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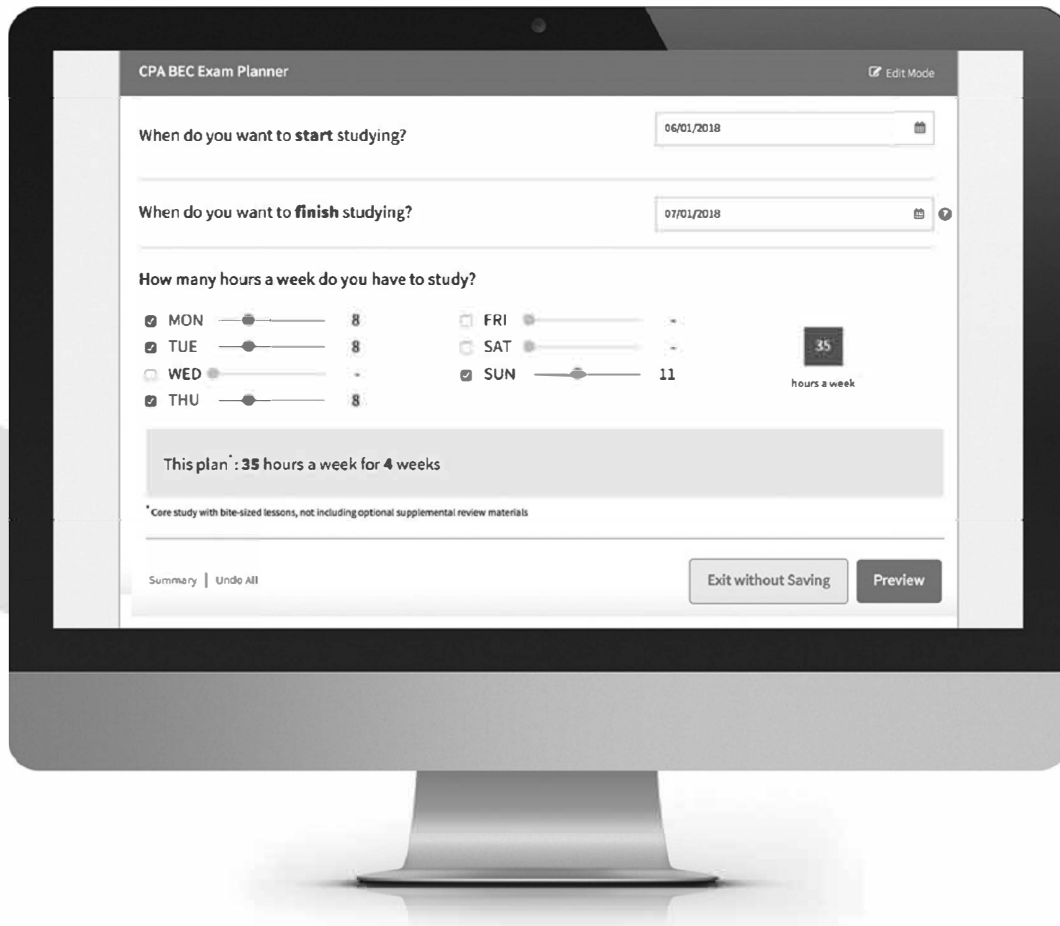
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The Wiley CPAexcel comprehensive study materials are truly exceptional. Being able to listen to the video lectures and having access to the professor mentoring made the learning process a little more interactive and effective.

— **Merike H, Arlington, VA**

I used Wiley CPAexcel exclusively and was able to pass all four sections on the first try. The material they provide is very thorough and helped me to feel confident on exam day. The iPhone app was great and allowed me to go through practice questions at any time.

— **Aaron J, New Canaan, CT**

I passed all four sections of the CPA Exam on my first attempt and feel that Wiley CPAexcel contributed a great deal to my success. Wiley CPAexcel’s Bite-Sized Lessons break the voluminous CPA Exam material into small, manageable pieces.

— **Jason R, Emporia, KS**

The video lectures, study texts, and various tools available enabled me to efficiently and effectively focus on weak areas in my review.

— **Chris O, Tamuning, Guam**



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**Wiley CPAexcel® Exam Review**

# **STUDY GUIDE**

**JANUARY 2020**

**BUSINESS ENVIRONMENT AND CONCEPTS**

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Wiley CPAexcel® content is authored by a team of accounting professors and CPA Exam experts from top accounting colleges such as the University of Texas at Austin (frequently ranked the #1 accounting school in the country), Northern Illinois University (frequently ranked in the top 10 in its peer group and top 20 overall), and the University of North Alabama.

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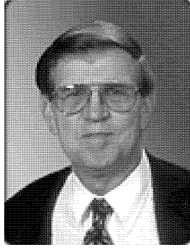
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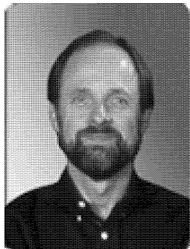
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## About the Business Professors



**Professor Allen H. Bizzell** has been involved with the CPA Exam for over 40 years as a researcher, developer of exam-related materials and review course instructor. He has conducted numerous CPA Exam-related studies, including several analyses of CPA Exam candidates' characteristics and performance for the Texas State Board of Public Accountancy. He has developed CPA review materials and taught review courses at both the national and local levels. Included in his innovative review materials is the use of simple network diagrams to depict the relationships between related accounting concepts/topics and the appropriate treatment for each. These diagrams are powerful tools not only for understanding accounting materials, but also for retaining the knowledge needed to pass the CPA Exam.

Several publishers have approached Dr. Bizzell to develop financial accounting textbooks incorporating his instructional methodology. According to Dr. Bizzell, he has not done so because the traditional textbook does not lend itself to using all the elements of the methodology. According to Dr. Bizzell, "The CPAexcel® approach is the first to provide the capabilities to capture and deliver to the user the benefits of the methodology."



**Professor Robert A. Prentice** is the Ed and Molly Smith Centennial Professor of Business Law at the University of Texas and he has taught both UT's and other CPA courses for fifteen years. He created a new course in accounting ethics and regulation that he has taught for the last decade. Professor Prentice has written several textbooks on law and ethics and many law review articles on business ethics, accountants' liability, and securities law. He has won more than 50 teaching awards.



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# Welcome to Business Environment and Concepts

Welcome to Business Environment and Concepts (BEC)! This lesson is an important step in your journey to CPA exam success.

## I. Overview

- A.** According to the Board of Examiners (BOE) of the AICPA, the Business Environment and Concepts (BEC) section of the exam tests:
1. Knowledge of the general business environment and concepts that candidates need to know in order to understand the underlying reasons for and accounting implications of business transactions; *and*
  2. Skills needed to apply that knowledge in performing audit, attest, financial reporting, tax preparation and other professional responsibilities as certified public accountants, including skills involved in preparing written communication.
- B.** Content covered in this section includes knowledge of corporate governance; economic concepts essential to understanding the global business environment and its impact on an entity's business strategy and financial risk management; financial management processes; information technology; and operations management.
1. This section is patterned after the AICPA Uniform CPA Examination Blueprints provided by the BOE for the BEC section of the exam. The exam consists of multiple-choice questions, task-based simulations, and written communication tasks. Specifically, the four-hour BEC exam is structured as follows:  
  
Testlet 1: Thirty-one multiple-choice questions  
Testlet 2: Thirty-one multiple-choice questions  
Testlet 3: Two task-based simulations  
Testlet 4: Two task-based simulations  
Testlet 5: Three written communication tasks
  2. Many of the multiple-choice questions used in this section have been created by Wiley CPAexcel® authors based on the content of the material presented; *and*
  3. The task-based simulations and written communication requirements have been developed based on the authors' assessments of the subject matter most likely to be examined.
- C.** The CPA Examination Blueprint for BEC, which is intended to identify all the topics that might be on the exam, are presented in the following area headings, together with the exam allocation for each content area:

<b>AREA</b>	<b>Point Range</b>
Corporate Governance	17%–27%
Economic Concepts and Analysis	17%–27%
Financial Management	11%–21%
Information Technology	15%–25%
Operations Management	15%–25%
<b>TOTAL</b>	<b>100%</b>

- D.** The material in this section of Wiley CPAexcel® covers all topics in the CPA Examination Blueprint to prepare you for success on exam day. In some cases, the order of presentation in Wiley CPAexcel® is different from that in the content specifications. This has been done to present the material in a more logical sequence. Each of the areas covered in this material is described briefly below from the author's perspective.

## II. Corporate Governance

Corporate Governance makes up 17%–27% of the BEC portion of the exam and focuses on corporate rights, responsibilities and authority; accounting controls and policies; and procedures for managing control related risks.

I am responsible for the BEC content related to information corporate governance (excluding the Sarbanes-Oxley portion covered by Professor Prentice). The Committee of Sponsoring Organizations (COSO)'s Enterprise Risk Management Framework and Internal Control Framework are explored in this area.

*~Professor Dan Stone*

I am responsible for but a tiny slice of the BEC material—the “Other Regulatory Frameworks and Provisions” part of Corporate Governance. This is essentially Sarbanes-Oxley Act (SOX) material. SOX is important in some other areas of the exam as well, but the material here relates to SOX's efforts to improve the integrity of the numbers audited by CPAs that corporations report to the SEC. Any CPA pursuing a career in the audit field should be intimately familiar with the material. Fortunately, it is pretty straight-forward and should be relatively easy to master.

*~Professor Robert Prentice*

## III. Economic Concepts and Analysis

**A.** This area covers the following material:

1. Fundamental microeconomic and macroeconomic concepts and relationships that underlie an understanding of all economic activity and changes;
2. Changes in economic and business cycles, including reasons for and measures of those changes
3. How the economy and markets influence business strategies
4. How globalization impacts individual companies and how it has resulted in shifts in economic power among nations
5. Various forms of risks encountered and means of mitigating those risks

**B.** Some of the topics covered will be familiar to you from basic economics courses, especially microeconomics and macroeconomics. Other topics may be new to you, especially if you have not taken an international economics course. Although the Uniform CPA Examination Blueprint provided by the BOE cover a broad range of economic topics, that coverage is not particularly deep. An understanding of the material covered in this area should provide more than adequate preparation for this area of the exam.

## IV. Financial Management

**A.** This area covers the following material:

1. Concepts and tools used in financial management, as well as other areas of management and accounting
2. The capital budgeting process and analytical techniques used in capital budgeting
3. Appropriate financing strategies, both short-term and long-term
4. Techniques for capital management, including the management of working capital management
5. Methods for financial valuation, including the determination of fair value
6. Use of ratios and other quantitative techniques for working capital
7. Various categories of risk faced by a business and ways to mitigate those risks



- B.** In studying this area, it is important to understand the concepts and tools covered in the first set of lessons before considering the other topics listed. Those concepts and tools—including cost concepts, time value of money, interest rate concepts and calculations, financial valuation, and hedging and derivatives—are used in the subsequent topics of this area, as well as in various other topics covered on the exam.

*~Professor Allen Bizzell*

**V. Information Technology**

I am responsible for the BEC content related to information technology (IT). IT content is 15% to 25% of the BEC portion of the exam, and it now mostly focuses on the effect of IT on accounting controls and organizational risk. The COBIT (The Control Objectives for Information and related Technology) Framework for managing IT risks is examined in this area. In addition, big data and data analytics are emerging topics in this area.

*~Professor Dan Stone*

**VI. Operations Management**

The BEC content related to operations management comprises approximately 15%–25% of the BEC coverage. Traditional managerial accounting topics are covered here, including cost measurement, process management, planning, and performance management. In addition, strategic market and risk analysis, as well as project management, receive significant emphasis.





# **Corporate Governance**

# Internal Control Frameworks

## Introduction to COSO, Internal Control, and the COSO Cube

This chapter introduces the two most important models of accounting controls that are based in a corporate governance perspective: the Committee of Sponsoring Organizations (COSO) model and COSO Enterprise Risk Management (ERM) model.

**After studying this lesson, you should be able to:**

1. Apply the COSO integrated framework to identify relevant controls for risk scenarios in organizations.
2. Give examples of the goals, components, and organizational levels that are the focus of internal controls.
3. Describe the purpose and objectives of the COSO integrated internal control framework.
4. Identify the three dimensions, and the components of each dimension, in the COSO integrated framework for IC.

### I. Introduction to the Committee of Sponsoring Organizations (COSO)

- A.** In 1987, five organizations (i.e., the AICPA, the Institute of Internal Auditors, the Institute of Management Accountants, the American Accounting Association, and the Financial Executives Institute) formed COSO; their goal was to develop an integrated internal control model to guide efforts to articulate and improve accounting controls.
1. COSO now provides guidance related to “ERM, internal control, and fraud deterrence” (COSO website). The COSO “cube” model (see below) has been widely adopted, incorporated into the structure of many organizations, and refined and expanded (e.g., the COSO ERM model). For example, a 2006 CFO magazine poll indicated that more than 80% of respondents used the COSO framework as a basis for developing and assessing the adequacy of their accounting control systems.
- B.** The CPA Exam tests three areas of COSO content.
1. In both the Auditing and Attestation and BEC sections:
    - a. The COSO integrated framework
  2. In BEC:
    - a. Internal Control—Integrated Framework
    - b. Enterprise Risk Management (ERM)—Integrated Framework
    - c. COSO elements from additional documents, relating to recent changes in IT (e.g., cloud computing) and governance

### II. Overview of Internal Control—The Committee of Sponsoring Organizations of the Treadway Commission (COSO) defines internal control as follows:

- A. Definition**—Internal control is a process—effected by the entity’s board of directors, management, and other personnel—designed to provide reasonable assurance regarding the achievement of objectives in the following categories:
1. Effectiveness and efficiency of **operations**
  2. Reliability of financial and nonfinancial **reporting**
  3. **Compliance** with applicable laws and regulations