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Information

for CPA CANDIDATES

American Institute of Certified Public Accountants

Information
for **CPA CANDIDATES**

American Institute of Certified Public Accountants

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666 Fifth Ave., New York 19, N. Y.*

The material in this pamphlet has been prepared by the Board of Examiners and by the individuals indicated at the beginning of each section. The By-Laws of the Institute make the Board of Examiners responsible for supervision of the preparation of the Uniform CPA Examination and of the conduct of the Advisory Grading Service. The section of the pamphlet authored by the Board is an expression of the Board's policy for the preparation of the examination.

Since the pamphlet has not been formally approved by the Council or the membership, it does not represent the official position of the American Institute of Certified Public Accountants.

Preface

THE Uniform Certified Public Accountant Examination is an achievement of which the accounting profession in the United States is very proud.

All the states and territories of the United States now use the same questions and problems in examining candidates for the CPA certificate, and all also utilize the Advisory Grading Service, which provides suggested grades for each candidate.

The result has been to put the CPA certificates of all jurisdictions substantially on the same footing, which has greatly increased the national prestige of the title "CPA."

The Uniform Examination was first offered to the states by the American Institute of Certified Public Accountants in 1917. Ever since then, the Institute's Board of Examiners has made a continuous effort to improve the quality and the grading of the examination, so as to make it a fair and reasonable test of a candidate's technical competence to practice as a certified public accountant.

There is a growing demand for professionally trained accountants, and the accounting profession welcomes to its ranks all qualified men and women. The CPA Examination is not a fence designed to keep people out. It is a necessary test of competence, without which the CPA certificate would have little meaning. The more candidates who pass, the better the examiners like it. The fact that the number of CPAs has grown from 25,000 in 1945 to 75,000 in 1961 supports this assertion.

This booklet is designed to help candidates pass the examination. The authors who have contributed to the text have had a great deal of experience in the areas of which they write, and their thoughtful views are well worth careful reading by anyone who hopes to become a CPA.

New York, N. Y., July 15, 1962

JOHN L. CAREY
*Executive Director
American Institute of CPAs*

Contents

Preface	<i>page iii</i>
Purpose and Scope of the Examination	<i>page 1</i>
General Objectives; Subjects, Days, and Times; Emphasis of the Examination; Level; Scope.	
State Boards of Accountancy	<i>page 10</i>
Sources of Specific Information; Early Development; State Boards of Accountancy; Finances; State Societies of Certified Public Accountants; Examination; Conditional Credit; Other Requirements.	
General Preparation for the Examination	<i>page 15</i>
Requisites for Success; General Suggestions; Accounting Problems; Essay Questions.	
The Examination and You	<i>page 21</i>
Organizational Arrangements; Preparation of the Examination; Grading the Examination; Fact and Fancy: Success in Passing the Examination; Taking the Examination; Conclusion.	

Purpose and Scope of the Examination

BY THE BOARD OF EXAMINERS*

WHAT specific purpose does the Uniform CPA Examination serve? At what level of competence-to-practice does it seek to test? What areas of knowledge and what skills does it attempt to measure? And of equal importance, what areas does it make no attempt to measure—and why? The answers to these questions should aid candidates in preparing intelligently for taking the examination.

The Uniform CPA Examination is one of the instruments utilized by state and territorial boards of public accountancy in judging the fitness of candidates for certification. To understand properly the place of the examination as one of the prerequisites for the CPA certificate, it is necessary to realize the significance of the CPA designation. The certificate is a matter of public interest and is granted to properly qualified individuals under the statutes of the several states and territories. In other words, it is not granted for the benefit of the possessors of the certificates or of any other special group; rather, it is intended to meet the public's need for assurance of competence on the part of the individuals offering their services to the public as expert accountants. It is this fact which causes the several state boards of accountancy to inquire with great care into the qualifications of candidates for the CPA certificate.

General Objectives

The CPA's function requires of the practitioner certain qualifications, chief among which are the possession of adequate technical knowledge, the ability to apply such knowledge skillfully and with good judgment, certain essential character attributes and desirable personality traits. Since

* The Board of Examiners of the American Institute of Certified Public Accountants has the ultimate responsibility for the preparation of the Uniform CPA Examination and the operation of the Advisory Grading Service. All state boards of accountancy have elected to use the examination, and the grading service is used by all.

testing techniques are not sufficiently advanced to measure the last two factors, state boards of accountancy must rely on less objective means of evaluation than tests for these qualifications.

The Uniform CPA Examination, then, is restricted to the measurement of technical competence, which includes technical knowledge, skills in the application of such knowledge, and the exercise of good judgment.

Subjects, Days, and Times

The Uniform Examination is given twice a year, in May and November. Specific dates and application requirements may be secured from each state board of accountancy. The subjects and their times are as follows:

Accounting Practice, Part I	Wednesday	1:30— 6:00 P.M.
Auditing	Thursday	8:30—12:00 NOON
Accounting Practice, Part II	Thursday	1:30— 6:00 P.M.
Commercial Law	Friday	8:30—12:00 NOON
Theory of Accounts	Friday	1:30— 5:00 P.M.

The two parts of the Accounting Practice examination (the problems section) are considered a single examination for grading purposes.

Emphasis of the Examination

The content and emphasis of the examination change as conditions and problems change in the public practice. However, it is possible to indicate the general scope of the examination—the knowledge and skills which typically it is designed to test. Candidates may expect that the examination which they take will seek to measure the extent of their knowledge of

1. Generally accepted accounting principles and procedures, including an understanding of the postulates underlying them.
2. Standards of auditing practice and auditing techniques, including reporting.
3. Uses, and the limitations on the uses, of accounting data.
4. Business organization and operation, including a knowledge of the basic laws governing such organization and operation.
5. Ethical standards of the profession.
6. Principles of mathematics and statistics as they apply to accounting and auditing theory and practice.
7. Principles of tax accounting.
8. Current professional literature and accounting problems receiving special attention at the time of the examination.

Candidates will be expected to demonstrate their ability to apply their knowledge of the above areas with good judgment and logical reasoning to specific situations and to draw reasonable conclusions from such applications. They must be prepared to use basic mathematics (including basic algebra) with accuracy and reasonable speed. In addition, the examination will seek to determine the extent of their ability to

1. Express ideas accurately, clearly, and completely, and in acceptable form.
2. Organize accounting data and present them in an acceptable form.
3. Discriminate among data in a complex situation and comprehend, sort, and classify such data.
4. Select and apply accounting and auditing techniques appropriate to given situations.

Level

The examination is directed to the level of competence required for general practice in a medium-sized community including the audit of a medium-sized organization.

Scope

Discussions of the scope of the individual examinations are presented on the following pages. The discussions and lists are intended to be illustrative only; they do not necessarily include all topics on which questions may be asked. Candidates should be prepared to answer any questions on developments or problems related to public accountancy, particularly those currently being discussed in the literature, whether or not they are discussed in the following pages.

Questions on specialized topics or with unusual settings are frequently, though not necessarily, given as alternatives. Pairing of topics as alternatives on one or more examinations should not be taken as an indication that such subjects will always be paired or even that they will always be treated as alternatives—frequently they are not.

Candidates should keep in mind that the three accounting papers contain considerable overlapping of topics. An auditing question may require a knowledge of accounting theory as well as of auditing procedures.

Auditing

In the examination in Auditing, emphasis is placed on testing the candidates' knowledge of generally accepted auditing standards and procedures;

but many auditing questions involve, directly or indirectly, a knowledge of generally accepted accounting principles. Areas of knowledge which appear regularly are listed and discussed briefly below.

Generally accepted auditing standards. Candidates should know and be able to explain the generally accepted auditing standards of the profession. Questions may take a form requiring statement of the standards or interpretations of their meaning, but they are more likely to require applications of generally accepted auditing standards to specific sets of circumstances.

Internal accounting control. Questions dealing with this topic generally attempt to test candidates' practical as well as theoretical ability. Candidates should be prepared to outline the necessary controls over various assets, liabilities, expenses and costs, and to explain what is accomplished by the existence of the controls involved. They should be able to point out deficiencies in existing controls, make recommendations as to changes in procedures necessary to correct the weaknesses, and give a suggested division of duties among employees involved. They should also be prepared to demonstrate an understanding of the degree and manner by which the existence of internal control may affect audit procedures. Automatic data processing will be treated in the examination as a kind of system which the accountant should understand for audit and systems purposes.

Audit programs and procedures. Candidates should be well acquainted with audit programs for each major item in the financial statements and should know the objectives and purposes of each procedure as well as the evidence that would ordinarily be examined. Questions may describe an existing accounting situation and require a general discussion as to the plan of attack, may give a procedure and ask for the reason for the use of the procedure, or may be based on the application of generally accepted procedures to specialized businesses or parts thereof. Ordinarily the questions will not ask for a *generalized* audit program of an account but will specify in detail an accounting situation and require appropriate adaptations of the typical audit program to the situation described.

Accounting evidence. Candidates should have an appreciation of the significance of the various kinds of evidence which the auditor accumulates in the course of an examination. Such evidence is obtained by observation, inquiry, examination of documents, confirmations, comparisons, analyses, and the like. They should also know the important kinds of information which the auditor may expect to find in an examination of insurance poli-

cies, contracts, trust indentures, leases, stock certificate books, articles of incorporation, minutes, partnership agreements, and other documents commonly encountered in the course of an examination.

Statement presentation and the auditor's report. Candidates should be able to prepare or recognize well-presented financial statements of a business and to recognize situations that require the auditor's typical short-form report, a qualification of the auditor's opinion, the disclaimer of an opinion, or the issuance of an adverse opinion. They should be able to write an auditor's report appropriate to the circumstances. Questions dealing with statement presentation, disclosures, qualifications, explanations and forms of audit reports may be expected in each Auditing examination.

Audit problems. The typical Auditing examination will contain at least one problem. It may involve correction of statements and accounts or summaries of information accumulated during an audit and may require the preparation of worksheets, worksheet entries, or journal entries.

Professional ethics. Questions involving broad problems of professional ethics will appear in the examination from time to time. Candidates should know and understand the codes of ethics of professional accounting organizations and state boards of accountancy.

Statistical sampling. Questions on the theory and applications of statistical sampling in auditing will appear in the examination from time to time in forms and at levels of difficulty that are justified by professional development in this area of knowledge.

The question is frequently asked, "Is experience necessary to pass the Auditing examination?" Statistics regarding success on the examination appear to indicate that experience is valuable in taking the Auditing examination but that inexperienced, intelligent candidates who have an appropriate education can pass the examination. A study of the graduates of certain universities indicates that approximately 50 per cent of the candidates in the upper one fourth of the class passed the CPA Examination in Auditing without experience.

Accounting Theory

Theory questions in general are directed at obtaining a statement or an application of an accounting principle and then an explanation, justification or criticism. In grading the candidates' answers, more weight is given to the reasoning than to the conclusions. The Theory questions are com-

parable to the discussion questions that are found in good accounting textbooks. Particular attention is given to materials in accounting research bulletins, accounting journals, and current accounting textbooks. The examination is kept up to date, and candidates are urged to make the regular reading of current literature an important part of their preparation.

Accounting Practice

The Accounting Practice examination is divided into two sections, each of which is allotted four and one-half hours. An examination generally consists of groups of from five to nine accounting problems in each section. The objective of the examination is to test candidates' ability to apply generally accepted principles of accounting to practical situations. Many of the problems require computations; many require the preparation of working sheets and journal entries and the presentation of statements and schedules. However, as a part of some problems there may also be a requirement to discuss certain of the features involved. The choice of problems is intended to provide coverage of as many as possible of the subjects in which candidates should be prepared. Questions and problems on Federal income taxes are a regular part of the examination.

Theory and Practice topics

The topics covered by the Accounting Practice and Theory of Accounts sections are similar despite the substantial differences in emphasis. The following list is intended to be indicative of the wide range of subject matter (but may not include all topics) which will appear in future examinations. No significance should be attached to the order of subjects in the list.

Accounting assumptions, concepts, postulates, and principles
Allocation of income taxes
Analysis of financial statements
Bonds, bond discount, and bond premium
Branch accounting
Budgeting
Business combinations
Business use of actuarial, mathematical, and statistical methods
Corrections of accounts and statements
Cost accounting—job order, process, standard, estimated, distribution, direct, etc.
 Financial accounting and reporting
 Managerial planning and control
Estates

- Federal income taxes
 - Computation of liability
 - Conflict between accounting principles and tax rules
 - Tax planning
- Financial statements (including footnotes)
 - For the going concern
 - Balance sheet
 - Cash flow statements
 - Income statement
 - Statement of retained earnings
 - Statement of sources and applications of funds
 - For the concern in financial difficulty
 - For companies in liquidation
 - For economic entities (consolidated statements)
 - From incomplete data
 - To show the impact of changes in the price level
- Fixed assets, depreciation, and depletion
- Foreign operations
- Fund accounting
 - Municipal
 - Other
- Installment sales
- Insurance
- Intangibles and amortization
- Inventories
- Investments
- Leases
- Long-term contracts
- Owners' equity
 - Corporations
 - Partnerships
- Pension costs
- Real estate purchase, development, and sale
- Receiverships
- Reorganizations and quasi-reorganizations
- Trusts
- Valuation of a business

Commercial Law

The objective of the examination in Commercial Law is to test the candidates' knowledge of the textbook treatment of legal problems inherent in business transactions and in the audit thereof. Candidates are

expected to recognize the existence of legal problems and the basic legal principles which are applicable, and they are usually asked to indicate the possible result of the application of basic principles of law to the problem which is defined or which they must define from the facts. Except for objective questions, the answers to questions in Commercial Law usually require a statement of the reasoning the candidates have used to arrive at their conclusions; in grading essay questions, more weight is given to the reasoning than to the conclusions.

The Uniform Commercial Code has been adopted by a number of states and is being considered by others, and new and revised editions of standard commercial law textbooks are giving attention to the Code. Until the May 1964 examination, answers to questions involving negotiable instruments and sales should be based on provisions of the pertinent uniform acts. Beginning with the May 1964 examination, candidates will be expected to have, in those areas of law covered by the Code, a knowledge of the Code and of the uniform acts which cover the same subject areas. Unless and until the Code is adopted in an overwhelming majority of the states, questions in legal topics covered by the Code will be graded in accordance with the majority-minority procedures discussed in the following paragraph.

Candidates are expected to have a general knowledge of the laws of the majority and any substantial minority of the states when views on certain areas of the law are in conflict. (As indicated above, it may be expected that the uniform acts relating to sales and negotiable instruments and the portions of the Uniform Commercial Code related to those subjects will exist as majority-minority views for some years to come.) A knowledge of both majority and minority rules is appropriate because of the interstate nature of many accounting practices and business enterprises which require that certified public accountants' knowledge of law go beyond the law of a single state.

Answers to questions involving partnerships should be based on provisions of the pertinent uniform acts.

Two groups of subject areas are listed below. Questions on those in Group I appear more frequently in the examination than do those in Group II.

GROUP I

- Accountants' legal responsibility
- Agency
- Bailments
- Contracts
- Corporations

Guaranty and suretyship

Insurance

Negotiable instruments

Partnerships

Sales

GROUP II

Administrative law

Banking

Bankruptcy

Carriers

Estates

Interest and usury

Landlord and tenancy

Liens

Patents, copyrights, and trademarks

Personal property

Real property

Trusts

State Boards of Accountancy

BY THE ASSOCIATION OF CPA EXAMINERS*

ALTHOUGH there is a Uniform CPA Examination, there is no national CPA certificate. A person who wishes to qualify as a certified public accountant must do so under the laws of one of the states or territories. While most of the principal features of the state laws and regulations have much in common, there are important differences in many provisions from state to state. This section does not attempt to cover all of the various features of state laws and board regulations, but rather it is an effort to point out some of the background and the history of regulation and to cover in a general way some of the features of laws and regulations that are likely to be of particular interest to candidates.

Sources of Specific Information

A loose-leaf *Accountancy Law Reporter Service* is published and kept current by Commerce Clearing House. However, the accurate, primary source of information available to a candidate is his state board of accountancy. He should not hesitate to utilize the facilities which they have available for helping him. Members of the state board have assumed a serious responsibility in administering the laws of the state. He may be sure that, to the full extent they are able to do so, they are glad to help him qualify as a CPA. The laws and rules are not designed to be arbitrary and unreasonable but are intended to insure that the citizens, the businessmen, and the community generally can rely upon a CPA as being a competent certified public accountant.

Early Development

The profession of modern public accounting had its origin in Great Britain during the last half of the nineteenth century. During this period professional societies developed, and the pattern of admission to the

* The Association of CPA Examiners is the national organization of the state boards of accountancy. This material is not an official statement of the Association. It was prepared by Bert W. Lockhart, Vice-President, 1960-61.

societies through the passing of a series of examinations was established. Granting of the professional designation was in the hands of the societies, and preparation for the profession was almost entirely by means of articulated apprenticeship.

The flow of foreign capital, largely British, to this country after the Civil War brought with it a peaceful invasion of British accountants to look after the interests of the foreign investors. These accountants formed an important part of the nucleus of the developing public accounting profession in the United States. Although they brought with them the ideas of professional development in their country, those ideas were not fully accepted in this country. In 1896, New York passed the first law creating and recognizing the title certified public accountant, and the pattern was set for state rather than private control of the public accounting profession.

Concurrent with the growth of CPA legislation came the development of a national professional organization. The American Association of Public Accountants, founded in 1887, became the Institute of Accountants in the United States of America in 1916 and the following year adopted the name, The American Institute of Accountants. On June 3, 1957, the present name, American Institute of Certified Public Accountants, was adopted.

State Boards of Accountancy

Although there are many variations in accountancy laws throughout the nation, there is, in each state and territory, a board of accountancy. The typical state board of accountancy is composed of from three to five CPAs appointed by the governor for a specified term and receives its authority from one or more state statutes. The laws of the states may be classified into two types as to regulation of practice. Some states, where legislation is of the "permissive" type, do not restrict public accounting practice to CPAs but merely restrict the use of the designation or title. Other states limit practice within prescribed areas to CPAs or to those in practice as of the effective date of the law. In these states where so-called "regulatory" statutes exist, the administration of the accounting act is the function of the state board of accountancy. Most of the laws of this type empower the state board to promulgate and enforce rules of professional conduct and rules and regulations for the orderly administration of the act. In states that have the "permissive" type of legislation, accountancy boards are, generally speaking, examining boards who pass upon the qualifications of applicants for certificates, either by reciprocity or by examination, and who give examinations and award the certificates to the successful candidates.

Finances

Funds for the administrative work of state boards are provided by examination fees, annual permit fees, and fees for the issuance of reciprocal certificates. In most instances the examination and grading costs approximate the statutory fees for the examinations; the average annual permit fee is a nominal amount adequate only to cover operating and administrative costs of the state board. Preferably, fees received should be earmarked for exclusive use of the board, but in some instances all fees revert to the general funds of the state and operating expenses are appropriated from general state funds.

State Societies of Certified Public Accountants

State boards of accountancy should not be confused with state societies of certified public accountants. State boards are administrative branches of the respective state governments, whereas state societies are voluntary, private, professional organizations handling on a state level the types of activity handled by the American Institute of Certified Public Accountants on the national level.

Examination

Since 1953 all states have used the Uniform CPA Examination prepared by the Board of Examiners of the American Institute of Certified Public Accountants; thus the CPA certificate has uniform significance throughout the country. The state boards are responsible for grading examination papers, but all use the Advisory Grading Service provided by the American Institute of Certified Public Accountants which affords a suggested uniform standard against which they may review their papers. The uniformly high standards achieved through use of a common examination and a central grading service have made the CPA certificate national in acceptance, and in most states a CPA of one state may obtain a "reciprocal" certificate without examination from another state if he meets all of the qualifications of the state to which he applies for the reciprocal certificate.

A CPA Examination Appraisal Commission was organized on March 21, 1959 under the sponsorship of the Association of Certified Public Accountant Examiners (the national organization of state boards of public accountancy). The members included representatives from state boards of accountancy, the public accounting profession, the legal profession, state professional licensing authorities, banking, and higher education. Their

report was completed during 1961 and the results were published by the Association of Certified Public Accountant Examiners. The chief purpose of this appraisal was to review the over-all fairness and operation of the Uniform Examination and the Advisory Grading Service for the benefit of CPA candidates and the protection of the public interest through the promotion of high standards for the public accounting profession.

The conclusions of the Commission were most gratifying. The present Uniform CPA Examination and its related Grading Service, in their opinion, maintain professional standards that are in the best public interest. The Association of CPA Examiners has placed copies of the "Report" of the Commission in the libraries of universities that have schools of business administration.

Conditional Credit

The passing grade in each subject is 75 per cent. Conditional credit for subjects passed is usually given if not all subjects are passed on one examination. Some states require that only one subject must be passed to receive conditional credit, some states require that two subjects be passed, and a few states require some minimum grade in the subjects failed in order for a candidate to receive conditional credit for the subjects passed. Requirements also vary as to the number of opportunities the candidate will be given to pass the remaining subjects. Most states give the candidate two to five opportunities before the conditional credit expires. After expiration of the conditional credit, the candidate must be re-examined in all four subjects if he wishes to continue to work toward a CPA certificate.

Other Requirements

Considerable variation is found in the requirements for admission to the CPA Examination. Some states require a certain amount of public accounting experience before a candidate is admitted to all or certain parts of the examination. As to educational requirements, generally speaking they are based on a college degree with adequate study of accounting and other business subjects. Most states, however, have provisions which allow substitution of public accounting experience for formal academic education. The laws of all states except one require that the applicant be a citizen of the United States, or have duly declared his intention of becoming a citizen. Almost without exception the applicant must be a resident of the state in which he makes application, or be employed therein, either at the time of applying or the date of qualifying for a CPA certificate.

Application for admittance to the CPA Examination should be made to

the appropriate state board of accountancy in time to meet the application date deadline set by the board. In most states the examination is given twice a year, in May and November. The specific dates for each examination are published in *The Journal of Accountancy* and may also be secured from the state board of accountancy.

The applicant will be notified by the state board of accountancy as to whether he has been accepted for admission to the examination, and, if accepted, he will be notified as to the time and place to report. Any additional instructions of the board should be carefully noted and followed. Many states require the completion of an information questionnaire in addition to their standard application form; all forms should be completed promptly and forwarded to the state board as directed.

General Preparation for the Examination

BY THE AMERICAN ACCOUNTING ASSOCIATION COMMITTEE
ON THE CPA EXAMINATION*

Requisites for Success

THERE are two major requisites for success on the CPA Examination: (a) an adequate general intelligence and (b) the education provided by a baccalaureate degree with a major in accounting. Although college training is not absolutely essential, recently the vast majority of successful CPA candidates have had college educations. Wilton T. Anderson, former Director of Education of the AICPA, has also cited a third major requisite if several months have expired between the completion of formal accounting study and taking the examination: A candidate must review intensively for an extended period of time.

A candidate who expects to pass the CPA Examination must prepare thoroughly. There is no painless method of study. The breadth and depth of preparation will hinge largely on the candidate's intelligence, educational background, and need for review. Even in the best of circumstances, considerable effort in preparing for the examination is desirable.

There is no obvious, sure-fire method of preparation that will apply in every case. Each candidate must evaluate his own particular situation and to some extent develop his own review and study program. Accordingly, the following suggestions are designed to provide guides that might profitably be considered when the candidate formulates his review program.

General Suggestions

The Director of Education of the Institute has compiled statistics on candidates' past performance on the CPA Examination. Because so many interrelated factors affect examination results, it is unsafe to make dogmatic suggestions to candidates. However, there is some evidence to support the following points.

* This material is not an official statement of the Association. It was prepared by Charles T. Horngren, chairman of the 1961 Committee.

Don't delay

An appropriately educated candidate should take the examination at the earliest date after becoming eligible. Although practical experience is likely to help the candidate's performance on Auditing, it is of little, if any, help on the other sections. Candidates in a sample of states having a mandatory requirement of two or more years of experience prior to taking the examination did much better on Auditing, somewhat better on Practice, slightly poorer on Theory, and much poorer on the Law examination.

Prepare for all sections simultaneously

All states award partial credit to candidates who pass less than the entire examination, though regulations vary substantially. Candidates should not think that it is more efficient to prepare for only one or two sections at a time. On the contrary, the best performance is achieved by candidates who prepare for all sections of the examination simultaneously. The best national showing has been accomplished by candidates in states which award partial credit only to candidates who pass two subjects (or two or Practice) *and* who must make an average of fifty or better in the failed subjects. This is probably because the candidates are disciplined to study or review carefully. Auditing, Theory and Practice are heavily interrelated and may seldom be divorced. So review for Theory helps in Practice and Auditing; review for Practice helps in Theory and Auditing; and so on.

Don't prepare halfheartedly

Candidates should only take the examination with the expectation of passing. Too often candidates say they are taking the examination for "experience" or "practice." Halfhearted preparation will result in failure; and failure, no matter how it is explained, is discouraging. A person who wishes to practice should use the old CPA Examination questions and answers for that purpose.

There is only one way to pass the CPA Examination: that way is to *study*—relentlessly, habitually, and productively for a minimum of two or three months prior to the examination dates.

Have a definite review program

A candidate should formulate a rigorous plan of study and review. This means an intensity of study that he probably has never experienced. Time for study should be budgeted. Several short study periods are more productive than a week-end marathon. There is plenty of time in each day for preparation. One of the candidate's major challenges is to make certain of devoting a minimum of, say, two hours daily, seven days a

week, to CPA review. This requires a selection of what hours are best suited to study and then conscientious, tenacious adherence to a self-imposed schedule. Self-discipline is the most difficult task of all.

Solve past CPA questions and problems

A good way to prepare for the CPA Examination is to solve past CPA questions and problems—thoroughly and completely. By so doing, the candidate develops confidence in his own abilities, improves his techniques, and increases his understanding of the various accounting topics.

A review should be designed to develop *approaches* to solutions. The emphasis should be on the most productive procedures in the preparation of solutions and on the reasoning underlying them rather than merely on the solutions themselves.

The answers to past CPA questions and problems are readily available from the Institute or other sources. However, working only with a problem and a solution frequently is not the best available means of preparation. Even when equipped with a technical background, the candidate often faces a dilemma in his review. Too often, at this stage, he has collected a group of nonrelated techniques used in specific situations, but he has not formulated any general policies of approach. As a result, when faced with a fairly complex situation, he does not know where or how to begin. Some glance furtively at the solution without even attempting to solve the problem. Others, using the solution as a crutch, half-solve the problem. The danger of these procedures is that the individual lulls himself into thinking that he has prepared himself adequately for a given topic. The mere fact that he has to resort to the solution should be adequate warning of his deficiency.

Be aware of alternative terminology and solutions

In his preparation for likely accounting topics, the candidate must recognize two special characteristics of a national examination. First, accounting terminology is not uniform. Second, alternative solutions are possible for many accounting problems.

Variations in terminology will inevitably appear in a national examination which is drawn from many sources. Thus, the candidate should be familiar with the variety and interchangeability of many accounting terms. For example, *factory overhead* is usually interchangeable with the following terms: indirect manufacturing costs, manufacturing expenses, factory burden, and manufacturing overhead.

Alternative solutions can arise because (a) there are slight variations in practical accounting procedures or techniques and (b) there are different schools of thought on certain accounting matters. Therefore, the candidate

must anticipate problem situations that do not exactly coincide with either the text treatments which he knows or the situations in practice which he has encountered.

The American Institute of Certified Public Accountants takes elaborate steps to insure equitable grading of CPA Examinations. The AICPA graders recognize and give full credit to all alternative solutions that are reasonable. Therefore, the CPA candidate should not be discouraged if, in the course of his review, he finds published CPA solutions that do not precisely agree with his favorite approach or the approach he learned when he took an accounting course. The AICPA has found it impracticable to publish a number of alternative solutions, so it usually confines its "unofficial answers" to one widely accepted approach. These published answers are neither official nor necessarily the only acceptable solutions. Yet many candidates have the mistaken belief that the AICPA published solutions are *the* only acceptable answers.

CPA problems are designed to be straightforward. Requirements should be taken at face value. Special assumptions are rarely necessary. Sometimes a candidate still feels that an assumption must be made. If so, the assumption should be stated, together with the reasons for it. Such reasons should include a statement as to why a possible alternate assumption is being rejected.

In summary, while the candidate does not have to worry about the acceptability of alternate solutions to a given CPA problem, he should be aware of divergencies in accounting practice and terminology. Then he can tailor-make his solutions within reason and common sense. As a minimum, his terminology should coincide with that given in the problem. He should also know what areas of accounting tend to have alternative treatments. In these areas especially, he should take particular pains with his answer so that it will be clear to all graders.

Accounting Problems

Preparing for the Practice section is the most time-consuming phase of study. Actual examination conditions should be reproduced insofar as possible. Problems should be solved individually, not by joint action. Problems should be attempted within the suggested time limits and at one sitting.

Specific points to be remembered about solving problems follow:

1. Read the problem at least twice. Underline or make marginal notes of important facts.
2. Relate the facts to the requirements.

3. Relate the requirements to their fulfillment by visualizing your presentation in final form.
4. Decide upon your approach to solution. Outline the most efficient step-by-step procedure needed to satisfy the requirements.
5. Do not prepare elaborate working papers unless absolutely necessary.
6. Budget your time.
7. Use common-sense checks on arithmetical calculations.
8. If you cannot complete a solution because of lack of time, be specific in outlining how you would continue.
9. Pressure will be lessened and self-confidence will be better maintained by first attacking what seems to be the easiest problem. However, too much time spent on the easiest problem will impinge upon the time needed for the more difficult problems.
10. Study the suggestions to candidates presented on pages 32 and 33.

Essay Questions

Knowledge of subject matter and effective writing skill are keys to success on essay questions. Crisp, direct, concise English will improve an answer, but it will not replace knowledge of subject matter. The candidate should say what he means, and mean what he says. Quality and quantity of ideas, not quantity of words, is what is desired.

As the candidate's review progresses, he will become aware of the more likely topics to be covered in essay questions. His review should not be confined to his old textbooks or even to current textbooks. He would be foolhardy to neglect AICPA publications, especially the most recent editions of the AICPA research and terminology bulletins, "Code of Professional Ethics," *Codification of Statements on Auditing Procedure*, *Generally Accepted Auditing Standards*, and the Accounting Research Studies of the Accounting Research Division of the Institute. Other AICPA publications that may be helpful are *Duties of Junior and Senior Accountants* and the various *Case Studies in Auditing Procedure* and in *Internal Control*. Special sections of *The Journal* and *The Accounting Review* contain helpful materials. A list of AICPA publications usually appears in the monthly issues of *The Journal of Accountancy*. A copy of the latest catalogue may be acquired by writing directly to the Institute.

Recent accounting publications and recent controversial articles in professional accounting periodicals, particularly *The Journal of Accountancy*,

deserve close attention. The candidate should be able to demonstrate his willingness and inclination to keep abreast of accounting literature as a part of his professional responsibilities.

In sum, there is no magic method of preparation. Endless hours of aimless study are rarely enough. A carefully planned and strictly disciplined program of review is required in order to achieve success on the CPA Examination.

The Examination and You

BY EDWARD S. LYNN, Director of Education
American Institute of Certified Public Accountants

THERE is an earlier section on "General Preparation for the Examination" (page 15) in which a representative of the American Accounting Association provides good advice on studying for the examination. This section is intended to help you by discussing the creation and grading of the examination and by providing suggestions which are useful in taking the examination.

In June 1917 the American Institute of Certified Public Accountants (then the American Institute of Accountants) administered its first examination. It was intended to be a screening device to evaluate candidates for membership in the Institute, but eight states gave it as the CPA Examination. From this beginning, the acceptance of the examination has grown until every state and territory of the United States uses it and all states use the Advisory Grading Service which the Institute offers.

The use of the Uniform CPA Examination and the Advisory Grading Service by the state boards of accountancy is optional. The nationwide acceptance of the Uniform Examination helps to maintain standards throughout the country and is therefore of immense value to the profession. The interstate nature of businesses, and indeed of many accounting practices, makes desirable the maintenance of uniformly high standards.

Organizational Arrangements

The Board of Examiners of the American Institute of CPAs has the ultimate responsibility for the preparation of the Uniform CPA Examination and the operation of the Advisory Grading Service. It makes the policy decisions in all matters pertaining to the examination. The Board is composed of nine members of the Institute, all of whom must be in public practice. It is also the policy that each member must be or have been a member of a state board of accountancy. These nine men are elected by the Council of the American Institute of CPAs. They are selected on the basis of their scholarly attributes because the activities for which they must set policy are essentially scholarly activities. They are also selected to secure a broad regional representation so that the viewpoint of the entire country is represented on the Board. Both large and small

firms are represented to provide a background typical of the practice of accountancy.

The Director of Education of the American Institute has the executive responsibility for the preparation of the examination and the operation of the Advisory Grading Service. He operates within the confines of the policies established by the Board of Examiners.

Preparation of the Examination

Source of questions

A stockpile of questions and problems is maintained in the Institute offices. Practitioners make many contributions to the stockpile and are relied upon to keep the examination closely related to practice. Many firms make specific assignments to staff members in order to insure development of problems for the stockpile. The Association of CPA Examiners through its Committee on Examinations encourages contributions from members of state boards of accountancy.

Accounting professors are substantial contributors to the stockpile. Some of them make their examination questions available to the stockpile, while others make occasional original contributions. Many of the contributions come in through the efforts of the Committee on the CPA Examination of the American Accounting Association.

Since the stockpile does not ever have the breadth that would provide a well-balanced examination, the staff of the Education Division prepares many of the questions. The staff also makes extensive changes in the stockpile materials which are selected for use. For example, it is frequently necessary to take several problems on the same subject and combine and convert them into a single problem which is satisfactory for examination use.

Factors in the preparation of an examination

A primary consideration in the preparation of an examination is the meaning of the CPA certificate. Since the certificate is granted in the public interest, the certificate must be granted only to persons who are properly qualified. The public's need for assurance of competence on the part of possessors of certificates must be fully protected. The examination is intended to measure technical competence, which includes technical knowledge, skill in the application of such knowledge, and the exercise of good judgment.

Problems and questions selected for the examination must be of a level suitable to test the competence of a prospective CPA. Each of

them must be in such form as to elicit the desired answer, and the answer must be one which is gradable.

Recent examinations are considered in order that, examination after examination, there will be a comprehensive coverage of the full field of knowledge.

Recent publications are considered because the candidate should be encouraged to keep up to date on developments in the field of accounting. Recent trends and practices are frequently the subject of examination questions.

Comprehensiveness of examination coverage over a period of years has already been mentioned, but each examination should have a broad coverage of the field of knowledge. The full examination is reviewed with this factor in mind.

Another principal factor is the balance of subjects on the examination. No single subject should receive undue weight on the examination. For example, in the preparation of one examination it was found that a heavy proportion of questions and problems dealt with owners' equity. Substitutions were made for certain of these questions and problems in order that a broader scope could be provided and to eliminate undue weight on one area of accounting knowledge. Proper balance, together with the policy of using seven or more short problems or questions in each section, makes it highly unlikely that candidates may go into the examination unprepared and, by luck, pass one or two subjects.

The Board of Examiners

The Board of Examiners plays a vital part in the development of the examination. The Director of Education is responsible for preparing the first draft of the examination; the Board has established policies, described in its portion of this book, to guide him in the preparation. As an example of the Boards' part in the development of the examination, and of the time schedule, let us consider the examination for November 19B.

The Director of Education and his staff will prepare the first draft of the examination (including the tentative solutions) and will mail it to the Board of Examiners between October 15 and November 1, 19A. Board members will read the entire examination for comprehensiveness, balance and difficulty. Members will send comments on these matters to all Board members and the Director of Education prior to the Board's meeting early in December of 19A. Subcommittees of the Board will have been assigned particular parts of the examination for review in detail. Members will send the results of these detailed reviews to the other members of the Board and to the Director of Education.

At its meeting in December 19A the Board will discuss comprehensive-

ness, balance and difficulty as the first order of business. Thereafter the subcommittees who are assigned to each of the sections of the examination will meet and discuss in detail the examinations and the comments thereon. As a result of these two types of review:

1. There should be general agreement on coverage, balance and difficulty of the entire examination.
2. Mechanical errors should have been corrected or called to the attention of the staff for correction.
3. Any questions for which substitutes are required will have been designated.

The second draft of the examination will be mailed to all members with the corrections, substitutions, and suggestions incorporated into the draft. The subcommittee members then go over their sections of the examination in detail and advise the Director of Education of approval or comments. Copies of their comments are sent to the other members of the Board and to the Director of Education.

As a result of the comments of the subcommittee members on the second draft, the staff will prepare a third draft. It is sent to all members of the Board of Examiners, who read the entire examination. At this point the examination is ordinarily "set." However, if there should at this point be any unresolved questions, the Board will, at its regular meeting early in June 19B, have an opportunity to reach a final decision.

A fourth exposure to the Board occurs just prior to the printing of the examination. The object of this last exposure is to review it in the light of possible new authoritative pronouncements, tax law changes, or other developments.

Security of the examination

When questions and problems are still in the stockpile, they do not constitute a security risk, because at that point there is no indication that they will ever be used on an examination. (Questions from candidates are welcomed.) When papers have been selected for an examination, they become a security risk and from that time are never left unattended except when they are in the safe. During all the processes of preparation, editing, typing, review, and the like, the examinations are always accompanied by a member of the permanent staff. For example, when drafts of the examination are being mimeographed, a member of the permanent staff "sits" with them. The assembling of copies of the drafts is done by members of the permanent staff; extra copies, whether assembled or unassembled, are kept in the safe.

The examination must go four times to the Board of Examiners. Rigid security measures are taken to assure that the examinations reach the Board of Examiners unopened. Correspondence concerning the examination is filed with the examinations themselves in the safe.

The printing of the examination is done by a firm which is cleared by the Federal Government for publication of secret documents. Occasional visits are made to the company to observe the security measures which are in force. These include the clearing of employees, control of copy, control of plates, control by count of the various versions of the printed copy, and supervised burning of extra runs.

The examinations are counted and sorted and arranged according to the orders of the several states. They are wrapped and sealed for shipment to the destinations indicated by the various state boards of accountancy. At the destination, security becomes the responsibility of the several state boards; most of them do not open the examination packets until they are in the presence of the candidates assembled to take the examination.

Auditing

Questions for the Auditing examination are selected from those contributed to the stockpile by practitioners to the extent they are available. The staff prepares additional questions to provide proper scope and balance. The examination will nearly always include questions in the following areas:

1. Audit program
2. Internal control
3. Audit procedure
4. Audit problem
5. Audit report or opinion

As used in the foregoing list, the term "procedure" designates a question which will deal with detailed activities of those on the audit staff, while the term "program" indicates a problem of broader proportion dealing with the general technique of auditing.

Theory

Many of the Theory questions are submitted to the stockpile by accounting professors. The Theory questions are comparable to the discussion questions which are found in good accounting textbooks. Particular attention is paid in this examination to materials taken from accounting research bulletins, accounting journals, and the leading accounting textbooks. In this way the examination is kept up to date, and you are urged to make the

reading of current literature a regular part of your preparation. Questions on income taxes are seldom included in this part of the examination.

Practice

Practice problems are frequently submitted by practitioners and, to the extent possible, the examination is selected from these contributions. Approximately half of the questions will be of textbook or procedural type, and an effort is made to make a substantial proportion of these questions of a type which will test your knowledge of the application of accounting principles to business situations. The intent is always to test your powers of analysis and your ability to convert theoretical knowledge to technical applications.

Usually there will be questions on income taxes, cost accounting, and fund accounting on the Practice examination.

Grading the Examination

Grading basis

The first step in the preparation of the grading basis is to prepare, for each question, lists of concepts that are included in the unofficial solution. This draft is used to start the grading process, but it is subject to change during the early stages of the grading process if candidates give valid concepts that have not been included in the first draft. Candidates receive credit for their statements of the concepts. In the Practice examination, the steps in the solution are analyzed carefully, and the candidate receives partial or full credit as he works part or all of the problem.

The point values assigned to each question or problem are approximately proportional to the amount of time allotted to the question or problem. As the grading basis is developed, the total values assigned to acceptable concepts may exceed substantially the number of points assigned to the question or problem. For example, a total of twelve points might be assigned to concepts considered deserving of credit in the answer to an eight-point question. A candidate would not, of course, be given points to exceed the maximum assigned to the question; but he would not have to provide all of the acceptable concepts to get a near maximum grade.

The grading process

The state boards of accountancy retain the records relating each candidate's name and number. Each paper is identified to the Advisory Grading Service only by number.

First grading. Each grader is assigned a single question or problem that he will grade throughout the examination. He thus becomes an expert in the subject matter of the question and in the responses which candidates will give. He also becomes objective in his grading and thus provides uniformity of grading. The objective of the first grading is to divide the candidates into the obvious passes, the obvious failures, and marginal candidates. Obvious passes and failures receive little additional attention, but the marginal papers will receive a second reading and perhaps a third and fourth reading.

Second grading. A second grading is given to marginal papers by the section heads and the reviewers. These people have participated in the development of the grading basis, they have a great deal of experience in the grading of examinations, and they have access to item analyses which identify the discriminating concepts. They take the results of the first (horizontal) grading and provide a vertical review—that is, they go over the entire paper.

Third grading. After the papers have been reviewed in the various sections, they are brought together, and each candidate's grades for all sections of the examination are listed beside his number. The Director of Education receives this list and makes a selection of the marginal papers to be read for the third time—this time by the section head or a senior reviewer. The selection is on the basis of consistency among subjects. For example, if a candidate has passed two subjects and has received a 69 in the third, his 69 paper will be sent back for the third grading in the hope that the candidate, identified now as a good candidate, can have his 69 raised to a 75.

Fourth grading. The fourth reading is given to some papers by the Director of Education. Papers for the fourth reading are selected from those that have come back from the third reading with results that are inconsistent. At this point the Director knows that the section head, knowing all of the facts, has examined the paper; the Director is sure that no matter how carefully he looked at a candidate's paper he could not find additional points for which the candidate should be given positive credit. He is concerned with the single question, "Considering the over-all presentation in his paper, is this candidate now ready to function effectively as a CPA?" If he feels that the answer is "Yes," then the candidate is passed. Obviously the number of persons passed during the fourth grading is very small, but the fourth grading is an important device to make sure that the marginal candidate receives every consideration.

Fact and Fancy: Success in Passing the Examination

Success of the individual in passing the examination is easy to measure: he passed all, some, or none of the sections. Measuring in a meaningful way the results of the mass of candidates taking the examination is more difficult. Identifying the effect on examination results of such factors as education, experience, review, and the like is quite difficult—at least the results of the many efforts to date are inconclusive enough to indicate great difficulty.

However, enough is known to justify a discussion of success. The best way to measure the success of all candidates is to divide them into two groups: first, those who try the examination, fail it, and never try again; and, second, those candidates who are successful at the first try or are serious enough to try again. The second group may be termed serious candidates. Several studies have been made of the success of the serious candidates, and these have indicated that 50 to 70 per cent of the serious candidates had passed the examination at the time the study was made.

Education

More than 70 per cent of all candidates have a college education that is the equivalent of a four-year degree with an accounting major. An additional 7 or 8 per cent are graduates but do not have an accounting major. There is a direct correlation between the amount of education candidates have and their success on the examination—a correlation which reflects both the effect of additional education on the individual and the effect of the screening process involved in education. There is also a direct and substantial correlation between the amount of accounting study candidates have had and their success on the examination.

The best predictors of the success of college graduates on the CPA Examination are their rank in their graduating classes and their percentile rankings on the AICPA Orientation Test and Level II Achievement Test. Most of the serious candidates who ranked in the upper quarter of their graduating classes may expect to pass the examination on one of their first three attempts, and a candidate who has done well on both the tests can expect to do well on the examination.

A major problem in dealing with statistics regarding education is that no attempts have been made to relate the results on the examination to the quality of the education the candidates have received. More than four hundred colleges and universities in the United States give degrees which purport to include an accounting major. The quality of the education provided by these schools is by no means uniform, and hence the signifi-

cance of generalizations based on *amount* of accounting education and class rank is reduced. Unlike quantities (e.g., an accounting major at a great university and one at a small college with five accounting majors per year and one accounting instructor) are necessarily combined in statistics that are based on amount alone.

Discussion of the effect of education would not be complete without reference to CPA review courses. Those candidates who report taking such courses tend to do slightly better than the national average, and those who take residence courses tend to do slightly better than those who take correspondence courses.

Experience

Information now available indicates that accounting experience makes a contribution to success on the examination but that, except in the case of the Auditing section, the correlation is not high. The data are undoubtedly distorted because the well-educated, intelligent candidates pass the examination early in their careers; the result is that in general those with long experience are the candidates who are not so capable and that those with little experience appear to do about as well as those with experience.

Both logic and statistics indicate that experience is valuable in taking the Auditing section but that waiting for several years after graduation has a harmful effect as far as the Theory and Law examination results are concerned. Success in the Practice section is not clearly affected in any way.

The statistics clearly show that those who have no or less than one year of experience are more likely to pass the *entire* examination at one sitting than are average candidates. This is merely a way of saying that the well-educated, intelligent candidates can pass the examination without experience and frequently do so.

In summary, then, it can be said that experience is helpful in taking the Auditing section but that there is evidence to indicate that a waiting period causes a loss of knowledge in the Theory and Law areas that is not offset by the contributions of experience. Experience appears not to affect success on the Practice examination appreciably. Such findings suggest that appropriately educated candidates should take the examination as soon as they are permitted to do so.

Taking the Examination

The remainder of this booklet is intended to help the individual who has enough basic ability and who has enough knowledge to pass the examination if he utilizes them fully. It includes general matters relating

to the techniques to be used in taking the examination. In general, the comments are based on the observation of errors that candidates frequently make.

Most of the instructions which follow are suitable for all four parts of the examination. Accordingly, there are one general section and four sections which apply to the four separate parts of the examination.

General instructions

Get a good seat. You should go to the examination room early; consider the lighting, heating, and ventilating facilities; and make a selection of a seat which will permit you to work at your best. State boards find it difficult to obtain appropriate space, and facilities are not always ideal. Be prepared to make the best of them.

Take appropriate supplies. You should take to the examination room whatever supplies have been specified by your state board. These will certainly include a sufficient supply of pencils and erasers. If you are not using a mechanical pencil, you should take along your own pencil sharpener.

Not so apparent as the need for accounting supplies is the need for edible supplies to maintain your energy during the examination period. You should come equipped with whatever you deem appropriate to take the place of your usual coffee break.

Keep calm. Sometimes a candidate who has sufficient knowledge and ability to submit a passing paper fails to do so because he “freezes” while he is taking the examination. The best way to overcome such a problem is to be confident of your ability. You can build your confidence by a systematic review program and by testing your ability. One of the best ways to review and test your ability is to take old examinations under simulated examination conditions and then to compare your results with the unofficial solutions published by the Institute.

If you are properly prepared, you should consider the examination as a task to be performed in a specified time limit. The amount of work which is required on an examination is carefully measured so that there will be sufficient time for you to do the work if you know the material. You can be sure that no trick questions are put on the examination and that a number of CPAs have gone over it trying to eliminate ambiguities. Further, you should realize that a certain amount of tension is entirely normal and will assist you to do a good job on the examination.

Follow instructions. Failure to follow instructions causes many candidates to lose points. This is particularly true with respect to optional

questions. On each examination there are always papers in which all optional questions have been answered, and in some of these cases one or more required questions have been omitted. As a result, the candidate gets no credit for the extra optional questions answered, and he uses valuable time that could have been devoted to other questions.

Instructions to candidates are given on the front of each section of the examination. These instructions deal with numbering the pages, the order in which scratch paper should be inserted in your examination, and appropriate folding of 14-column sheets. The instructions go on to say that "Disregard of these instructions may be considered as indicating inefficiency in accounting work."

The state boards will give their approved candidates the "General Rules Governing Examination" and "Suggestions to the Candidates," which are reproduced on pages 32 and 33. You should read them carefully and follow their guidance.

Budget your time. At the beginning of each examination the estimated minimum and maximum times for each of the questions or problems are set forth. These estimates should be used as a guide, and no more time should be spent on any question or problem than the estimated maximum until you have completed the examination. When the last question has been answered, any time saved on other problems may be utilized to complete those that require more than the maximum.

If you budget your time and organize your answers, there is no reason not to answer all parts of all required essay questions. You may not be able to answer everything as completely as you would like, but you will be able to say something about each requirement. If you have a choice between answering one question in voluminous detail and giving shorter answers to two questions, you should certainly do the latter.

Read the question or problem. One of the greatest weaknesses of candidates is the failure to read the question or problem carefully. It should be read in its entirety to get the general idea, and then it should be reread to get the pertinent facts and the requirements. It may prove useful to check or underscore critical data and requirements on the question booklet or to make notes on a piece of scratch paper.

When you have identified the requirements, you should plan your answer to respond directly to all of the requirements. Time devoted to carefully analyzing all the facts and to determining the best method of answering in relation to the requirements of the question not only will save time in preparing an appropriate answer but will help you to give responsive answers to the requirements. This matter of determining exactly what the problem or question asks and then meeting the requirements cannot

UNIFORM CERTIFIED PUBLIC ACCOUNTANT EXAMINATION

General Rules Governing Examination

1. Read carefully the identification card assigned to you; sign it; make a note of your number for future reference, and turn the card in to the examiner when he so indicates. Only the examination number on your card shall be used on your papers for the purpose of identification. The importance of remembering this number correctly, and recording it on your examination paper correctly, cannot be over-emphasized. If a question calls for an answer involving a signature, do not sign your own name or initials.

2. Answers must be submitted on blanks furnished by the Board and must be completed in the total time allotted for each subject, which will be stated on the examination papers. Identify your answers by using the proper question number. Begin your answer to each question on a separate page and number pages in accordance with the instructions on the examination. Arrange your answers in the order of the questions.

3. Answers may be written in pencil or in ink. If pencil is used it should be soft enough to leave an easily visible impression. Credit cannot be given for solutions that are illegible. Use only one side of the working papers. Use the plain working sheets, Form F, for calculations, working notes, etc. Neatness and orderly presentation of work are important.

4. Attach all computations to the papers containing your answers. Identify them as to the question to which they relate. The rough calculations and notes may assist the examiners in understanding your solutions.

5. Stationery and supplies furnished by the Board shall remain its property and must be returned whether used or not. You may retain the printed examination questions.

6. Any reference during the examination to books or other matters or the exchange of information with other persons shall be considered misconduct sufficient to bar you from further participation in the examination.

UNIFORM CERTIFIED PUBLIC ACCOUNTANT EXAMINATION

Suggestions to the Candidate

1. The estimated minimum time and the estimated maximum time that the candidate may need for giving adequate answers to each question or group of questions is given at the beginning of each paper. These estimates should be used as a guide to allotment of time. It is recommended that the candidate not spend more than the estimated maximum time on any one question until the others have been completed except to the extent that the maximum time has not been used on prior questions. No point values are shown for the individual questions. Points will be approximately equal to the time required. The following is an example of time estimates as they appear on the examination.

Group I (all required):	Estimated Minutes	
	Minimum	Maximum
No. 1	10	18
No. 2	15	22
No. 3	20	30
No. 4	25	35
Total Group I	70	105
Group II (three required)	70	105
Total for examination	140	210

2. If the candidate is unable to complete all the solutions called for in the examination, a partial solution is better than none and will receive appropriate credit from the examiners. When more questions are answered out of a group than are required, the excess answers will not be graded.

3. The candidate should avoid telling the examiners how to solve the problem instead of actually doing it in the best way he can. If time grows short, a brief statement to the point is permissible, but full credit cannot be obtained by this expedient.

4. Formal journal entries should not be prepared unless specifically required by the problem. Time may be saved by entering adjustments, transfers, etc., directly on the working papers. Working papers which are more elaborate than the problem requires should not be prepared unless they are of assistance in solving the problem. If both working papers and formal statements are required and time is not adequate to complete both, the working papers should be completed.

5. In problems or questions which permit alternative treatment the credit given for the solution will depend on the soundness and intelligence indicated by the candidate's presentation.

6. Due weight will be given to the arguments presented to support the candidate's answer even though the examiners may not agree with his conclusions.

7. All amounts given in a question or problem are to be considered material unless otherwise stated.

8. The CPA is continually confronted with the necessity of expressing his opinions and conclusions in written reports in clear, unequivocal language. Although the primary purpose of the examination is to test the candidate's knowledge and application of the subject matter, the ability to organize and present such knowledge in acceptable written language will be considered by the examiners.

be overemphasized because even candidates who seem to be reasonably well acquainted with most of the subject matter of an examination frequently fail in this respect to give a good answer.

Organize the answer. The requirements of the question or problem are the main points in the organization of your answer. Within each of these requirements, the principal ideas should be clearly stated and should be followed by explanatory comments and ideas of secondary importance. You will have the best chance of expressing yourself clearly if you use a number of short paragraphs consisting of short sentences. Long and complicated paragraphs and sentences tend to confuse the typical candidate. The short paragraph also tends to emphasize to the grader the important ideas which you express.

Keep your answer pertinent and consistent. An answer should stay on the subject of the question. It should not ramble, and it certainly should not contain contradictions within itself. There are some candidates who do not appear to be able to make up their minds on even the simplest matter; either through carelessness or intent they will include in their answers statements which are directly in conflict with each other.

While it is entirely appropriate in some instances for you to discuss both sides of a question, you should indicate that you know you are doing so and that you are dealing with different considerations or with different lines of argument in each instance. You should make it clear that you are not contradicting your earlier statements but are presenting a different line of argument or a different process of reasoning, possibly one involving different assumptions, which you should state, as to facts or theories.

Give complete answers. Top grades go to comprehensive but concise answers. Extremely brief answers, no matter how well directed to the principal points involved, are likely to overlook important points. By the same token, an answer that contains unnecessary repetition may be longer but still may omit as much as the brief answer omits. Many papers contain restatements or a number of illustrations of identical principle or procedure. You should aim for a complete and comprehensive answer, clearly expressed. The actual length is of no real consequence if this aim is achieved.

Emphasize the important. In answering essay questions, candidates frequently find that there are a great number of details that might be included and a number of somewhat collateral items that might be discussed. It

is important for you to give a full and complete answer, and, within the limits of the time available, it is desirable to discuss or list the collateral or detailed items which have significance. However, in every case you should ask yourself, "What are the major elements at which this question is aimed?" Those elements should be given careful and full treatment. In appraising the value of an answer, a grader must take into account the significance of each item as a measure of the ability of the candidate. All items that might be included in an answer for credit are obviously not given equal weight.

Give the reasons. In general the examiners are more interested in your reasons than in your conclusions. Knowing the correct disposition to be made of a charge for an expenditure is not nearly so important as knowing why the disposition is appropriate. Even in the process of describing auditing procedures, good candidates provide an indication of the reason.

Closely related to this matter of giving reasons is the practice of some candidates of citing authorities. The examiners are not interested in whether you know what specific textbooks or authoritative announcements say; they want to know whether you know why the conclusions were reached—in other words, the reasons for the authoritative opinions.

Use good English. Since the CPA must express his descriptions and conclusions in clear and unequivocal language, the examiners are interested in whether candidates can use such language. While points are not specifically assigned for this facet of the answers, ability to use the English language is considered. Therefore you should, as a minimum, use complete sentences and appropriate choice of words. Many candidates use words which they cannot define. If you are not sure of the exact definition of a word which you propose to use, select another.

Make your answer legible. An answer must be legible, but it need not be printed or be in artistically attractive handwriting. You should certainly not cut down the comprehensiveness of your answers by striving for perfection in handwriting.

Auditing

Success on the Auditing examination is a compound of auditing and accounting knowledge, ability to use the English language, and techniques of examination taking. The following suggestions point out some of the attitudes and techniques which will be of benefit to you in writing the Auditing examination.

Present answers in outline form. The outline form seems particularly applicable to the Auditing examination, though it may be useful in the other examinations. Auditing objectives, procedures, reasons for programs, and reporting decisions—all of these, as well as discussions—can be presented in outline form unless lists are specifically required. The outline should be in the form of complete sentences, and completeness of ideas should not be sacrificed to the brevity sometimes associated with an outline. But identification of ideas and relationships by means of numbers and indentation can go far to indicate to the examiners the orderliness of your thinking.

Be specific. Answer as if the examiner is a junior accountant on his first audit engagement. Remember that the examiner does not know you and is not justified in making assumptions about your knowledge. Be so specific that there can be no mistaking your instructions, your meaning, or your reasoning.

Use audit terms precisely. Audit terms have definitions just as do other words in the English language, but candidates frequently seem to forget this. Know the appropriate vocabulary.

A corollary of the foregoing instruction is to use words that have a precise meaning. Words such as analyze, confirm, compare, foot, inspect, reconcile, trace, and vouch have precise meanings which no one with an appropriate command of the vocabulary can mistake. On the other hand, words such as verify or check do not have a precise meaning as far as audit procedures are concerned, and they should be avoided unless you intend to deal in generalities.

Use memory with judgment. Many candidates have studied published lists of auditing procedures, authoritative pronouncements, and the like. Frequently they apply such memorized materials to questions for which they are inappropriate. A memorized list may be of value to you if you will tailor your answers to the question which was asked. If you have memorized a list of procedures, use it as a checklist. Ask yourself these questions as you go down your checklist: “Is this procedure appropriate in the circumstances?” “If it is not appropriate as I memorized it, can I change it in such a way that it will be appropriate?”

Visualize the accounting process. The auditor is required to give an opinion on the fairness of financial statements. These statements have been produced by an accounting process of some kind. One of your greatest aids in the development of an audit program or list of procedures can be to

visualize the process by which the client's books and book amounts were produced. Having properly visualized this process, you will be better able to develop an audit program that permits you to prove the accuracy of the work that the client has done and the validity of the amounts produced by the accounting process.

Use your general knowledge of business. Examinations in the past have frequently included one or more questions where it seems logical to expect that candidates would apply to the preparation of an audit program the general knowledge that they should have of the conduct of business. In answering questions of this type, you should apply your general knowledge of business activity in formulating your answer to the question. You should treat the examination question as a real "live" situation and not as a "problem" situation. You should try to visualize circumstances as they would have actually happened. The exercise of some imagination and the display in the answers of an understanding of the limitations of auditing procedures will help you on this type of question.

Accounting Theory

Most of the general instructions given above are applicable to the Theory examination. Remember that central emphasis will be placed on reasoning rather than conclusions. In general, the Theory examination requires discussion of the type which is common in accounting textbooks and in pronouncements of accounting principles.

Consider accounting practice. The Theory section of the examination may contain questions that require candidates to introduce practical considerations into their discussions. If practical considerations have been regarded by accountants in general to assume major importance in the particular area of the question, you should not overlook pointing out such practical considerations. But certainly you should not base your answer solely or even chiefly on accounting practice.

Ignore income tax considerations. Candidates have a tendency to give income taxes an excessive amount of attention on the Theory examination. In fact, some candidates base practically all of the answers on income tax effects and income tax rules and regulations. You must have a knowledge of accounting theory and must recognize the fundamental differences in accounting theory and tax accounting practice. Unless the income tax effect or comparisons with income tax rules and regulations are specifically asked for in the question, you should present your answers in accordance with accounting theory rather than in accordance with tax accounting practice.

Commercial Law

Most of the general instructions apply to the Commercial Law examination, but there are a few instructions which apply so specifically to the Law examination that they will be emphasized.

Use legal terminology correctly or not at all. You should avoid the use of terms that you cannot define. Say what you mean in plain English. As in other parts of the examination, the use of clear and simple language is the best policy.

Make a decision. Often questions give a factual situation and ask that a decision be made on the basis of the facts given. Not only do some candidates ramble in their answers, but others give such answers as “Not enough facts given to reach a decision.” In answering such a question, you should make a decision and give your reasons. If you feel it is necessary to make assumptions, state them, give your reasons for thinking the assumptions are necessary, give your decision, and give your reasons for the decision.

Accounting Practice

The examination in Accounting Practice is designed to test your understanding of accounting principles through their application to practical situations. It is also the section in which such accounting aids to management as budgeting and cost accounting are most likely to appear. The Practice examination will not be limited to problems and computations but may require discussion as well. If a discussion of accounting theory or of managerial implications of accounting theory and practice is called for, all of the instructions dealing with the essay type of examination are applicable.

Use common sense in interpreting requirements. If you have reasonable doubts as to the intent of the requirement, what should you do? First, keep in mind that there are no intentional “tricks” in the requirements. Second, remember that the time limits are closely proportional to the time needed to comply fully with the intent of the requirements. If your view of the requirements is drastically out of line with such limits, you should question your assumptions. Finally, if after rereading the entire problem you feel that an assumption *must* be made as to the intent, you should state your assumption, give the reason you think one is necessary, and state why you selected the one you did select.

Select the efficient solution. Selection of an inefficient (although not necessarily incorrect) approach to the solution of a problem can be so

costly in terms of wasted time that you should devote some time to making a decision as to approach before you do any work on the solution itself. The decision must be based, of course, on the problem requirements and on your understanding of them and should be conditioned by your work habits.

The most common cause of lost time is the use of worksheets when they are inappropriate from the standpoint of problem requirements, the data to be treated, and the time allowed. If a worksheet is not required, you should consider carefully whether the requirements of the problem can be met without the aid of a worksheet. For example, elaborate columnar worksheets are rarely needed to prepare a statement of source and application of funds. When a worksheet is one of the specific requirements, and when there proves to be insufficient time to complete all the requirements, the best procedure usually is to complete the worksheet. If, for example, a set of statements is required in addition to a worksheet, and if you cannot complete the problem, you should indicate on the worksheet such matters as statement presentation, classifications, footnotes, parenthetical notes and statement position of special items. To the extent that this is done correctly, you can earn a substantial portion of the point value in spite of the absence of the required statement.

Support all solutions. Many candidates fail to support their solutions with legible, labeled calculations which can be identified with ease as the sources of amounts in the formal schedules, entries, or other final answers. Others present such support in disorganized, chaotic form. Even when problem requirements do not call for such calculations, it is highly desirable that they accompany the solution. If examiners can trace an error in the formal solution to its source in computations, they frequently are able to save a good part of the credit which the candidate otherwise would have lost. If the computations are unavailable, unintelligible, or unlabeled, it is impossible to “look behind” the formal solution.

Arrange and identify papers properly. All papers on which the candidate has written (except the printed problem sheets) should be turned in with his solutions. Each should be identified by problem number and page sequence in the space provided at the top of the sheet. Scratch sheets should be turned in and should follow the problem to which they relate. This requires, of course, that a separate sheet of the unlined paper provided for formal calculations be used for each problem. If you fail to follow this procedure, it is difficult or impossible for graders to locate the source of your arithmetical or clerical errors. You should arrange your sheets in proper order before releasing them to the proctor.

Make comments sparingly. Frequently candidates offer gratuitous comments concerning the time available. If you find yourself unable to finish within the allotted time or if you discover an error which you have no time to correct, you should outline the procedure for completion or correction of the problem. This advice has merit *only* if the time could not have been spent more effectively in doing further work and if the procedures outlined reveal your understanding of the problem. The following type of comment is of little value: "No time! If I had time I would extend balances to the statement columns, prepare a balance sheet and income statement." Such repetition of the problem requirements earns no additional credits. The candidate should realize that even the best comments submitted in lieu of actual solution to the problem will seldom earn him full credit.

Evaluate the reasonableness of results of computations. A CPA should be competent in mathematical computation, and candidates are expected to be reasonably accurate. However, it is necessary to take into account the fact that in taking the examination a candidate is not working under the usual accounting conditions and that he is more likely to make certain types of mistakes than he would in his day-to-day work. Therefore the following is the position taken by examiners as to mathematical mistakes.

First, if you make and do not correct a mistake that should be detected in the normal course of using crosschecks and other common accounting controls, it is likely to be regarded as a serious indication of weakness. This does not mean that you are expected to set up elaborate control schemes to detect your errors. But it does mean, for example, that if by crossfooting two or three items or by balancing a series of debits and credits you would detect your error, the examiner regards the error as serious.

Second, if the uncorrected error is of the type which should be detected by any individual who has good judgment as to relationships of amounts, it will also be regarded as an indication of weakness on the part of the candidate. Errors of this type may be avoided if you will develop the habit of scrutinizing results for their apparent reasonableness.

Conclusion

The Board of Examiners and the staff of the Education Division of the American Institute of Certified Public Accountants are responsible to the fifty-three boards of accountancy for the preparation and advisory grading of examinations that appropriately safeguard the public interest in the competence of CPAs and, at the same time, identify all candidates who have the appropriate competence. The measures taken to discharge that responsibility have been described in considerable detail.

The suggestions for taking the examinations are intended to be of assistance to you in making the best of your assets as you work to become a CPA. If they help you to pass the examination, your effectiveness as a certified public accountant will also have been increased—the suggestions, in principle and in many cases in detail, are equally suitable to be given to the young CPA for use in his career. This is as it should be—the technical qualities and abilities tested on the examination are in general those required for successful practice.

