

## Content Specification Outline – BEC

### ***Business Environment and Concepts***

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

### **Business Environment & Concepts Content Specification Outline**

#### I. Business structure (17%–23%)

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

#### II. Economic concepts essential to obtaining an understanding of an entity's business and industry (8%–12%)

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

#### III. Financial management (17%–23%)

- A. Financial modeling, including factors such as financial indexes, taxes and opportunity costs, and models such as economic value added, cash flow, net present value, discounted payback, and internal rate of return
  - 1. Objectives
  - 2. Techniques
  - 3. Limitations
- B. Strategies for short-term and long-term financing options, including cost of capital and derivatives
- C. Financial statement and business implications of liquid asset management
  - 1. Management of cash and cash equivalents, accounts receivable, accounts payable, and inventories
  - 2. Characteristics and financial statement and business implications of loan rates (fixed vs. variable) and loan covenants

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

- A. Role of business information systems
  - 1. Reporting concepts and systems
  - 2. Transaction processing systems
  - 3. Management reporting systems
  - 4. Risks
- B. Roles and responsibilities within the IT function
  - 1. Roles and responsibilities of database/network/Web administrators, computer operators, librarians, systems programmers, and applications programmers
  - 2. Appropriate segregation of duties
- C. IT fundamentals
  - 1. Hardware and software, networks, and data structure, analysis, and application, including operating systems, security, file organization, types of data files, and database management systems
  - 2. Systems operation, including transaction processing modes, such as batch, on-line, real-time, and distributed processing, and application processing phases, such as data capture; edit routines; master file maintenance; reporting, accounting, control, and management; query, audit trail, and ad hoc reports; and transaction flow

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

V. Planning and measurement (22%–28%)

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

**References—Business Environment and Concepts**

Current textbooks on

- Business law
- Managerial accounting
- Management
- Finance
- Economics
- Accounting information systems
- Management information systems
- Budgeting and measurement

AICPA Audit Risk Alerts

Business periodicals provide background material that is helpful in gaining an understanding of business environment and concepts.