



REG

Taxation & Regulation

CPA Exam Review

2025
Edition

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Keeping the course materials updated and accurate would not be possible without the contribution of our team of content experts. Our team includes academics and professionals who have expertise and experience in their respective fields; several have had experience at the Big Four or have PhDs in areas related to the exam. All are passionate about helping candidates pass the exam and about UWorld's dedication to creating the highest quality materials.

Taxation & Regulation

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Introduction

How to Best Use Your Course

Welcome to the UWorld CPA Review course! Our expert team is passionate about helping you succeed and has developed an award-winning program that is proven to yield results. Before you get started, please read through this guide on how to best use your course so that you can master all of the topics laid out for you in the AICPA Blueprints and ultimately pass the CPA Exam. At UWorld, our passion is to make the hard stuff easy to learn and understand.

Plan Your Studies

When preparing for the CPA Exam, half the battle is setting yourself up for success with a solid plan from the get go. This includes establishing short- and long-term goals to ensure you're staying on track.

To get started, use the Study Plan in your course. Start your plan by setting the beginning and ending dates for your schedule. Then select your pace (Fast Track vs Customize) and set the number of hours per day you will study. The system will create your plan based on your choices. It is important to follow your plan steadily so that you can ensure you hit your goals. If you miss a day, make it up!



Tip!

Download the app! This gives you access to everything your course offers while on the go.

Master the Concepts through Active Learning

With this program, you will build your foundational knowledge and mastery of core exam topics through **active learning**. This evidence-based learning methodology centers around the principle that students retain information best when they actively participate in answering questions.

- **Begin with the Representative Task.** Read through each representative task carefully. (The Representative Tasks are from the AICPA Blueprints and are presented in our books and videos to guide you through the materials.) Pay particular attention to the words at the beginning of the task; they provide guidance on level and focus
- **Scan the book chapter.** Do you feel confident with the material? If you do, you might want to move directly to the questions and begin to practice. If you find that you are hesitant about an area, read the book or watch the video to solidify your understanding before you practice on some questions
- **Watch the videos.** If you prefer to absorb material on video rather than by reading the book, you will notice that the videos are deliberately set up in small segments. Our team created these segments so you can review what you need, either as part of the whole topic or for specific review of a smaller area
- **Practice the questions.** In our question bank (our QBank) we have taken great care to provide you with very high-quality questions and explanations. Each explanation not only tells you why the concept tested is important to understand but also teaches you why the answer is correct and why the other answer choices are not correct. Images, tables, and links to definitions also help fill in gaps as you use the questions and explanations to learn by doing

Track Your Progress and Performance

As you complete each chapter, track your progress and performance using our signature **SmartPath Predictive Technology™**. SmartPath is a data-driven platform that provides recommended targets based on previous students who have passed the CPA Exam. This is an important tool to help you study efficiently and gauge whether you are *exam-ready*. Your goal is to hit both your progress target (Questions Attempted) and performance target (Score) for each chapter.

As you work through the material, don't worry about hitting your "Score" target right away and focus your efforts on hitting the "Questions Attempted" target first. This approach may feel uncomfortable, but trust that you are building your knowledge as you absorb the answer explanations.

Once you've completed all the topics in a chapter, you can go back and focus your efforts on hitting the "Score" target. If you are falling short, drill down in the Performance tab to see which topics need extra attention.



Tip!

Don't over-study. **SmartPath™** helps determine when you can move on to the next topic.

Solidify the Concepts

Need extra help mastering the concept? Take advantage of the additional learning tools that are integrated into your course. For example, you could be working through a difficult question and find you need further explanation. No problem! There's a link to the supporting lecture right there in the question. Want to remember something for later review? Easily transfer content directly from the question to a digital flashcard. These are just a few ways we make it easy to navigate to and access the right tools you need at the right time.

These additional tools are designed to enhance your studies—**you do not necessarily need to read or watch all of this material!** Rather, use these tools as a means to improve on weak areas:

- **Video Lectures** – From the Lectures tab or directly integrated in the link at the bottom of each practice question, you have access to the profession's most motivating and effective lecturers. Lectures break down difficult topics into simplified concepts and provide helpful memory aids. These are especially recommended for visual and auditory learners
- **Textbooks** – Digital eTextbooks are accessible side by side with the video lectures or in a printed format with some of our course packages. These can be used as a reference if you need further explanation of a concept. Many students also find it beneficial to follow along in the textbook while watching the lectures and either take notes directly in the physical books or by using the Notes feature and highlighting tool in the platform
- **Digital Flashcards** – Create custom flashcards directly from your practice questions by clicking on the lightning bolt symbol. Depending on your program package, your course may also be pre-loaded with an "Expert Deck" of flashcards covering the most heavily tested topics. You can review all your cards in Study Mode or using our **Spaced-Repetition Technology**. This is an evidence-based learning method that presents cards you've marked as *difficult* more frequently and cards you've marked as *easy* less frequently. The spacing of how and when the flashcards are introduced has been proven to increase retention and strengthen memory recall

Get Exam-Ready

The final days leading up to the exam are a critical time in which you're going to want to review your SmartPath data and ask, "Am I *exam-ready*?" If you have hit all the targets, you are in a really good spot. However, if any areas are still marked "Needs Improvement," now is the time to focus your efforts on meeting those targets.

Finally, we recommend you **take at least one full practice exam before exam day** (click on the "Exam Sim" tab in the QBank). This allows you to hone your test-taking skills in an exam-like environment that follows the same 5-testlet, 4-hour structure as the exam.

AICPA Blueprints

The UWorld CPA Review course is based on the AICPA Blueprints, which show candidates what skills and content topics will be tested on the CPA Exam. You don't have to make tough decisions about what concepts to focus on. If you follow our methodology, you will be well on your way to passing the exam.

Let's take a look at what we mean by starting with the AICPA Blueprints. The Blueprints have four levels:

- Area
- Group
- Topic
- Representative Task

Each Representative Task also has a Skill level.

- Remembering & Understanding
- Application
- Analysis
- Evaluation (used only in AUD)

Here is a snapshot of a Blueprint with the levels and skills marked.

Content group/topic	Skill				Representative Task
	Remembering & Understanding	Application	Analysis	Evaluation	
A. Current period/historical analysis, including the use of data					
1. Financial statement analysis		✓			Determine attribute structures, format, and sources of data needed to prepare financial statement analysis.
			✓		Compare current period financial statement accounts to prior periods or budget and explain variances.
			✓		Interpret financial statement fluctuations and ratios (eg, profitability, liquidity, solvency, performance).
			✓		Use outputs (eg, reports, visualizations) from data analytic techniques to identify patterns, trends, and correlations to explain an entity's results.
			✓		Derive the impact of transactions on the financial statements and notes to the financial statements.

BAR
Area I: Business Analysis
Group A: Current Period/Historical Analysis
Topic 1: Financial Statement Analysis

The Table of Contents of the BAR book shows how each UWorld textbook is set up to follow the order of the AICPA Blueprints, with

- Area
- Group
- Topic

<h2>Business Analysis & Reporting</h2>	
Business Analysis & Reporting	
INTRODUCTION	5
Area I: Business Analysis	
BAR 1 CURRENT PERIOD/HISTORICAL ANALYSIS, INCLUDING THE USE OF DATA	19
BAR 2 PROSPECTIVE ANALYSIS, INCLUDING THE USE OF DATA	83
Area II: Technical Accounting and Reporting	
BAR 3 INDEFINITE-LIVED INTANGIBLE ASSETS, INCLUDING GOODWILL	215
BAR 4 INTERNALLY DEVELOPED SOFTWARE	225
BAR 5 REVENUE RECOGNITION	231
BAR 6 STOCK COMPENSATION	247

In the pages of each book, we provide the Representative Tasks from the AICPA Blueprints. We did that to make a direct connection between the exam and our content. Our team deliberately focused on what the Tasks say and wrote study materials that match with the Task. There is no closer connection between what will be tested and what you are studying.


1.01 Financial Statement Analysis

Overview

A company appraises the past, present, and future execution of goals and economic fitness by performing **financial statement analysis** on its results from operations in a given period. Refer to the financial ratios used in the FAR exam for this section.

The results are viewed in relation to prior periods, budgets, and key performance indicators (ie, benchmarks). Companies **make informed decisions** using this analysis. The analysis is often presented using summaries and visualizations that present the financial data in an easy-to-understand, meaningful report.

Attribute Structures, Format, and Sources of Data



Representative Task (Application): Determine attribute structures, format, and sources of data needed to prepare financial statement analysis.

Beyond connecting to the topics of the AICPA Blueprints, our team also differentiated the textbook content to match the skill levels of the Tasks.

- **Remembering & Understanding** tasks require you to understand the definitions and fundamentals of the topic. We have presented the information in these areas with an eye to creating clear explanations of the topics
- **Application** tasks are more about using your knowledge in scenarios to indicate that you understand the concepts. Our authors have therefore provided examples that show you how to apply your knowledge in specific situations. Many of these examples are similar to questions that you will find on the exam
- **Analysis** tasks require a higher level of thinking, many times leading you to choose one outcome over another or to make a decision. On the exam, these tasks will always be addressed in Task-Based Simulations, or TBSs. The AICPA intentionally makes these more challenging to determine if you really know the material and can work with it as a professional. In our materials, our authors often guide you through the critical thinking required to work with TBSs
- **Evaluation** tasks are only in the AUD section of the exam and are at the highest level of thinking. They go a step further than the Analysis level and require you to evaluate or judge different approaches or outcomes

The CPA Exam

Within the AICPA Blueprints, there is information about how much time candidates have for each section and how many questions by question type each section contains. Question types include Multiple-Choice Questions (MCQs) and Task-Based Simulations (TBSs).

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

Scoring Weight by Exam Section

The AICPA also shows candidates how the question types for each section are weighted and account for their overall score.

Section	Score Weighting	
	Multiple-Choice Questions (MCQs)	Task-Based Simulations (TBSs)
AUD – Core	50%	50%
FAR – Core	50%	50%
REG – Core	50%	50%
BAR – Discipline	50%	50%
ISC – Discipline	60%	40%
TCP – Discipline	50%	50%

Skill Allocations

As mentioned earlier, each Representative Task is tested at a specific Skill Level, and each part of the exam has its own weighting of the Skill Levels, as seen here.

Section	Remembering & Understanding	Application	Analysis	Evaluation
AUD – Core	30–40%	30–40%	15–25%	5–15%
FAR – Core	5–15%	45–55%	35–45%	–
REG – Core	25–35%	35–45%	25–35%	–
BAR – Discipline	10–20%	45–55%	30–40%	–
ISC – Discipline	55–65%	20–30%	10–20%	–
TCP – Discipline	5–15%	55–65%	25–35%	–

Content Allocations

The AICPA Blueprints address how coverage of the various content areas is allocated in each exam. Using the UWorld system that ties directly to the Blueprint structure, it is easy to see which topics are covered to what extent.

AUD

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%

FAR

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

REG

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%

BAR

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%

ISC

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%

TCP

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%

Exam Testlets

Each section of the exam is divided into five testlets. Two testlets cover MCQs, and three testlets cover TBSs. Not all sections have an equal number of MCQs and TBSs, as the following chart shows.

Section	Testlet					Total	
	1	2	3	4	5	MCQ	TBS
	MCQ	MCQ	TBS	TBS	TBS		
AUD - Core	39	39	2	3	2	78	7
FAR - Core	25	25	2	3	2	50	7
REG - Core	36	36	2	3	3	72	8
BAR - Discipline	25	25	2	3	2	50	7
ISC - Discipline	41	41	1	3	2	82	6
TCP - Discipline	34	34	2	3	2	68	7

Finally, to manage your time effectively in the exam, we recommend that you:

- Use 75 seconds per multiple-choice question as a benchmark,
- Allocate 15-20 minutes per task-based simulation, depending on complexity, and
- Take the standard 15-minute break after the third testlet; it doesn't count against your time.

To see the full AICPA Blueprints, visit

<https://www.aicpa.org/becomeacpa/cpaexam/examinationcontent>

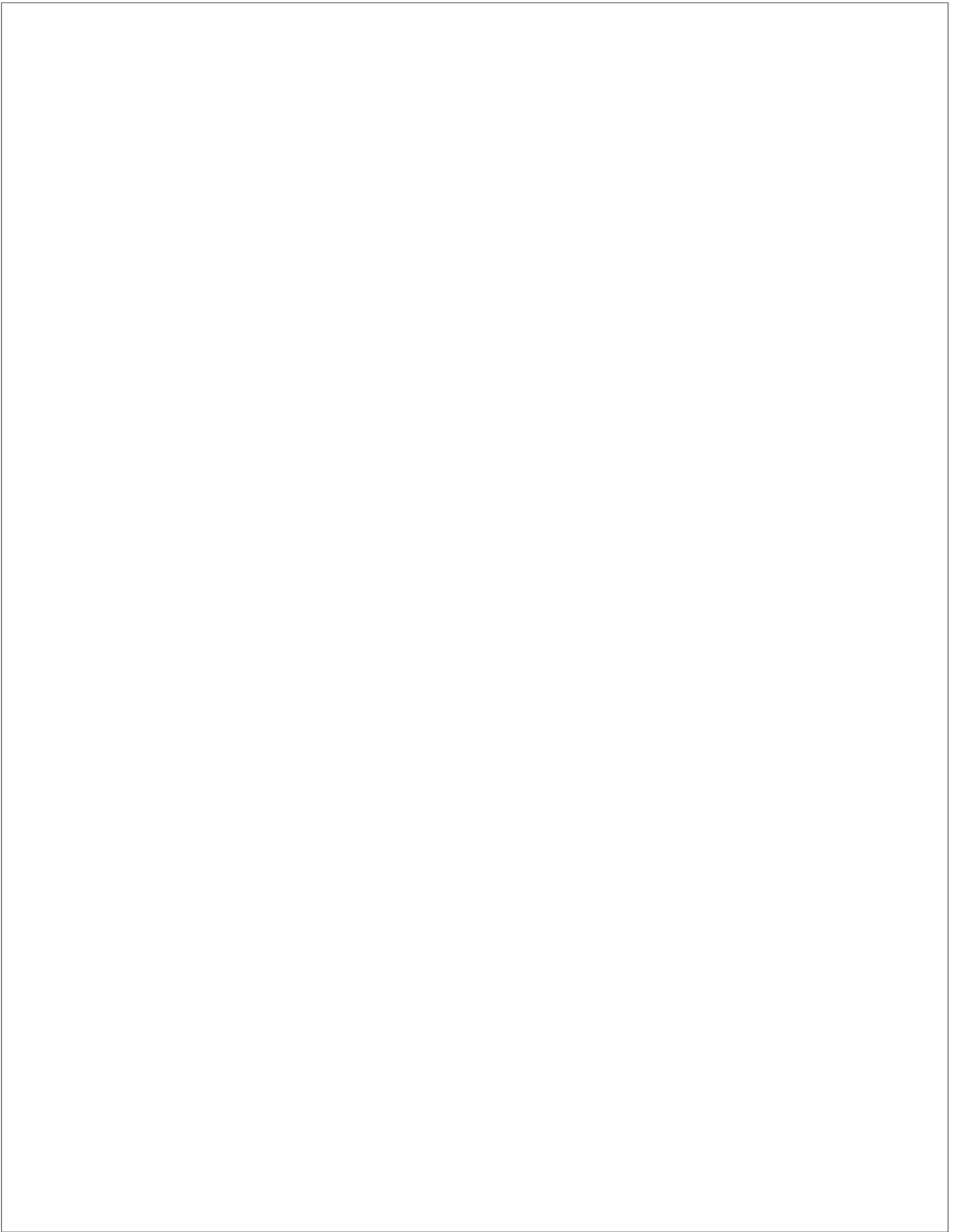
Above all, start the study process with confidence! As Roger always says, "You do not have to be a genius to pass the CPA Exam. If you study, you will pass!" You've got this.





REG

**Area I: Ethics, Professional
Responsibilities, and Federal
Tax Procedures**





REG 1
Ethics and
Responsibilities
in Tax Practice

REG 1: Ethics and Responsibilities in Tax Practice

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1.01 Regulations Governing Practice before the IRS

Regulations Governing Practice before the IRS



Representative Task (Remembering & Understanding): Recall the regulations governing practice before the Internal Revenue Service.



Representative Task (Application): Apply the regulations governing practice before the Internal Revenue Service given a specific scenario.

Circular 230 contains the IRS's rules of practice governing CPAs and others who practice before the agency. The government may censure, fine, suspend, or disbar tax advisors from practice before the IRS if they violate Circular 230's standards of conduct. "Practicing" entails primarily preparing and filing documents and communicating and meeting with IRS representatives on behalf of a taxpayer.

Circular 230 consists of 5 subparts. Within each subpart, certain sections are particularly applicable to CPAs. Below is a summary of the subparts and sections typically tested on the CPA exam.

Five Subparts of Circular 230	
Subpart A	<p>Provides rules related to the authority to practice before the IRS</p> <ul style="list-style-type: none">• Sec. 10.3 – Who may practice• Sec. 10.8 – Return preparation and application of rules to other individuals
Subpart B	<p>Describes the duties and restrictions of those authorized to practice before the IRS</p> <ul style="list-style-type: none">• Sec. 10.20 – Information to be furnished• Sec. 10.21 – Knowledge of client's omissions• Sec. 10.22 – Diligence as to accuracy• Sec. 10-24 – Assistance from the disbarred• Sec. 10.27 – Fees• Sec. 10.28 – Return of client's records• Sec. 10.29 – Conflicting interests• Sec. 10.30 – Solicitation• Sec. 10.31 – Negotiation of taxpayer checks• Sec. 10.34 – Standards with respect to tax returns and documents, affidavits, and other papers• Sec. 10.37 – Requirements for other written advice

Five Subparts of Circular 230	
Subpart C	Indicates sanctions for violations <ul style="list-style-type: none"> • Sec. 10.50 – Sanctions • Sec. 10.51 – Incompetence and disreputable conduct
Subpart D	Provides rules for disciplinary proceedings <ul style="list-style-type: none"> • Sec. 10.60 – Institution of proceeding
Subpart E	Relates to the availability of public records.

Section 10.3 – Who May Practice

Subpart A of Circular 230 sets forth rules governing authority to practice before the IRS. Examples of individuals who may practice before the IRS include attorneys, CPAs, registered tax return preparers, enrolled agents and enrolled actuaries, and enrolled retirement plan agents. Most importantly, Section 10.3 provides that in order for a CPA to practice before the IRS, the CPA must:

- **Not** currently be under **suspension or disbarment** from practice before the IRS
- **File a declaration** with the IRS indicating that the CPA is currently qualified as a CPA and **authorized to represent** the party

Although providing **written tax advice** (eg, tax opinion) is **considered practice** before the IRS, an exception is made for the written declaration requirement. Providing a written declaration for every instance of written tax advice would be too onerous for the CPA and IRS.


Although there are no minimum education requirements, practitioners must be competent, meaning that they possess the appropriate level of knowledge, skill, thoroughness, and preparation necessary. They may acquire competence by studying the relevant tax law or consulting with experts.

Circular 230 Requirements to Practice before the IRS

	Practice before the IRS	Provide Written Tax Advice
Be in Good Standing	✓	✓
Written Declaration	✓	✗


Practice before the IRS includes *all matters connected with a presentation to the IRS* or any of its officers or employees related to a taxpayer's rights, privileges, or liabilities under laws or regulations administered by the IRS. These presentations include but are not limited to:


- Preparing documents (eg, tax returns for compensation)
- Filing documents
- Corresponding and communicating with the IRS
- Representing a client at conferences, hearings, and meetings (eg, tax audit)
- Rendering written advice with regard to transactions having a potential for tax avoidance or evasion

 A CPA prepares a tax return for a hair salon owner in exchange for free haircuts. While no cash has exchanged hands, this barter transaction is still considered *preparing a tax return for compensation*. Therefore, the CPA **is** practicing before the IRS.

A CPA, who normally does not prepare tax returns, agrees to prepare a tax return for her mother's hair salon because her mother's regular CPA was in the hospital and could not complete the return. No compensation was received for preparing the return.

Since this was a one-time situation to help a family member and no compensation was received, the CPA is **not** considered to be practicing before the IRS.

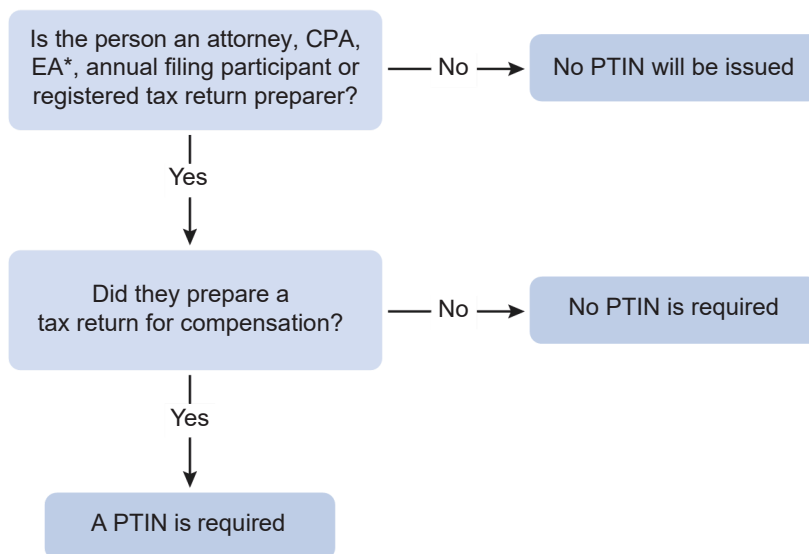
 A CPA delivers a written tax opinion discussing the detailed tax implications her client is considering. Providing a detailed, written tax opinion to a client **is** considered practicing before the IRS.

 A taxpayer may represent themselves or be represented by a family member (who is not paid to do so) or by the person who prepared the tax return. In addition, entities may be represented by the following: employers by a full-time employee, a partnership by a partner, a corporation by an officer, and a trust or estate by the trustee or executor.

Section 10.8 – Return Preparation and Application of Rules to Other Individuals

A preparer tax identification number (PTIN) is required to prepare a tax return or claim for refund in exchange for compensation (compensation is any value received). Only attorneys, CPAs, enrolled agents, registered tax return preparers, and annual filing season program participants may obtain PTINs.

Circular 230—PTIN Requirements

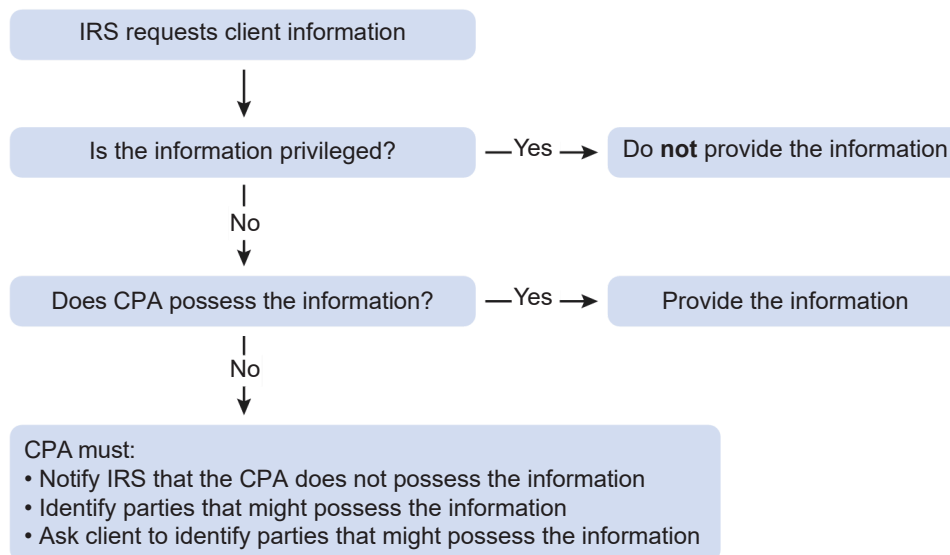


*EA is an enrolled agent with the IRS

Section 10.20 – Information to Be Furnished to the IRS

A practitioner must promptly submit to the IRS any records or information that its agents and officers request properly and lawfully, "unless the practitioner believes in good faith and on reasonable grounds that the records or information are privileged." In other words, Section 10.20 requires prompt *cooperation* with all IRS requests for information.

When the IRS Requests Client Information from a CPA



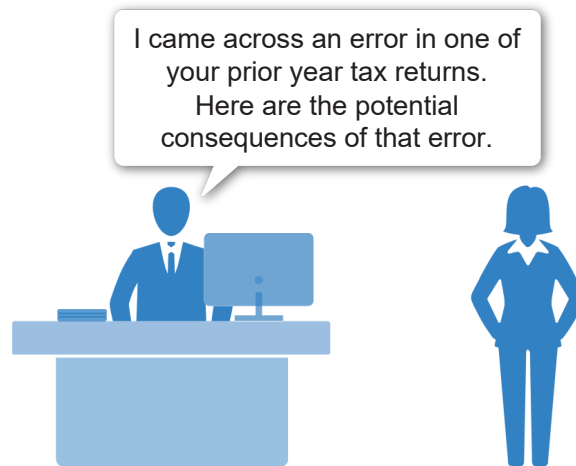
Section 10.21 – Knowledge of Client's Omission

If a practitioner becomes aware of an incident of a client's noncompliance with tax laws or of an error or omission on a filing with the IRS, the practitioner is required to:

- *Promptly advise* the client of the circumstance (even if the statute of limitations has expired); and
- Advise the client as to the *potential consequences*.

The practitioner does *not* need to notify the IRS of the error and may not do so without the client's permission. The *client* ultimately decides the course of action to take to correct the omission (eg, amend the return). Typically, errors are discovered when reviewing a recently filed tax return and prior tax returns filed by the tax preparer or other tax preparer.

Tax Practitioner Duty to Inform Client of Error



Section 10.22 – Diligence as to Accuracy

A CPA must exercise due diligence in preparing or assisting in the preparation of filings with the IRS and in determining the correctness of representations made by the practitioner to the IRS and to clients. The practitioner can rely on another person, provided that the practitioner has exercised reasonable care and due diligence in engaging, supervising, training, and evaluating the individual.

Section 10.24 – Assistance from the Disbarred

A practitioner should *not* knowingly accept even indirect assistance from any person disbarred or suspended from practice by the IRS.



Sam and Judy are partners in the S&J Partnership. Sam has violated regulations and been disbarred by the IRS. However, Judy (who is in good standing with the IRS) needed help during tax season and allowed Sam to work on tax returns. Judy signs off on all of the work completed by Sam. This arrangement involves accepting indirect assistance from a disbarred individual and violates Section 10.24.

Section 10.27 – Fees

Generally, a practitioner may **not** charge either an unconscionable fee or a contingent fee for matters before the IRS. However, there are *three exceptions* regarding **contingent fees**. Contingent fees may be charged for:

1. An administrative examination or a challenge to an original return, an amended return, or a claim for refund (not for preparing original return);
2. Services related to a claim for credit or refund in connection with statutory interest or penalties charged by the IRS; or
3. Services related to a judicial proceeding under the IRC.