess of \$2,500 is taxed at his parents' marginal tax rate, not his entire gross unearned income of \$3,000.

Choice "C" is incorrect. The amount of Claude's income that is taxed at his parents' marginal tax rate is his unearned income in excess of \$2,500. The first \$1,250 of Claude's income is not taxed at all because of the \$1,250 standard deduction amount, and the next \$1,250 is taxed at Claude's marginal tax rate.

Since the minimum standard deduction amount of \$1,250 is greater than Claude's earned income plus \$400 (\$750 earned income + \$400 = \$1,150), his standard deduction for calculating taxable income is still \$1,250.

TCP MCQ #2

A taxpayer is trading real property used solely for business purposes for new real property to be used in his business. The real property originally cost \$35,000 and he has taken \$18,000 in depreciation. The old real property is currently worth \$20,000 and the new real property the taxpayer wants in exchange is worth \$20,000.

Options

- A.** \$0
- B. \$3,000 loss
- C. \$3,000 gain
- D. \$15,000 loss

Explanation

Gain/loss realized = Amount realized (FMV of new building received) – Adjusted basis of old building given up
= \$20,000 amount realized (FMV of new building) – \$17,000 adjusted basis of old building (\$35,000 cost – \$18,000 accumulated depreciation)
= **\$3,000** gain realized

Gain/loss realized = **\$0** (the lesser of gain realized of \$3,000 or boot received of \$0)

Choice "A" is correct. \$0 is the gain recognized (lesser of gain realized of \$3,000 or boot received of \$0).

Choice "B" is incorrect. There is a \$3,000 gain realized, not a loss.

Choice "C" is incorrect. A \$3,000 gain is realized on the transaction but is not recognized.

Choice "D" is incorrect. A \$15,000 loss is the difference between the \$35,000 cost of the old real property and the \$20,000 fair market value of the new real property. This calculation ignores the accumulated depreciation in determining the adjusted basis of the old real property.



**THANK
YOU**

MYCPE ONE     

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