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EXPOSURE DRAFT

PROPOSED STRUCTURE AND CONTENT SPECIFICATIONS FOR THE UNIFORM CPA EXAMINATION

February 28, 2001

**Prepared by the Board of Examiners of the
American Institute of Certified Public Accountants
Comments should be received by July 1, 2001, and addressed to:
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**Questions pertaining to this exposure draft should be directed to Ahava Goldman, Senior
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The CPA. Never Underestimate The Value.®

February 28, 2001

To chairs and executive directors of boards of accountancy and other interested parties:

The Board of Examiners is pleased to share with you the attached exposure draft, *Proposed Structure and Content Specifications for the Uniform CPA Examination*. This exposure draft is part of our effort to revise the Uniform CPA Examination and computerize its delivery. The Joint AICPA/NASBA Computerization Implementation Committee has issued Briefing Paper No. 2, *Computerizing the Uniform CPA Examination—Issues, Strategies and Policies: An Update*. Briefing Paper No. 2 has a big-picture perspective and focuses on the changing environment in which the examination would be operating. We encourage you to consider this exposure draft in conjunction with Briefing Paper No. 2.

We view your opinions and those of your colleagues as crucial. The comments we receive about this exposure draft will help guide our thinking regarding the content and structure of the examination. Included with this document is a comment form. We encourage an official board of accountancy response in addition to your individual comments. We urge you to return it to us via fax.

The Board of Examiners will carefully consider your comments and revise the proposed structure and content specifications, as appropriate. The final structure will influence the design of the revised examination, and the content specifications will be distributed to candidates to assist them in preparing for the examination and will provide guidance about questions to include on the Uniform CPA Examination to those who are responsible for preparing the examination.

On behalf of the Board of Examiners, thank you for your participation in this vital process.

Sincerely,

Olivia F. Kirtley, CPA
Chair
Board of Examiners

Arleen R. Thomas, CPA
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SUMMARY

The AICPA Board of Examiners is pleased to share with you this exposure draft, which proposes changes in the structure of the Uniform CPA Examination and the Uniform CPA Examination Content Specifications. If adopted, the proposed structure will become effective with the administrations of the Uniform CPA Examination in November 2003. Many aspects of the proposed content specifications are currently included in the Uniform CPA Examination. The content specifications for Business Environment & Concepts contain some content areas that were not previously tested on the Uniform CPA Examination. This new material will be added to the Uniform CPA Examination in November 2003. The proposed examination will include the measurement of important skills that are not readily measured in paper-based examinations. For example, the proposed computer-based examination will allow the candidate to use research tools and access authoritative literature.

The recommendations for the proposed structure and content specifications are based on the results of the *Practice Analysis of Certified Public Accountants*, which can be found on the Exams Team page on the AICPA Web site at www.aicpa.org/members/div/examiner/index.htm.

PROPOSED EXAMINATION STRUCTURE

The Board of Examiners is proposing an examination structure comprising four separately scored sections:

- Auditing & Attestation
- Financial Accounting & Reporting (business enterprises, not-for-profit organizations, and governmental entities)
- Regulation (professional responsibilities, business law, and taxation)
- Business Environment & Concepts

The Board of Examiners, in conjunction with the Joint AICPA/NASBA Computerization Implementation Committee (CIC), is in the process of gathering data in order to properly address the length of the sections and other important issues, such as retake and conditioning. These issues are discussed in greater detail in Briefing Paper No. 2, *Computerizing the Uniform CPA Examination—Issues, Strategies and Policies: An Update*.

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PROPOSED STRUCTURE AND CONTENT SPECIFICATIONS FOR THE UNIFORM CPA EXAMINATION

THE ROLE OF THE PRACTICE ANALYSIS

A practice analysis is a recognized tool in the licensing field that is designed to—

- Determine the typical and critical activities performed by professionals.
- Assess which of those activities are important for entry-level practitioners.
- Determine when the knowledge and skills necessary for the activities are acquired.
- Provide a basis for the development of test specifications.

A practice analysis underpins the content validity of any licensure examination. It is generally performed every five to ten years, depending on the rate of change within the profession. For the Uniform CPA Examination, a new full-scale practice analysis was completed in 2000 (hereafter referred to as “2000 Practice Analysis”). The previous full-scale practice analysis was completed in 1990. During the late 1990s, two targeted practice analysis studies were performed on information technology and general business knowledge. As a result of these targeted practice analyses, the examination specifications were revised to reflect increased testing of information technology and of general business knowledge. The 2000 Practice Analysis was a comprehensive effort that has been used to design the proposed structure and content of the Uniform CPA Examination set forth in this exposure draft. Many aspects of the proposed content specifications are currently included in the Uniform CPA Examination. To the extent the Practice Analysis identified modifications that can be made under the current content specifications, these modifications will be implemented. An appendix to the 2000 Practice Analysis sets forth a plan for keeping the content specifications current on an ongoing basis.

The process of performing, compiling, and evaluating the recent practice analysis was conducted under the auspices of the Content Oversight Task Force (COTF). The process included three major phases. Phase 1 involved collecting background data through interviews and literature reviews on the practice of public accounting. Phase 2 consisted of gathering quantitative data from focus groups and administering, to scientifically selected groups of entry-level CPAs, a set of major surveys about tasks, knowledge, and skills essential to practice. Phase 3 consisted of data analysis, synthesis, and reporting. A more detailed discussion of this process is in appendix A, A General Description of the Practice Analysis.

PROPOSED STRUCTURE

The Board of Examiners is proposing a design that will allow boards of accountancy to draw independent inferences about candidates' competence in four areas considered to be critical to the protection of the public interest.

The four areas and their related sections are:

- *Auditing & Attestation.* This section covers knowledge of auditing procedures, generally accepted auditing standards and other standards related to attest engagements, and the skills needed to apply that knowledge in those engagements.
- *Financial Accounting & Reporting.* This section covers knowledge of generally accepted accounting principles for business enterprises, not-for-profit organizations, and governmental entities, and the skills needed to apply that knowledge.
- *Regulation.* This section covers knowledge of federal taxation, ethics, professional and legal responsibilities, and business law, and the skills needed to apply that knowledge.
- *Business Environment & Concepts.* This section covers 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 business transactions, and the skills needed to apply that knowledge.

The length of the proposed sections is currently being deliberated. The sections will vary in length according to the relative importance and depth of required knowledge. Further, the final length must be sufficient for the scores to be psychometrically valid. The Auditing & Attestation and Financial Accounting & Reporting sections are expected to be longer than the other two sections. It is anticipated that the total time allotted to the four proposed sections will be no longer than fourteen hours, and may be shorter. The COTF has considered test lengths of twelve and fourteen hours.¹ The following table illustrates possible time allocations for tests of those lengths.

Possible Time Breakdowns by Section for Examinations of 14 and 12 Hours				
Examination Length (hours)	Auditing & Attestation	Financial Accounting & Reporting	Regulation	Business Environment & Concepts
14	4.5	4	3	2.5
12	4	3.5	2.5	2

The Board of Examiners also intends to assess a candidate's ability to integrate concepts across sections so that the questions will provide a more realistic assessment of a candidate's ability to appropriately resolve practice situations.

¹ The final length of the examination is not known at this time. The possible examination lengths shown in the table of time breakdowns are not all-inclusive.

Basis for Conclusion

The Board of Examiners charged the COTF with overseeing the practice analysis and making recommendations to the Board of Examiners about the proposed structure and content of the Uniform CPA Examination. The COTF studied the results of the practice analysis to determine the number and nature of independent assertions (independent measures) about candidates' knowledge and skills that are required to protect the public interest. The number and nature of independent assertions guide the decisions about how the examination is organized and how many independent passing grades are required. The fewer the assertions, the more the profession believes that strengths in one area can offset weaknesses in another. For example, if there is only one assertion—that the candidate has demonstrated an acceptable level of knowledge and skills in the global domain of public accountancy—there is an assumption that an individual who does not possess minimum knowledge and skills in audit can make up for those deficiencies by having more-than-minimum knowledge and skills in tax, accounting, or other subjects. Needing to make multiple assertions about candidates' knowledge and skills means having multiple independent examination sections. Within each section, strengths and weaknesses can compensate for one another; however, the compensation does not extend across sections. The COTF concluded four independent assertions about candidates' knowledge and skills are required to protect the public interest.

The COTF believes that the CPA Examination should test a CPA candidate's ability to demonstrate minimum knowledge and skills in the delivery of professional services that are restricted to licensees or in which CPAs have a significant effect on the public interest. For that reason, the proposed structure includes independent assertions about candidates' knowledge and skills related to auditing and attestation. Further, since most audit and attestation engagements relate to financial information and financial statements, the COTF concluded that a separate section on financial accounting and reporting is necessary.

CPAs also are responsible for abiding by the regulations that affect them, and for providing services or advice regarding certain regulations (for example, tax laws). Thus, another required independent assertion is that CPA candidates should independently demonstrate knowledge of regulations, including taxation, business law, and professional ethics, and the skills necessary to apply that knowledge.

Finally, an independent assertion regarding CPA candidates' business knowledge and the skills necessary to apply that knowledge is necessary for several reasons. The practice analysis showed that knowledge of business concepts is important to the protection of the public. The Auditing Standards Board has recognized that understanding the business and its environment is a key factor in applying the audit risk model. In addition, the public often looks to CPAs, including those recently licensed, as business advisers. Both the COTF and the Board of Examiners concluded that entry-level knowledge in this area currently is critical to audit effectiveness and thus the protection of the public. As a result, the COTF proposed that a fourth section of the examination test candidates' understanding of concepts related to business and the business environment, such as economics, information technology, and general business measurement (including management accounting). These concepts will be tested in the context of entry-level CPA practice.

Alternatives Considered

One-section examination. A one-section examination implies that a candidate must demonstrate minimum competency across all areas; however, strong knowledge in one area (for example, taxation) can compensate for a lack of knowledge in another area (for example, auditing). The COTF rejected this model because it lacked independent assurances about candidates' knowledge and skills in the areas of auditing and attestation, and financial accounting and reporting. In addition, a single-section examination would result in higher costs for failing candidates because they would have to prepare for, and then retake, the entire CPA Examination instead of only those sections they have not passed.

Two-section examination. The COTF considered a two-section examination that tested the auditing knowledge and skills needed by entry-level CPAs in one section, and those needed in accounting in the other section. Under this model, the other important content areas identified by the 2000 Practice Analysis—regulation and business environment and concepts—would have been included on the auditing and accounting sections. This model was rejected because it could have allowed some candidates with insufficient knowledge of auditing and accounting to pass the CPA Examination if they had superior knowledge of regulation and business concepts.

Other examination models. The COTF considered several other models comprising three or four sections. One was a four-section model made up of three “focus” sections and an “integration” section. The three focus sections, each concentrating on a single content area, were Auditing, Accounting, and Taxation. The fourth section, Integration, would have required candidates to integrate their auditing, accounting, and taxation knowledge with their knowledge of business law, general business, and information technology. By including content on the Integration section that already appeared to a significant degree on the focus sections, it was believed candidates would be tested twice on the same information, creating both an unfair situation for candidates and an inefficient testing model. A three-section model giving separate scores on auditing and attestation, accounting and reporting, and regulation was favored by some on the COTF. However, in the COTF’s prevailing view, candidates’ knowledge of business environment and concepts and the skills necessary to apply that knowledge was so important that an independent assertion about that knowledge and those skills was required. This resulted in a fourth section.

Each model has merit and had some support; however, the four-section model proposed in this exposure draft was chosen because it had the most support as a model that would best protect the public interest. Every COTF member believed that the proposed model is a rational and reasonable model.

PROPOSED CONTENT SPECIFICATIONS

Focus of the Uniform CPA Examination

The Uniform CPA Examination is a licensure examination, the purpose of which is to admit individuals into the profession only after they have demonstrated entry-level knowledge and skills necessary to protect the public interest in a rapidly changing business and financial environment. The content tested on the CPA Examination is based on a variety of factors, including findings from the practice analysis, protection of the public interest, and knowledge of the accounting profession.

Purpose of Content Specifications

The purpose of content specifications is to—

- Ensure across CPA Examination administrations consistent coverage of knowledge and skills important to the protection of the public interest as determined by the practice analysis and other relevant information.
- Provide guidance about questions to include on the CPA Examination to those who are responsible for preparing it.
- Assist candidates in preparing for the CPA Examination by delineating the knowledge and skills that may be tested.
- Apprise educators about the knowledge and skills candidates will need to pass the CPA Examination and to function as entry-level CPAs.

Process for Development of Content Specifications

Licensure examinations must be directly related to the entry-level knowledge and skills necessary to protect the public interest. The identification of that knowledge and those skills typically comes from a practice analysis, which then serves as the foundation for decisions regarding the content and structure of the licensure examination.

The 2000 Practice Analysis included a survey that consisted of two separate measures. One asked for ratings of tasks performed by entry-level CPAs, while the other asked for ratings of knowledge and skill statements. In the task survey, respondents were asked to rate the importance and frequency of each task to their work. The knowledge and skill survey asked respondents to rate each statement for importance, depth of knowledge required (for the knowledge statements only), and point of acquisition (that is, when the knowledge or skill was acquired—before passing the CPA Examination, within three years of passing the CPA Examination, or thereafter). An initial list of the content knowledge to be tested on or excluded from the CPA Examination was drafted based on an analysis of the survey results. This draft list was reviewed and revised by the COTF, subcommittees of the Board of Examiners, and experienced CPA Examination test developers. Once the list of content to be tested was established, proposed content specifications were drafted and reviewed by the same groups. Based on these reviews, the content specifications were revised and submitted to final review. Because the new specifications were generated independently of the current content specifications, the proposed content specifications

were compared with the current content specifications to ensure that no important content was inadvertently omitted.

The following table compares the content areas tested in each section under the current structure and under the proposed structure. The percentages refer to the amount of topical coverage within the specified section of the examination. The material differences between the structures are as follows:

- The subject areas contained in Accounting & Reporting—Taxation, Governmental and Not-for-Profit Organizations, and Managerial—have been separated and grouped with subject matter that is more logically related.
 - Accounting and reporting for governmental and not-for-profit organizations has been placed in Financial Accounting & Reporting.
 - Taxation has been placed in Regulation.
 - Managerial has been placed in Business Environment & Concepts.
- Candidates will be required to demonstrate business knowledge primarily in the Business Environment & Concepts section.

Weight	Current Examination	Proposed Examination	Weight
100%	Auditing	Auditing & Attestation	100%
100%	Financial Accounting & Reporting	Financial Accounting & Reporting <ul style="list-style-type: none"> — Business enterprises — Governmental entities — Not-for-profit organizations 	80% 10% 10%
60% 30% 10%	Accounting & Reporting <ul style="list-style-type: none"> — Taxation — Governmental and Not-for-Profit Organizations — Managerial (measurement) 	Regulation <ul style="list-style-type: none"> — Taxation — Law & Professional Responsibilities (all areas other than Business Structure) 	60% 40%
20% 80%	Law & Professional Responsibilities <ul style="list-style-type: none"> — Business Structure — All areas other than Business Structure 	Business Environment & Concepts <ul style="list-style-type: none"> — Business Structure — Measurement (managerial) — All areas other than Business Structure and Measurement (not separately tested on current examination) 	20% 10% 70%

CONTENT SPECIFICATION OUTLINES

Meaning and Use of the Content Specification Outlines

The outline portions of the content specifications identify the extent of the technical content to be tested on each of the four sections of the Uniform CPA Examination. The outlines list the *areas*, *groups*, and *topics* to be tested in the following manner:

- I. Area
 - A. Group
 - 1. Topic

Each outline is followed by information about selected publications that candidates may study to prepare for the Uniform CPA Examination.

Weights

The percentage range following each area represents the approximate percentage of total test points associated with the area. The examination questions are selected from the groups and topics listed within each area to fall within the percentage allocation range. No percentages are given for groups or topics. The presence of several groups within an area or several topics within a group does not imply equal importance or weight will be given to these groups or topics on an examination.

Skills

Identification of the skills needed by entry-level CPAs was an integral component of the 2000 Practice Analysis. The skills identified as necessary for the protection of the public interest include the ability to communicate, the ability to perform research, the ability to analyze information, and the ability to organize information, as well as other higher-order skills.

Candidates will be required to demonstrate their ability to apply these skills in each section of the Uniform CPA Examination in the context of the content knowledge. Skills will be assessed in a variety of ways, such as simulations, case studies, and other test item formats. As discussed more fully in Briefing Paper No. 2, computer-based testing allows the use of many electronic tools such as spreadsheets, databases and word-processors—all of which will be used in testing skills. It is the Board of Examiners' intention to assign weights to skills for each section in a manner similar to the weights attached to knowledge.

Integration of Knowledge

The issues that CPAs, including entry-level CPAs, face require them to understand and apply knowledge from diverse areas. For example, accounting issues often have audit or tax ramifications and business environment can affect audit issues. Therefore, it is important that the Uniform CPA Examination test candidates' ability to integrate a wide variety of the knowledge tested on the examination. Accordingly, application of knowledge of content primarily covered in one section of the Uniform CPA Examination may be covered in another section when it is pertinent to testing a candidate's ability to integrate knowledge. For example, tax issues, which will be tested primarily in the Regulation section, may arise in connection with accounting issues and, therefore, these tax issues may be tested in the Financial Accounting & Reporting section in the context of an accounting problem.

The intention of the four-section examination is to be able to make independent assertions about the candidates' knowledge in each section. These conflicting goals— independent assertions and integration— should be balanced. The amount of integration across sections will be analyzed by the content committees and the research psychometricians to ensure that the sections are sufficiently unrelated to warrant the independent assertions. The percentage of points associated with integration will be published with the content specifications such that candidates will be aware of the nature and degree of integration required.

Auditing & Attestation

The Auditing & Attestation section covers knowledge of auditing procedures, generally accepted auditing standards and other standards related to attest engagements, and the skills needed to apply that knowledge in those engagements. This section tests such knowledge and skills in the context of the five broad engagement tasks in the outline that follows.

Auditing & Attestation Content Specification Outline

- I. Plan the engagement, evaluate the prospective client and engagement, decide whether to accept or continue the client and the engagement, and enter into an agreement with the client (22%–28%)
 - A. Determine nature and scope of engagement
 1. Generally accepted auditing standards
 2. Standards for accounting and review services
 3. Standards for attestation engagements
 4. Compliance auditing applicable to governmental entities and other recipients of governmental financial assistance
 5. Other assurance services
 6. Appropriateness of engagement to meet client's needs.
 - B. Assess engagement risk and the CPA firm's ability to perform the engagement
 1. Engagement responsibilities
 2. Staffing and supervision requirements
 3. Quality control considerations
 4. Management integrity
 5. Researching information sources for planning and performing the engagement
 - C. Communicate with the predecessor accountant or auditor
 - D. Decide whether to accept or continue the client and engagement
 - E. Enter into an agreement with the client about the terms of the engagement
 - F. Obtain an understanding of the client's operations, business, and industry
 - G. Perform analytical procedures
 - H. Consider preliminary engagement materiality
 - I. Assess inherent risk and risk of misstatements
 1. Errors
 2. Fraud
 3. Illegal acts by clients
 - J. Consider other planning matters
 1. Using the work of other independent auditors
 2. Using the work of a specialist
 3. Internal audit function

4. Related parties and related party transactions
 5. Electronic evidence
 6. Risks of auditing around the computer
- K. Identify financial statement assertions and formulate audit objectives
1. Significant financial statement balances, classes of transactions, and disclosures
 2. Accounting estimates
- L. Determine and prepare the work program defining the nature, timing, and extent of the procedures to be applied
- II. Consider internal control in both manual and computerized environments (12%–18%)
- A. Obtain an understanding of business processes and information flows
 - B. Identify controls that might be effective in preventing or detecting misstatements
 - C. Document an understanding of internal control
 - D. Consider limitations of internal control
 - E. Consider the effects of service organizations on internal control
 - F. Perform tests of controls
 - G. Assess control risk
- III. Obtain and document information to form a basis for conclusions (32%–38%)
- A. Perform planned procedures
 1. Applications of audit sampling
 2. Analytical procedures
 3. Confirmation of balances and/or transactions with third parties
 4. Physical examination of inventories and other assets
 5. Other tests of details
 6. Computer-assisted audit techniques, including data interrogation, extraction, and analysis
 7. Substantive tests before the balance sheet date
 8. Tests of unusual year-end transactions
 - B. Evaluate contingencies
 - C. Obtain and evaluate lawyers' letters
 - D. Review subsequent events
 - E. Obtain representations from management
 - F. Identify reportable conditions and other control deficiencies
 - G. Identify matters for communication with audit committees
 - H. Perform procedures for accounting and review services engagements
 - I. Perform procedures for attestation engagements
- IV. Review the engagement to provide reasonable assurance that objectives are achieved and evaluate information obtained to reach and to document engagement conclusions (8%–12%)
- A. Perform analytical procedures

- B. Evaluate the sufficiency and competence of audit evidence and document engagement conclusions
 - C. Evaluate whether financial statements are free of material misstatements
 - D. Consider whether substantial doubt about an entity's ability to continue as a going concern exists
 - E. Consider other information in documents containing audited financial statements
 - F. Review the work performed to provide reasonable assurance that objectives are achieved
- V. Prepare communications to satisfy engagement objectives (12%–18%)
- A. Reports
 - 1. Reports on audited financial statements
 - 2. Reports on reviewed and compiled financial statements
 - 3. Reports required by Government Auditing Standards
 - 4. Reports on compliance with laws and regulations
 - 5. Reports on internal control
 - 6. Reports on prospective financial information
 - 7. Reports on agreed-upon procedures
 - 8. Reports on the processing of transactions by service organizations
 - 9. Reports on supplementary financial information
 - 10. Special reports
 - 11. Reports on other assurance services
 - 12. Reissuance of reports
 - B. Other required communications
 - 1. Errors and fraud
 - 2. Illegal acts
 - 3. Communication with audit committees
 - 4. Other reporting considerations covered by Statements on Auditing Standards and Statements on Standards for Attestation Engagements
 - C. Other matters
 - 1. Subsequent discovery of facts existing at the date of the auditor's report
 - 2. Consideration after the report date of omitted procedures

Suggested Publications to Study—Auditing & Attestation

- AICPA Statements on Auditing Standards and Interpretations
- AICPA Statements on Standards for Accounting and Review Services and Interpretations
- AICPA Statements on Quality Control Standards
- AICPA Statements on Standards for Attestation Engagements

- U.S. General Accounting Office *Government Auditing Standards*
- AICPA Audit and Accounting Guides
 - *Consideration of Internal Control in a Financial Statement Audit*
- Textbooks and articles on auditing and other attestation services
- AICPA Auditing Practice Releases
- AICPA Audit and Accounting Manual
- AICPA Audit Risk Alerts and Compilation and Review Alerts
- Single Audit Act, as amended

Financial Accounting & Reporting

The Financial Accounting & Reporting section tests knowledge of generally accepted accounting principles (GAAP) for business enterprises, not-for-profit organizations, and governmental entities, and the skills needed to apply that knowledge. To demonstrate such knowledge and skills, candidates will be required to—

- Obtain and document information for use in financial statement presentations.
- Evaluate, analyze, and process entity information for reporting in financial statements.
- Communicate entity information and conclusions.
- Analyze information and identify data relevant to financial accounting and reporting.
- Identify financial accounting and reporting methods and select those that are suitable.
- Perform calculations.
- Formulate conclusions.
- Present results in writing in a financial statement format or other appropriate format.

Financial Accounting & Reporting Content Specification Outline

- I. Concepts and standards for financial statements (17%–23%)
 - A. Financial accounting concepts
 1. Process by which standards are set and roles of standard-setting bodies
 2. Conceptual and theoretical basis for accounting standards
 - B. Financial accounting standards for presentation and disclosure in general-purpose financial statements
 1. Consolidated and combined financial statements
 2. Balance sheet
 3. Statement(s) of income, comprehensive income, and changes in equity accounts
 4. Statement of cash flows
 5. Accounting policies and other notes to financial statements
 - C. Other presentations of financial data (financial statements prepared in conformity with comprehensive bases of accounting other than GAAP)
 - D. Financial statement analysis
- II. Typical items: recognition, measurement, valuation, and presentation in financial statements in conformity with GAAP (27%-33%)
 - A. Cash, cash equivalents, and marketable securities
 - B. Receivables
 - C. Inventories

- D. Property, plant, and equipment
 - E. Investments
 - F. Intangibles and other assets
 - G. Payables and accruals
 - H. Deferred revenues
 - I. Notes and bonds payable
 - J. Other liabilities
 - K. Equity accounts
 - L. Revenues, cost, and expense accounts
- III. Specific types of transactions and events: recognition, measurement, valuation, and presentation in financial statements in conformity with GAAP (27%–33%)
- A. Accounting changes and corrections of errors
 - B. Business combinations
 - C. Contingent liabilities and commitments
 - D. Discontinued operations
 - E. Earnings per share
 - F. Employee benefits, including stock options
 - G. Extraordinary items
 - H. Financial instruments, including derivatives
 - I. Foreign currency transactions and translation
 - J. Income taxes
 - K. Interest costs
 - L. Interim financial reporting
 - M. Leases
 - N. Non-monetary transactions
 - O. Related parties
 - P. Research and development costs
 - Q. Segment reporting
- IV. Accounting and reporting for governmental entities and governmental not-for-profit organizations (8%–12%)
- A. Governmental accounting concepts
 - 1. Measurement focus and basis of accounting
 - 2. Fund accounting concepts and application
 - 3. Budgetary process
 - B. Format and content of governmental financial statements
 - 1. Government-wide financial statements
 - 2. Governmental funds financial statements

3. Notes to financial statements
 4. Required supplementary information, including management's discussion and analysis
 5. Comprehensive annual financial report (CAFR)
- C. Financial reporting entity including component and blended units
- D. Typical items and specific types of transactions and events: recognition, measurement, valuation, and presentation in governmental entity financial statements in conformity with GAAP
1. Net assets
 2. Transfers
 3. Other financing sources and uses
 4. Fund balance
 5. Non-exchange revenues
 6. Expenditures
 7. Special items
 8. Encumbrances
- E. Accounting and financial reporting for governmental not-for-profit organizations
- V. Accounting and reporting for nongovernmental not-for-profit organizations (8%–12%)
- A. Elements and formats of financial statements
1. Statement of financial position
 2. Statement of activities
 3. Statement of cash flows
- B. Typical items and specific types of transactions and events: recognition, measurement, valuation, and presentation in the financial statements of not-for-profit organizations in conformity with GAAP
1. Revenues and contributions
 2. Restrictions on resources
 3. Expenses, including depreciation
 4. Investments

Suggested Publications to Study—Financial Accounting & Reporting

- Financial Accounting Standards Board (FASB) Statements of Financial Accounting Standards and Interpretations, Accounting Principles Board Opinions, AICPA Accounting Research Bulletins, and FASB Technical Bulletins
- AICPA Statement on Auditing Standards (SAS) No. 69, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles in the Independent Auditor's Report*, and SAS No. 62, *Special Reports*
- FASB Statements of Financial Accounting Concepts
- AICPA Statements of Position:

- 93-7, *Reporting on Advertising Costs*
- 94-6, *Disclosure of Certain Significant Risks and Uncertainties*
- 96-1, *Environmental Remediation Liabilities*
- 97-2, *Software Revenue Recognition*
- 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*
- 98-2, *Accounting for the Costs of Activities of Not-for-Profit Organizations and State and Local Governmental Entities That Include Fund Raising*
- 98-5, *Reporting on the Costs of Start-Up Activities*
- Governmental Accounting Standards Board (GASB) Statements, Interpretations, and Technical Bulletins
- AICPA Audit and Accounting Guides relating to governmental and not-for-profit organizations
- Books and articles on accounting for business enterprises, not-for-profit organizations, and governmental entities

Regulation

The Regulation section tests candidates' knowledge of federal taxation, ethics, professional and legal responsibilities, and business law, and the skills required to apply that knowledge.

Ethics, Professional and Legal Responsibilities, and Business Law

This portion covers knowledge of a CPA's professional and legal responsibilities and the legal implications of business transactions, particularly as they relate to accounting and auditing, and the skills required to apply that knowledge. This section deals with federal and widely adopted uniform state laws. If there is no federal or uniform state law on a topic, the questions are intended to test knowledge of the law of the majority of jurisdictions. Professional ethics questions are based on the AICPA Code of Professional Conduct because it is national in its application.

Federal Taxation

This portion tests knowledge of principles and procedures for federal income, estate, and gift taxation, and the skills required to apply that knowledge in practice. To demonstrate such knowledge and skills, candidates will be required to—

- Analyze information and identify data relevant for tax purposes.
- Identify issues, elections, and alternative tax treatments.
- Research issues and alternative tax treatments.
- Formulate conclusions.

Regulation Content Specification Outline

- I. Ethics and professional and legal responsibilities (15%–20%)
 - A. Code of Professional Conduct
 - B. Proficiency, independence, and due care
 - C. Ethics and responsibilities in tax practice
 - D. Licensing and disciplinary systems imposed by the profession and state regulatory bodies
 - E. Legal responsibilities and liabilities
 1. Common law liability to clients and third parties
 2. Federal statutory liability
 - F. Privileged communications and confidentiality
- II. Business law (20%–25%)
 - A. Agency
 1. Formation and termination
 2. Duties and authority of agents and principals
 3. Liabilities and authority of agents and principals

- B. Contracts
 - 1. Formation
 - 2. Performance
 - 3. Third-party assignments
 - 4. Discharge, breach, and remedies
- C. Debtor-creditor relationships
 - 1. Rights, duties, and liabilities of debtors, creditors, and guarantors
 - 2. Bankruptcy
- D. Government regulation of business
 - 1. Federal securities acts
 - 2. Other government regulation (antitrust, pension and retirement plans, union and employee relations, and legal liability for payroll and social security taxes)
- E. Uniform commercial code
 - 1. Negotiable instruments and letters of credit
 - 2. Sales
 - 3. Secured transactions
 - 4. Documents of title and title transfer
- F. Real property, including insurance
- III. Federal tax accounting issues (8%–12%)
 - A. Sources of federal tax law (hierarchy of authority)
 - B. Accounting periods
 - C. Accounting methods including cash, accrual, percentage of completion, completed contract, and installment sales
 - D. Inventory methods, including uniform capitalization rules
- IV. Federal taxation of property transactions (8%–12%)
 - A. Types of assets
 - B. Basis of assets
 - C. Depreciation and amortization
 - D. Taxable and nontaxable sales and exchanges
 - E. Income and expenses
 - F. Capital gains and losses
- V. Federal taxation—individuals (12%–18%)
 - A. Gross income—inclusions and exclusions
 - B. Reporting pass-through entities
 - C. Adjustments and deductions to arrive at taxable income
 - D. Filing status and exemptions
 - E. Tax computations, credits, and penalties

- F. Alternative minimum tax
- G. Retirement plans
- H. Estate and gift taxation

VI. Federal taxation—entities (22%–28%)

- A. Similarities and distinctions in tax reporting among such entities as sole proprietorships, general and limited partnerships, corporations, S corporations, limited liability companies, and limited liability partnerships
- B. Corporations
 - 1. Determination of taxable income and loss, and reconciliation of book income to taxable income
 - 2. Tax computations, credits, and penalties, including alternative minimum tax
 - 3. Net operating losses
 - 4. Consolidated returns
 - 5. Contributions and distributions
- C. S corporations
 - 1. Eligibility and election
 - 2. Determination of ordinary income, separately stated items, and reconciliation of book income to taxable income
 - 3. Basis of shareholder's interest
 - 4. Contributions and distributions—liquidating and nonliquidating
 - 5. Built-in gains tax
- D. Partnerships
 - 1. Determination of ordinary income, separately stated items, and reconciliation of book income to taxable income
 - 2. Basis of partner's interest and basis of assets contributed to the partnership
 - 3. Partnership and partner elections
 - 4. Partner dealing with own partnership
 - 5. Treatment of partnership liabilities
 - 6. Distribution of partnership assets
 - 7. Ownership changes and liquidation and termination of partnership
- E. Trusts
 - 1. Income and deductions
 - 2. Determination of beneficiary's share of taxable income
- F. Exempt organizations

Suggested Publications to Study—Regulation

Ethics, Professional and Legal Responsibilities, and Business Law

- *AICPA Professional Standards: Code of Professional Conduct and Bylaws*

- AICPA Statements on Auditing Standards dealing explicitly with proficiency, confidentiality, independence, and due care
- AICPA Statements on Standards for Consulting Services
- AICPA Statements on Responsibilities in Personal Financial Planning Practice
- Pronouncements of the Independence Standards Board
- Books covering business law, auditing, and accounting

Federal Taxation

- Internal Revenue Code and Income Tax Regulations
- Internal Revenue Service Circular 230
- AICPA Statements on Standards for Tax Services
- Income tax textbooks

Business Environment & Concepts

The Business Environment & 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 business transactions, and the skills needed to apply that knowledge. These concepts will be tested in the context of entry-level CPA practice. Content covered in this section includes knowledge of business structure, economic concepts, financial management, information technology, planning and budgeting, and measurement. Appendix B lists information technology topics that CPAs need to understand in order to perform auditing and other attestation engagements in a computerized environment.

Business Environment & Concepts Content Specification Outline

- I. Business structure (17%–23%)
 - A. Legal structures for business—sole proprietorships, partnerships, LLCs, LLPs, C and S corporations, joint ventures, and unincorporated associations
 - B. Formation, operation, and termination of businesses
 - C. Financial structure, capitalization, profit allocation, and distributions
 - D. Rights, duties, legal obligations, and authority of owners and management (directors, officers, stockholders, partners, and other owners)
- II. Economic concepts (8%–12%)
 - A. Business cycles and reasons for business fluctuations
 - B. Inflation measures, such as the Consumer Price Index, and interest rates
 - C. Competitive factors in the marketplace
 - D. Market influences on selling strategies, such as pricing and returns
 - E. Global economy and foreign currencies and exchange
- III. Financial management (22%–28%)
 - A. Decision-making factors and models, including such factors as financial indexes, taxes and opportunity costs, and such models as economic value added, cash flow, net present value, discounted payback, and internal rate of return.
 - B. Characteristics of loan rates (fixed vs. variable) and loan covenants
 - C. Implications of electronic commerce and electronic data interchange, including electronic fund transfers, point of sale transactions, and internet-based transactions
 - D. Optimum capital structure and strategies for short-term and long-term financing options, including cost of capital
 - E. Cash management, including management of accounts receivable, accounts payable, and inventories
- IV. Information technology (IT) (17%–23%) (See Appendix B)
 - A. Role of business information systems
 - B. Roles and responsibilities within the IT department
 - C. Technology fundamentals
 - 1. Hardware and software

2. Networks
3. Data structure, analysis, and manipulation
- D. Operation of systems
 1. Transaction processing modes
 2. Application processing phases
- E. IT controls
 1. IT control objectives
 2. Control activities and design
 3. Electronic commerce controls
 4. Physical access controls and security
- F. Disaster recovery and business continuity
- V. Planning and budgeting (10%–15%)
 - A. Planning techniques, including strategic and operational planning
 - B. Forecasting and projection techniques
 - C. Budgeting and budget variance analysis
- VI. Measurement (10%–15%)
 - A. Performance measures
 1. Organizational performance measures, including scorecards
 2. Benchmarking, including quality control principles, best practices, and benchmarking techniques
 - B. 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

Suggested Publications to Study—Business Environment & Concepts

- Managerial accounting textbooks and other accounting textbooks containing pertinent chapters
- Textbooks on economics, financial management, corporate finance, planning and performance measures
- AICPA Technology Series
- Textbooks and articles on the IT topics that CPAs need to understand in order to perform auditing and other attestation engagements in a computerized environment

Business periodicals such as the *Wall Street Journal*, *Business Week*, and *Journal of Accountancy* provide background material that is helpful in gaining an understanding of business environment and concepts.

The content specification outlines for the Business Environment & Concepts section contain some content areas that were not previously tested on the Uniform CPA Examination. Whenever a change of this magnitude is considered, an iterative process is employed to define the major content areas to be covered, the specific topics to be assessed, the questions to be asked, and the study material to be recommended. The Board of Examiners recognizes that the content specifications for the Business Environment & Concepts section—in order to fully inform candidates, educators, and test developers—may need more detail. The Board of Examiners will be appointing a subcommittee for that purpose. The subcommittee will give consideration to all comments received in response to this exposure draft as it continues the iterative development process. If this process results in significant changes to the outline provided in this exposure draft for the Business Environment & Concepts section, or indeed any other section, the Board of Examiners will issue a revised exposure draft for the significantly changed outlines.

APPENDIX A

A GENERAL DESCRIPTION OF THE PRACTICE ANALYSIS

OVERVIEW

A *practice analysis* is a study designed to determine the typical and critical activities performed by professionals. In the context of a licensure examination program such as the Uniform CPA Examination, a practice analysis is further designed to assess which of those activities are important for entry-level practitioners. It is also designed to determine when the knowledge and skills necessary for the activities are acquired, and to assist in the development of test specifications.

Practice analysis studies are fundamental to the validity of licensure examinations. To gather the information needed to support an examination program, a practice analysis typically collects information from a variety of sources. Once the information is collected, it is analyzed and reported to policy makers, who make the final determination about what will be included on the examination.

The evaluation of information by policy makers is a critical part of the practice analysis process because a practice analysis is mainly concerned with identifying *current* job activities. Ultimately, however, policy makers need to interpret the information and make adjustments about whether some or all of these activities are changing in importance, and how any changes should affect whether these activities are included, or how they are weighted, on the examination.

The recently completed practice analysis of certified public accountants had two primary objectives. One was to define comprehensively the tasks performed by entry-level CPAs, along with the knowledge and skills they need to perform those tasks, particularly with respect to protecting the public interest. The second objective was to provide data for updating the content specifications for the CPA Examination. Three phases of activity were undertaken to achieve these objectives.

PHASE 1

In the first phase, a variety of background materials was reviewed, such as professional journal articles or columns, textbooks, AICPA publications and research reports, prior practice analysis reports, and accounting-related Web sites. In addition, interviews were conducted with more than twenty accounting professionals representing individual firms, the AICPA, National Association of State Boards of Accountancy, various state boards of accountancy, and the Securities and Exchange Commission. This phase resulted in a broad understanding of the accounting profession at this time. It also identified changes in public accounting that have occurred over the last decade and projected changes for the next five to ten years. Because of the nature of the information gathering in Phase 1, a full picture of the profession was not developed. Phase 1, however, served as the basis for Phase 2.

PHASE 2

Phase 2 consisted of large-scale data collection and analysis. The heart of Phase 2 was the development and administration of two surveys. The first step in the development of the surveys was conducting five focus groups, each comprising eight to twelve CPAs. The participants had experience supervising entry-level CPAs and were organized according to whether their primary practice area was accounting and auditing (two groups), taxation (one group), or business and industry (one group). The fifth focus group

contained CPAs who came from diverse practice areas. This final group reviewed the results from the prior focus groups.

The focus groups' goals were to identify the tasks performed by entry-level CPAs, and the knowledge and skills needed for successful job performance. The focus groups refined and expanded the information gathered in Phase 1. Their work resulted in two surveys suitable for national administration. They also generated lists of *critical incidents*, which will be used in writing CPA Examination questions. Critical incidents are reports of actual practice events in which actions taken by entry-level CPAs resulted in either positive or negative results. Critical incidents can be analyzed to determine the behaviors that led to the outcome.

The practice analysis survey was designed to accomplish several objectives. These included obtaining data on knowledge, skills, and tasks, specifically (1) importance, point of acquisition (for example, when needed in one's career), and depth of understanding (familiarity, working knowledge, thorough mastery) for knowledge; (2) importance and point of acquisition (for example, when needed in one's career) for skills; and (3) importance and frequency of tasks in the context of the respondent's practice.

To limit the time required for respondents to complete the survey, two surveys were developed—one for tasks and one for knowledge and skills. By splitting the information-gathering load in this manner, the task survey focused exclusively on the work requirements of entry-level CPAs, whereas the knowledge and skill survey focused exclusively on the professional characteristics needed by entry-level CPAs to practice public accountancy. Both versions of the survey contained sections asking for background information, time spent in various areas of professional practice, and respondent comments.

A stratified random sample of 5,000 entry-level CPAs (2,500 for each version of the survey) was selected. Although the focus of the practice analysis was on public accounting, approximately 10 percent of the sample targeted entry-level CPAs in industry. This provided information on the similarities and differences in knowledge and skills needed by entry-level CPAs in industry and those in public practice. Data from entry-level CPAs in private industry were recorded separately and not used in updating the CPA Examination.

A total of 1,349 completed surveys were returned, for an overall response rate of 27.5 percent. Though the return rate was lower than for previous practice analyses, analysis of the characteristics of respondents and nonrespondents supported the conclusion that the data were representative of the entire sample.

PHASE 3

In Phase 3, the responses to the surveys were analyzed. The statements, along with their respective ratings, were then reviewed by panels of content specialists and policy makers to determine whether particular statements should be included in the CPA Examination's content specifications. Once adjustments were made, preliminary content specifications were developed and reviewed again by both content specialists and policy makers. Several iterations of this process resulted in the content specifications included in this exposure draft.

APPENDIX B

INFORMATION TECHNOLOGY TOPICS

Role of Business Information Systems

Includes reporting concepts and systems, transaction processing systems, management reporting systems, and risks.

Roles and Responsibilities Within the IT Department

Includes roles and responsibilities of database/network/Web administrators, computer operators, librarians, systems programmers and applications programmers, and appropriate segregation of duties.

Hardware

Includes CPUs, file servers, workstations/terminals, input/output devices, physical storage devices, memory, and communication devices.

Software

Includes operating systems, applications, and security.

Networks

Includes LANs/WANs/VANs; Internet, intranets, and extranets; centralized/decentralized processing; distributed data processing; client/server computing; and end-user computing.

Data Structure, Analysis, and Manipulation

Includes file organization, types of data files, and database management systems.

Transaction Processing Modes

Includes batch, online, real-time, and distributed processing.

Application Processing Phases

Includes data capture; edit routines; master file maintenance; reporting, accounting, control, and management; query, audit trail, and ad hoc reports; and transaction flow.

Information Technology Control Objectives

Includes completeness, accuracy, validity, integrity, timeliness, and authorization control objectives.

Control Activities and Design

Includes effects of general, preventive, detective, automated, and user controls.

Physical Access Controls and Security

Includes user identification, keypad device, and card reader controls; access rights, file attributes, and passwords.

Disaster Recovery and Business Continuity

Includes data backup and data recovery procedures, alternate processing facilities (hot sites), and threats and risk management