

# **CPA Exam Evolution; Maintaining CPA Employability**

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## **ABSTRACT**

Disruptive technologies, disruptive events, and, changing employability skills prompted the American Institute of Certified Public Accountants (AICPA) to redesign the CPA exam to keep up with the times. The AICPA prepared an Exposure Draft that delineated the realignment of the exam with the CPA Evolution Licensure Model. The overarching goal was to maintain the relevance of the Uniform CPA Examination.

This paper draws on the Exposure Draft published by the AICPA, which outlines how the CPA exam has been revamped, as an improvement of the old CPA exam, that eliminates the status quo and considers the changing needs of the CPA employers. In addition, the paper reviews literature that discusses the Future of the Accounting Profession. Particularly, the literature discusses the types of skills that graduates as future accountants need to succeed in the professional world, including but not limited to tech-savvy skills and soft skills. The pertinent soft skills that CPA employers seek are adaptability and a lifelong approach to continuing professional development. This paper also reviews journal articles on ethical considerations in light of the fallout of CPA firms that did not adhere to the CPA Code of Conduct.

Thus, the new CPA Exam Model will encompass the skills set that will enable future accountants to have the tools necessary to fulfill their job obligations in an ever-changing world. The baton goes to the universities to prepare accounting curricula that not only satisfy the subject knowledge but also improve their graduates' employability skills set.

## **Introduction**

The CPA exam will be revamped in light of the changes in the accounting professional environment. The initial launch date for this exam for newly licensed CPAs (nICPAs – an acronym coined by the AICPA), will

be on January 2024. These changes were mainly caused by technological advances in the field of accounting, outsourcing of repetitive tasks, and the demand for CPAs who have higher-order analytical and advisory skills. Accountants need to possess a set of new skills, mainly revolving around data analytics, because digital technologies are expected to be a substantial part of accounting tasks (Tsiligiris and Bowyer, 2021)

In an Exposure Draft (ED) that was researched and developed by the AICPA, the CPA exam will be reinvigorated to maintain the relevance of the CPA license in today's world. Specifically, the exam content will be reclassified, reworked into the appropriate topic areas, and realigned to provide a smoother and more up-to-date testing of the accounting pedagogy. In addition, new content will be added to improve the technological savviness of nCPAs. The grand challenge for accounting will be to transform from being perceived as primarily manual tasks that require basic cognitive skills to becoming a technology-enabled value-adding profession (Tsiligiris and Bowyer, 2021).

### **Methodology**

This paper reviews and summarizes the Exposure Draft that was released in June 2022; with a final report expected to be released on January 2023.

### **What will the CPA exam cover?**

Below is a summary of what the CPA exam will cover:

The CPA exam will be categorized into three core exam sections and three discipline exam sections. The CPA candidate will be required to take the three core exam sections and select from one of the three discipline exam sections as follows:

#### CORE EXAM SECTIONS:

- 1. AUD – Auditing and Attestation**

The Exposure Draft (ED) states that the AUD Core Exam remains largely unchanged, aside from the addition of BEC (Business Environmental Concepts) content. Note that the BEC exam will be eliminated and its content integrated into the AUD, REG, and FAR exams. The ED explained that:

- The AUD exam tests the knowledge and skills that all nCPAs must demonstrate when performing auditing, attestation, and accounting and review engagements.
- Professional skepticism and professional judgment in making informed decisions will be tested.
- Expansion in the areas of technology:
  - As an external factor in the understanding of the business
  - Understanding significant business processes and related IT systems
  - Identifying and documenting the significant components of an entity's control environment, including entity level and IT general controls
  - Using data and information including requesting, preparing, and transforming data, reliability of data and information, and data analytics
- Economics content from BEC:
  - Internal and external factors related to understanding an entity and its environment including supply and demand and business cycles.
- Internal Control content from BEC

## **2. FAR – Financial Accounting and Reporting**

ED states that the FAR Core Exam will test:

- The knowledge and skills in financial accounting and reporting frameworks used by for-profit (public and nonpublic) and not-for-profit entities. The frameworks eligible for assessment include standards and/or regulations issued by the:
  - Financial Accounting Standards Board (FASB)
  - U.S. Securities and Exchange Commission (SEC)
  - American Institute of Certified Public Accountants (AICPA)
- Foundational concepts related to state and local governments as issued by the Governmental Accounting Standards Board (GASB), including measurement focus, the basis of accounting, and determining the appropriate funds in which to record activities.
- The understanding and application of financial statement ratios and performance metrics.

### **3. REG – Taxation, and Regulation**

The REG Core Exam Section tests the knowledge and skills that all nICPAs must demonstrate for:

- U.S. ethics and professional responsibilities related to tax practice
- U.S. business law
- U.S. federal tax compliance for individuals and entities with a focus on recurring and routine transactions

The difference between the REG and the TCP (Tax Compliance and Planning) Discipline exam is that:

- The REG core exam will focus on routine and recurring tasks such as individual gross income concepts (for example wages, interest, dividends, guaranteed payments received from partnerships),

- TCP will focus on nonroutine and higher complexity tasks (for example gross income concepts like the exercise of incentive stock options, imputed interest on below-market-rate loans, and compensation earned while employed outside the U.S.

#### DISCIPLINE EXAM SECTIONS:

CPA Candidate selects one from the following;

##### **1. BAR – Business Analysis and Reporting**

The BAR Discipline Exam section tests the knowledge and skills that a nICPA must demonstrate for:

- Analyzing financial statements and financial information with a focus on nICPA'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 GASB that apply to state and local government entities.

The difference between the FAR Exam and the BAR Discipline Exam section is that BAR will test more complex technical accounting concepts such as;

- The analysis and interpretation of agreements, contracts, and other supporting documentation to determine whether revenue was appropriately recognized

- Recalling and applying lessor accounting requirements and analyzing the provisions of a lease agreement to determine whether a lessee appropriately accounted for the lease
- Content from BEC on:
  - Non-financial measures of performance
  - Managerial and cost accounting concepts and the use of variance analysis techniques
  - Budgeting, forecasting, and projection techniques
  - Factors that influence an entity's capital structure, such as leverage, cost of capital, liquidity, and loan covenants
  - Financial valuation decision models used to compare investment alternatives
  - Risk management topics including the COSO Enterprise Risk Management Framework
  - The effect of changes in economic conditions and market influences on an entity's business

## **2. ISC – Information Systems and Control**

The ISC Discipline Exam Section tests the knowledge and the skills a nICPA must demonstrate for

- Information technology (IT) audit and advisory services, including SOC (Service Organization Controls) engagements. Service organizations are entities that a business utilizes to outsource functions such as payroll. For SOC engagements, the ISC Discipline Exam primarily focuses on:
  - The use of 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® engagement.
- Data management, including data collection, storage, and usage throughout the data life cycle.
- Content from BEC including certain aspects of business processes and internal control, risks associated with IT and controls that respond to those risks, and data management and relationships.

### **3. TCP – Tax Compliance and Planning**

The TCP Discipline Exam section tests the knowledge and skills a nICPA must demonstrate for:

- U.S. federal tax compliance for individuals and entities with a focus on nonroutine and higher complexity transactions, including preparation and review of tax returns.
- U.S. federal tax planning for individuals and entities including the determination of the tax implications of proposed transactions, available tax alternatives, or business structures
- Personal Financial Planning: Focusing on planning strategies and opportunities in connection with the preparation and review of tax returns

### **Ethics, Independence, and Professional Responsibilities**

Ethics is a rational person's perception of right versus wrong. There is no gold standard as to what can be right or wrong. It is a relative. There are plenty of gray areas in determining a right or wrongful act.

However, some situations can be described as black or white. For example, when the CPAs at Ernst and Young cheated on their ethics exams, they were fined \$100 million, the largest penalty ever imposed by the SEC on an audit firm (Ganun, 2022).

The CPA profession is one where professional judgment takes center stage in concluding whether an act can be executed; the elephant in the room. Accountants are under pressure to meet financial targets and deadlines. This begs for a more prudent way to educate nCPAs to decipher the moral code and act modestly.

### **Soft Skills**

Soft skills, defined as interpersonal and social skills, including behavior and attitude, influence how people interact with others and lead to success in the workplace (Tsiligiris and Bowyer, 2021). It is this interaction (human capital) that plays a significant role in the employability of graduates (Tsiligiris and Bowyer, 2021). Universities play a critical role in developing these skills which are influenced by the graduate's attributes (i.e., adaptability and flexibility) and behaviors (i.e. initiative to develop and self-manage their career (Tsiligiris and Bowyer, 2021).

Historically, it was technical skills that were necessary for career employment in accounting (Tsiligiris and Bowyer, 2021). Today, employers are placing a greater emphasis on the soft skills of graduates.

“The growing importance of soft skills is also identified by research conducted by several international accounting professional bodies (e.g. CIMA, AICPA, IFAC).” (Tsiligiris and Bowyer, 2021). “More precisely, communication, teamworking, time management, and problem-solving skills are identified by employers as key pre-requisites for accounting graduate recruitment, ongoing employment, and promotion” (Montano et al., 2001)

Employers continue to require accounting graduates to possess a basic understanding of fundamental accounting skills when they are novices on the job (Tsiligiris and Bowyer, 2021). These employers expect that advanced accounting skills can be learned through on-the-job training.

### **CONCLUSION**



Since universities aim to instill professional readiness, and the capacity to live and work productively and meaningfully across their graduates' lifespan (Tsiligiris and Bowyer, 2021); the baton goes to colleges to develop curricula that integrate the new CPA exam model. Thus, the new CPA Exam Model will encompass the skills set that will enable future accountants to have the tools necessary to fulfill their job obligations in an ever-changing world. In addition, the universities need to prepare accounting curricula that not only satisfy the subject knowledge but also improve their graduates' employability skills set.

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