



Preparing
for change

The New, Improved CPA Exam

If everything proceeds according to plan, beginning in early 2004 the structure and content of the Uniform CPA examination will be profoundly different in several ways:

- It will be entirely computer-based.
- Simulations will replace essays and problems.
- It will cover the larger body of knowledge needed by entry-level professionals.
- It will test the integration of knowledge and skills needed to apply that knowledge.

The Joint AICPA/NASBA Computerization Implementation Committee issued a briefing paper in March 2001 stating that because of significant changes in entry-level duties of CPAs, the increasing role of technology, and the need for higher-order skills such as research, integration of knowledge, and analysis, the current paper-based examination could no longer adequately provide the needed assessment. The Joint Committee recognized that computerized delivery of the examination could more closely emulate the work environment of entry-level professionals.

The authors compare and contrast the current CPA examination with the planned computer examination, present specific information about the computerization process, discuss the proposed transitioning and conditioning policies, and suggest how to prepare for the new examination.

The AICPA periodically studies the business environment for entry-level accounting professionals and assesses the knowledge and skills needed to operate in that environment. The AICPA modifies the Uniform CPA examination to match what is tested to what is expected of entry-level professionals. The computer-based examination,

which is expected to be ready for use in spring 2004, is the result of this assessment process.

The current examination was designed for an environment in which professional knowledge was paramount. Communication skills, analysis and organization, technological skills, and research skills, while important, received significantly less emphasis. Although professional knowledge is still key, it represents a smaller portion of the total knowledge and skills required of entry-level CPAs. Proficiency in technology, research, and communication, along with the ability to analyze and organize information and arrive at reasoned conclusions, are integral skills in the current work environment. The computer-based examination will significantly broaden the knowledge and skills to be tested, as seen in *Exhibit 1*.

Besides testing the changing knowledge and skills needed in the current professional environment, the computer-based examination will focus on the integration of knowledge and the ability to apply that knowledge. While memo-

rization plays a key role in the successful completion of the current examination, the application of knowledge will be of equal or greater importance.

Both the current exam and the computer-based exam contain four parts. The auditing section of the current examination will be replaced by auditing and attestation. Although the knowledge base—auditing procedures and GAAS—will remain basically the same, the broader focus of the computer-based exam will include the assessment of skills needed to effectively apply the knowledge.

Financial accounting and reporting appears on both the current and computer-based exams. Eighty percent of this section in the computer-based exam will focus on business enterprises, and it will feature more emphasis on financial accounting concepts. The remaining 20% will be split evenly between governmental entities and not-for-profit organizations. These two areas are currently tested in a different section of the exam.

The accounting and reporting area of the current exam includes taxation, governmental and not-for-profit orga-

nizations, and managerial accounting. This section will be replaced by regulation, 60% of which will focus on taxation and 40% on business law and professional responsibility. The taxation area will be expanded to include tax accounting issues, property transactions, and comparison of tax reporting among different types of entities. Business law and professional responsibility, assessed in a separate section on the current exam, will cover the same business law knowledge base on the computer-based exam, but will carry less overall weight.

EXHIBIT 1 CURRENT EXAMINATION VERSUS COMPUTER-BASED EXAMINATION

Issue	Current Examination	Computer-Based Examination
Focus	Focuses on knowledge.	Focuses on knowledge as well as integration of knowledge and skills needed to apply that knowledge.
Emphasis	Relies heavily on memorization.	Less emphasis on memorization; greater emphasis on the application of knowledge.
Content	Auditing: 100% Financial Accounting and Reporting: 100% Accounting and Reporting <ul style="list-style-type: none"> ■ Taxation: 60% ■ Governmental and not-for-profit organizations: 30% ■ Managerial: 10% Business Law and Professional Responsibility <ul style="list-style-type: none"> ■ Business structure: 20% ■ Other: 80% 	Auditing and Attestation: 100% Financial Accounting and Reporting <ul style="list-style-type: none"> ■ Business enterprises: 80% ■ Governmental entities: 10% ■ Not-for-profit: 10% Regulation <ul style="list-style-type: none"> ■ Taxation: 60% ■ Law and professional responsibility: 40% Business Environment and Concepts <ul style="list-style-type: none"> ■ Business structure: 20% ■ Managerial: 10% ■ Material not previously tested: 70%
Integration of Knowledge	No	Yes
Question Type	Multiple choice: 50% to 60% Other objective answer format, and problems or essays: 40% to 50%	Multiple choice: 80% Simulations: 20%
Frequency	Twice per year: May and November	By appointment
Length	16 hours total: Auditing, 4.5 hours; Financial Accounting and Reporting, 4.5 hours; Accounting and Reporting, 3.5 hours; Business Law and Professional Responsibility, 3.5 hours	14 hours total: The actual allocation has not yet been determined. However, Auditing and Attestation will be the longest single section.
Actual Test	Uniform examination: Each candidate takes the same exam on the test date.	Unique examination: The content of each candidate's exam is drawn from a database of multiple choice questions and simulations.
Grading	75 to pass; two parts passed and at least 50 on failed parts to retain passing score.	Pass or fail by part.

The changes that will be incorporated into the CPA examination may seem daunting to one who plans to sit for the spring 2004 exam.

The most significant change in content is found in the fourth section of the exam. A new section called business environment and concepts will replace business law and professional responsibility. Twenty percent of this new section will deal with business structure, and 10% will address managerial accounting, both of which are presently tested. The remaining 70% will deal with new content areas, including economic concepts, financial management, information technology, planning, and budgeting.

Exhibit 2 shows a hierarchy that will be used to integrate questions in the regulation section with knowledge from the business environment and concepts section. Questions in financial accounting and reporting will integrate knowledge from both regulation and business environment and concepts. Auditing and attestation will integrate knowledge from all other sections.

At least half of the current exam is multiple choice, with the remaining 40-50% either other objective answer format and problems or essays. The computer-based exam will consist of 80% multiple choice questions and 20% simulations. The multiple-choice questions will have four choices, and the majority will test the application of knowledge. The simulations will be designed to assess knowledge and skills encountered in practice. They will incorporate scenarios and tasks and

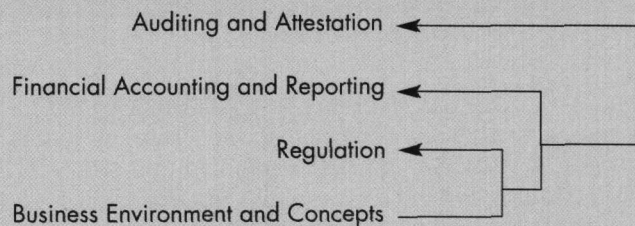
access to available sources, such as FARS, AICPA resources, CCH Tax, or RIA. Candidates may be required to electronically fill in a tax form, use a spreadsheet to arrive at an answer, or provide a short response using a word processor. In addition, they may be required to select answers from multiple-choice, drag-and-drop, or check-box options.

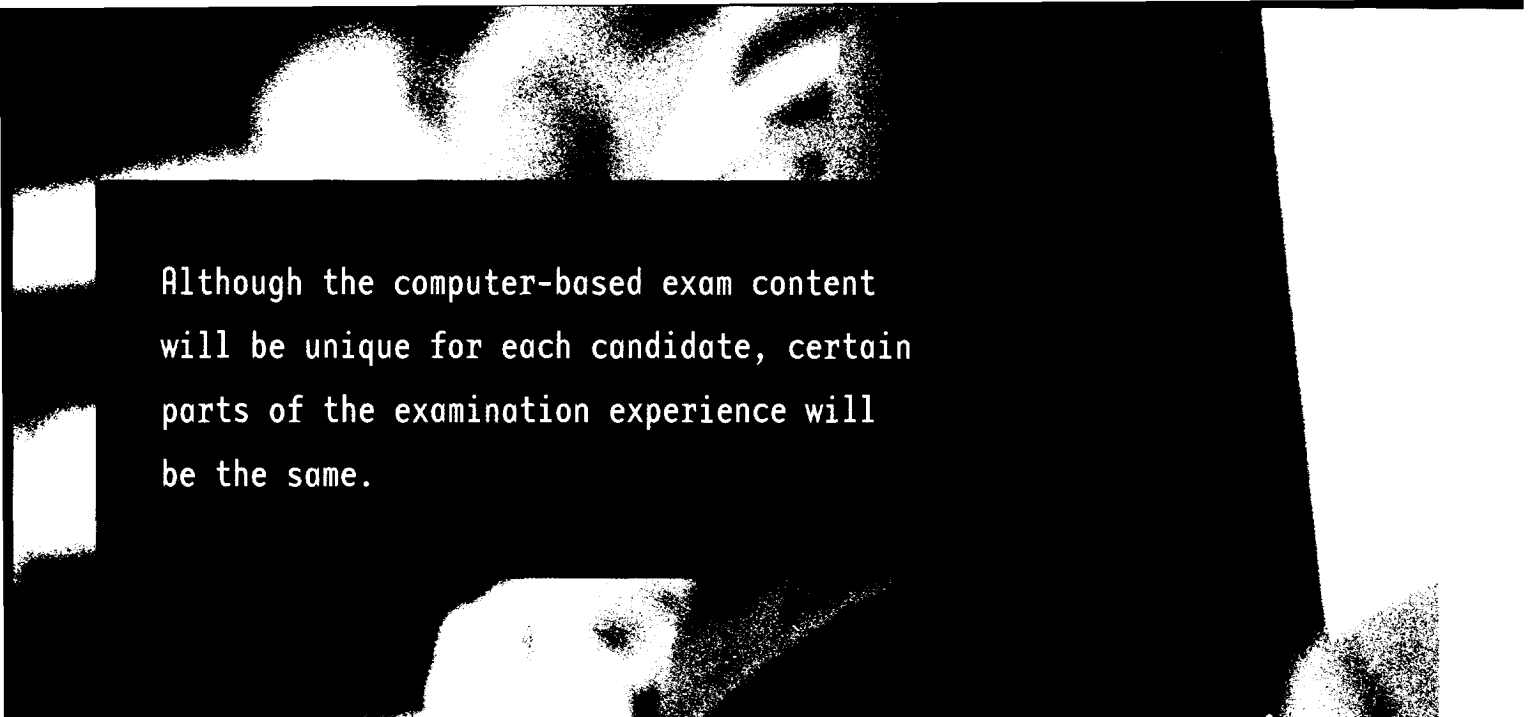
The current exam is 16 hours in length and is given twice per year (in May and November), with the results mailed three months later. All candidates take the same exam on the same date. When candidates initially sit for the exam, they are required to take all four parts. To pass, they must achieve a grade of 75 or more for each part. To retain the grade, the candidate must pass at least two parts and score at least 50 on the parts not passed. On subsequent attempts, candidates must take all parts not previously passed.

The computer-based exam will last a total of 14 hours. Although the actual time allocation among the four parts has not yet been determined, auditing and attestation will probably be the longest. Candidates will take the computer-based exam by appointment, and can take the parts individually and in any order. The exam will be unique for each candidate, drawing from a database of multiple-choice questions and simulations. Because the parts can be taken individually, they will basically be pass or fail, 75 or better considered passing. A candidate who fails a part of the examination will receive diagnostic information to help prepare for the retake. It is as yet unclear whether candidates will receive the results more quickly.

The computerized exam will be administered by Prometric, Inc., and the current application process will remain unchanged. When the state

EXHIBIT 2 INTEGRATION OF KNOWLEDGE





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board determines the individual's eligibility, it will notify both Prometric and the candidate. The candidate will then make an appointment to take one or more parts of the exam. First-time candidates will be required to take all four parts within a 30-day time period.

The computerized exam will initially be offered in four three-month windows, with the exam being offered during two months and the third month being used for systems maintenance, data analysis, and other administrative functions.

A candidate's identity will be verified by Prometric personnel when she arrives at the testing. The candidate will then be assigned a computer workstation; the interface will presuppose that the candidate has word processor, spreadsheet, and Windows skills. Most responses will be mouse driven.

Although the computer-based exam content will be unique for each candidate, certain parts of the examination experience will be the same. For example, groups of questions or simulations will be offered piecemeal as the candidate proceeds through the exam. Within the simulations, candidates will be able to review their work until the question is completed and submitted.

Some questions will be unlike any asked before. For example, a candidate may be presented with a tax question that requires researching a particular topic in CCH. Another simulation may require a candidate to access a specific

FASB pronouncement in FARS and then write a summary.

Although demonstrations of the computer-based examination are not yet available, it is anticipated that the AICPA website will contain both demos and tutorials on the new exam by fall 2002.

Proposed Transitioning and Conditioning Policies

Although transitioning and conditioning policies for the computer-based exam are still under discussion, the proposed models provide insight into the likely result.

A big concern for individuals who will take the last paper-based CPA exam is: "What if I pass some but not all of the exam?" The proposed transitioning policies respond to this concern in several ways. First, the policies provide for equivalency between the parts of the current exam and the computer-based exam (see *Exhibit 3*).

Candidates that have earned conditional credits on the current exam will be given conditional credits for the equivalent sections of the computer-based exam. In addition, they will be allowed the same period of time or maximum number of opportunities to successfully complete the remaining sections of the computer-based exam. A candidate who does not pass all remaining sections during the transition period will lose credit for sections passed under the current exam. However, the candidate will not lose condi-

tional credit for any section of the computer-based exam passed during the transition period.

As previously discussed, candidates will be able to sit for each section of the computer-based exam individually and in any order. First-time candidates, however, will be required to take all four sections within 30 days.

When a candidate first passes a section of the computer-based exam, she will retain conditional credit on that section for 18 months. This conditional credit will not require a minimum score on failed sections. Once the candidate passes one section, she will be given a rolling 18-month period to pass all remaining sections. If the candidate does not pass all four sections within the rolling 18-month period, credit for any section passed outside of the 18-month period expires. Candidates will not be allowed to retake a section that they failed during the same three-month examination window.

Recommendations to Faculty

Because the anticipated new CPA exam signals a significant shift away from memorization to analysis and application of knowledge, accounting faculty should ensure that student testing assesses more than just memorization. In addition, the simulations that will first appear in early 2004 suggest the need for students to be exposed to more case-oriented and written-response situations. These cases should

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require the students to use electronic databases for research, spreadsheets for analysis, and word processors for communicating findings.

In their lectures and case assignments, educators should make a special effort to ensure an interdisciplinary focus. For example, a financial accounting case could require the student to consider the legal implications of a particular event. An auditing case could incorporate information technology issues. Discussions in a tax class could focus on the significance of different forms of business to the ultimate tax liability.

Accounting educators should also familiarize their students with a computerized testing environment. Increasingly, textbooks include online quizzes. Also, electronic courseware products such as Blackboard, Prometheus, and WebCT have online testing features that faculty can use to simulate parts of the computer-based exam.

Positive Prognosis

The changing realities that define the accounting profession include an ever-expanding body of knowledge and skills needed by entry-level CPAs, an increasingly complex business environment, the continued expansion in the business services offered by CPAs, and growing threats and opportunities made possible by technology. The spring 2004 CPA examination will attempt to embrace these changing realities.

Several key features suggest the exam will be successful in identifying candidates that possess the requisite knowledge and skills needed for entry into today's profession:

- The integral role that the computer will play in the CPA examination mirrors the importance of the computer in day-to-day business activities.
- The integration of knowledge across multiple key areas is consistent with the fact that accounting does not reside in its own world. Today's successful CPA needs a multidisciplinary perspective in analyzing, defining, and diagnosing problems, as well as the ability to effectively communicate results.
- It is one thing to regurgitate information, and quite another to be able to apply it. The movement away from testing memorization toward testing both knowledge and the skills needed to apply that knowledge will better assess the candidate's on-the-job abilities.
- The necessary movement away from textbook situations to the real-

world settings of today and tomorrow will be made possible by the use of simulations that mimic scenarios encountered in practice.

The changes that will be incorporated into the CPA examination may seem daunting to one who plans to sit for the spring 2004 exam. Those that are apprehensive about the dwindling number of individuals pursuing degrees in accounting may likewise be alarmed by the changes in the CPA examination. However valid these concerns may be, an exam that focuses on the day-to-day activities and challenges of CPAs is vitally important to preserving the role of the profession in society. The new exam will provide this focus, as well as the impetus for much-needed changes in accounting curricula at colleges and universities. □

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EXHIBIT 3 SECTION EQUIVALENCY

Current Examination	Computer-Based Examination
Auditing	Auditing and Attestation
Financial Accounting and Reporting	Financial Accounting and Reporting
Accounting and Reporting	Regulation
Business Law and Professional Responsibility	Business Environment and Concepts