

Staff and managers: Beware of significant CPA exam changes

By Thomas N. Howard, CPA



Are you or your staff preparing to take the CPA exam? All aspects of the CPA exam changed on Jan. 1 — content, format and process. These are the most significant changes since the launch of the online exam in 2003.

Content changes

The CPA exam is still organized in four parts — auditing and attestation; business environment and concepts; financial accounting and reporting; and regulation (consisting of taxation and business law). However, specific topics and their relative weightings within each section changed.

Auditing & Attestation (AUD)

The AUD exam focuses on the candidate's understanding of generally accepted auditing standards (GAAS) and auditing procedures and the ability to apply those standards and procedures in performing auditing and attestation engagements. These skills are tested within the context of five comprehensive engagement tasks:

- Evaluating and determining client acceptance, planning the audit engagement and reaching appropriate agreement with the client
- Assessment of the client's internal control environment
- Obtaining and documenting information to support audit conclusions
- Reviewing and evaluating the documentation to determine if engagement objectives were met
- Preparing communications to satisfy the agreed-upon objectives

In addition, the AUD exam now tests the candidate's knowledge of professional responsibilities, including independence and ethics.

Area ↻	Previous AUD Subject Areas	New AUD Subject Areas
I ↻	Plan the engagement (22-28%)	Engagement acceptance and understanding the assignment (12-16%)
II ↻	Internal control (12-18%)	Understanding the entity and its environment (including internal control) (16-20%)
III ↻	Obtain and document information (32-38%)	Performing audit procedures & evaluating evidence (16-20%)
IV ↻	Review and evaluate work performed (8-12%)	Evaluating audit findings, communications and reporting (16-20%)
V ↻	Communications and reporting (12-18%)	Accounting and review service engagements (12-16%)
VI ↻	N/A	Professional responsibilities (including ethics & independence) (16-20%)

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Business Environment & Concepts (BEC)

The BEC section tests the candidate’s knowledge of the general concepts underlying the business reasons for accounting implications of various transactions, and the skills needed to apply that knowledge in performing other functions normally performed by CPAs. Several changes were made to topics covered in the BEC exam. First, concepts related to corporate governance is added to the material on the various legal structures under which businesses can be organized. Second, the portion assigned to economics has effectively doubled. Third, the management accounting topics previously labeled “planning and measurement” are organized into two specific areas: strategic planning and operations management. Content covered in this section includes:

- Corporate governance and knowledge of business structure
- Economic concepts essential to obtaining an understanding of an entity’s operations, business and industry
- Financial management
- Information systems and communications
- Strategic management
- Operations management

Financial Accounting & Reporting (FAR)

The FAR exam is considered the heart of the knowledge base for a CPA. This section has the most significant content changes related to International Standards — including International Financial Reporting Standards (IFRS) — now eligible to be tested. International standards questions will be gradually integrated over the next few years. Questions on U.S. standards will continue to be the major focus of the examination.

These skills are tested within the context of the following comprehensive subject areas:

- Concepts and standards for the presentation of financial statements
- Typical items: recognition, measurement, valuation, and presentation in financial statements in conformity with GAAP
- Specific types of transactions and events: recognition, measurement, valuation, and presentation in financial statements in conformity with GAAP
- Accounting and reporting for governmental entities
- Accounting and reporting for non-governmental not-for-profit organizations

Area ➔	Previous BEC Subject Areas	New BEC Subject Areas
I ➔	Business structure (17-23%)	Corporate governance (16-20%)
II ➔	Economic concepts (8-12%)	Economic concepts and analysis (16-20%)
III ➔	Financial management (17-23%)	Financial management (19-23%)
IV ➔	Information technology (22-28%)	Information systems and communications (15-19%)
V ➔	Planning and measurement (22-28%)	Strategic planning (10-14%)
VI ➔	N/A	Operations management (12-16%)

Area ➔	Previous FAR Subject Areas	New FAR Subject Areas
I ➔	Concepts and standards for financial statements (17-23%)	Conceptual framework, standards, standard setting and presentation of financial statements (17-23%)
II ➔	Typical items in financial statements (27-33%)	Financial statement accounts: recognition, measurement, valuation, calculation, presentation and disclosures (27-33%)
III ➔	Specific types of transactions (27-33%)	Specific transactions, events and disclosures (27-33%)
IV ➔	Governmental accounting and reporting (8-12%)	Governmental accounting and reporting (8-12%)
V ➔	Not-for-profit accounting and reporting (8-12%)	Not-for-profit accounting and reporting (8-12%)

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Regulation (REG)

The REG section tests candidates’ knowledge of federal taxation, ethics, professional and legal responsibilities, business law and the skills needed to apply that knowledge. This exam section has experienced the least change in terms of content, but has seen some shifts in weighting of subjects. This section on business law was reduced to allow more coverage of the taxation of property transactions.

These skills are tested within the context of six comprehensive areas:

- Ethics and professional and legal responsibilities.
- Business law
- Federal tax procedures and accounting issues
- Federal taxation of property transactions
- Federal taxation — individuals
- Federal taxation — entities (corporations, partnerships and trusts)

Format

Several changes were also made to the exam format. Essay questions were removed from the AUD, FAR and REG sections. In addition, the simulations (i.e., case studies) in these sections are reduced from two long-form case studies to six to seven shorter task-based simulations. Previously, essay questions were not used on the BEC section; under the new format, three written communications tasks have been incorporated to replace some of the multiple choice questions. In conjunction with these changes, the time allocation of the AUD and BEC sections have been modified.

These changes have also modified the structure of the various sections

		AUD	BEC	FAR	REG
Multiple Choice	Former	70%	100%	70%	70%
	New	60%	85%	60%	60%
Simulations	Former	20%	20%	20%	20%
	New	40%	0%	40%	40%
Writing	Former	10%	0%	10%	10%
	New	0%	15%	0%	0%
Time Allocation	Former	4.5 hrs	2.5 hrs	4.0 hrs	3.0 hrs
	New	4.0 hrs	3.0 hrs	4.0 hrs	3.0 hrs

Area	Previous REG Subject Areas	New REG Subject Areas
I	Ethics and professional and legal responsibilities (15-20%)	Ethics, professional and legal responsibilities (15-19%)
II	Business law (20-25%)	Business law (17-21%)
III	Federal tax procedures and accounting issues (8-12%)	Federal tax process, procedures, accounting and planning (11-15%)
IV	Federal taxation of property transactions (8-12%)	Federal taxation of property transactions (12-16%)
V	Federal taxation of Individuals (12-18%)	Federal taxation of individuals (13-19%)
VI	Federal taxation of entities (22-28%)	Federal taxation of entities (18-24%)

Process

Process changes have also been made:

- A new online calculator on the CPA Examination.
- A new release of authoritative literature — with FASB Accounting Standards Codification™ — is now available to prepare candidates for the CPA Examination.
- The report providing candidates with information about the strengths and weaknesses of their examination performance is revised. A description of the new candidate performance report will be widely distributed and posted on the AICPA website.

Additional information about these CPA exam changes is provided on the AICPA website. Candidates can see the new tutorial and sample tests at www.aicpa.org/BecomeACPA/CPAExam.

Sample CPA exam questions

When you take on something as challenging as the CPA exam, it’s good to know as much as you can going into it. Take some of the mystery out of the CPA exam with sample questions, provided by Kaplan CPA Review.

www.mncpa.org/examquestions

What hasn't changed?

Despite these significant changes to the exam, one issue hasn't changed — the importance of passing the exam and becoming certified.

Holders of the CPA credential have demonstrated their understanding of accounting and auditing concepts and techniques and the ability to apply that knowledge to a variety of circumstances in a rigorous test environment. This is part of the reason why CPAs are generally held in high esteem by the public and their colleagues in other professions.

How can we help keep our professional status? Encourage entry-level accountants to spend the time and effort necessary to achieve certification.

The first step to becoming certified is passing the CPA examination. Therefore, it is incumbent on managers and supervisors to motivate their employees to reach for the professional certification and to provide the time and support they need to prepare to take the examination. In the distant past when the exam was offered twice a year, it was easier for managers to keep track of their commitments and provide time off for group or individual study among their employees. Now that the exam can be taken one part at a time during eight months of the year, it is easy to forget that candidates still need motivation and support to get ready for the examination.

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www.mncpa.org/review

Non-CPAs affected by recent IRS update to registered tax preparer regulation

Prior to the IRS's registered tax preparer regulation taking effect Jan. 1, 2011, a clarification was made regarding who must comply with the testing and education components of the regulation. This change, impacting non-signing preparers supervised by a CPA, attorney, or enrolled agent, was advocated for by the Minnesota Society of CPAs and AICPA.

The clarification states that non-signing preparers paid to work on federal tax returns no longer need to meet the testing and CPE requirements in place for registered tax preparers, but they will still need to register for and maintain a PTIN. Those non-signing preparers are not, however, allowed to sign returns, represent clients in front of the IRS, or claim to be a registered tax preparer.

Remember, anyone paid to work on federal tax returns during the 2011 tax season must have a PTIN prior to starting. As this regulation continues to evolve, make the MNCPA your resource. Contact us at 952-831-2707 x2 with questions, or visit www.mncpa.org/irsregtax for the latest information.