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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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This booklet was prepared by the Board of Examiners. Under the bylaws of the Institute, the Board of Examiners is responsible for supervision of the preparation of the Uniform CPA Examination and of the conduct of the Advisory Grading Service. This booklet is an expression of the Board's policy for the preparation of the examination and the conduct of the grading activities.

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

Preface

This booklet is intended to help candidates pass the CPA examination. The information provided can be useful to anyone who hopes to become a CPA.

The Uniform CPA Examination and the Advisory Grading Service were first made available to the states by the American Institute of Certified Public Accountants in June 1917. Eventually these examination services were adopted by all the states, the District of Columbia, Guam, Puerto Rico, and the Virgin Islands. As a result, the CPA certificates of all jurisdictions are on substantially the same footing, a condition which has enhanced the national prestige of the CPA designation and has aided the interstate practice of public accounting.

Those applying to become International Associate Members of the American Institute of CPAs must also take the Uniform CPA Examination, and their papers are graded by the Advisory Grading Service. This use of the CPA examination is expected to have a beneficial effect upon the international practice of public accounting.

There is a continuing need for CPAs, and the accounting profession welcomes all qualified men and women to its ranks. The increase in CPAs from 25,000 in 1945 to over 145,000 in 1973 supports these assertions. The Uniform CPA Examination as a measure of professional competence establishes the CPA certificate as evidence of professional qualification.

I urge those interested in becoming CPAs to read this booklet carefully.

Wallace E. Olson, *President*
American Institute of CPAs

New York
March 25, 1975

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The Uniform CPA Examination

By the Board of Examiners*

Candidates preparing to take the Uniform CPA Examination as well as those assisting them to prepare can be aided by knowing the purpose and general objectives of the examination. Information about the areas of knowledge and skills tested is also needed in order to prepare intelligently. Therefore, information on these aspects of the examination is provided for the benefit of CPA candidates and their educators.

Purpose

The Uniform CPA Examination is the primary means used by the boards of accountancy to measure the technical competence of CPA candidates. To understand the importance of the examination as a prerequisite for the CPA certificate, one must recognize the significance of the CPA certificate. It is awarded in the public interest to qualified candidates in accordance with the accountancy statutes of a given jurisdiction. The jurisdiction may be any one of the 50 states, the District of Columbia, Guam, Puerto Rico, or the Virgin Islands. The certificate is granted to assure the professional com-

*The Board of Examiners of the American Institute of Certified Public Accountants is responsible for preparing the Uniform CPA Examination and operating the Advisory Grading Service. All boards of accountancy use the Uniform CPA Examination and the Institute's Advisory Grading Service.

petence of individuals offering or intending to offer their services to the public as professional accountants; it is not granted for the benefit of those who possess the certificates or for any special group. The need for safeguarding the public interest, therefore, causes the boards of accountancy to investigate with meticulous care the qualifications of candidates for the CPA designation.

General Objectives

The primary objective of the Uniform CPA Examination is to test the professional quality of the candidates' competence in the discipline of accounting. Such professional quality includes adequate technical knowledge, the ability to apply such knowledge skillfully and with good judgment, and an understanding of professional responsibility. Boards of accountancy may also rely upon means other than the CPA examination to assure that candidates possess the necessary technical and character attributes. Other sources include interviews, letters of reference, investigation of educational background, and affidavits of employment. In addition, many boards also test knowledge of their rules of professional conduct by administering an ethics examination.

General Content

Although in its theoretical foundations and practical applications accounting draws upon related areas, the discipline of accounting is defined to include financial accounting, managerial accounting, auditing, business law, and federal income taxation. The content of the examination changes as conditions change in the discipline of accounting. It is possible, however, to indicate the general content of the examination and the knowledge and skills which are typically tested. Candidates may expect the examination to measure the extent of their knowledge of the following:

1. Accounting standards, concepts, postulates, and principles.
2. Generally accepted auditing standards, audit programs, and auditors' reports.
3. Business organization and operation, including a knowledge of the basic laws governing such organization and operation.
4. Use of accounting data for managerial purposes.

5. Quantitative methods and techniques as they apply to financial and managerial accounting and auditing.
6. Cost behavior, systems, and computer fundamentals.
7. Federal income taxation.
8. Accounting for governmental and not-for-profit organizations and related concepts, procedures, and reports.
9. Professional ethics.
10. Current professional literature and accounting issues receiving special attention at the time of the examination.

Candidates are expected to demonstrate their ability to apply to specific situations their knowledge of the foregoing areas with good judgment and logical reasoning, and to draw reasonable conclusions from such applications. In addition, the examination enables candidates to show the extent of their ability to—

1. Write precisely and concisely, and in good English.
2. Organize accounting data and present them in acceptable form.
3. Examine data in a complex situation, and evaluate and classify such data.
4. Apply appropriate accounting standards, concepts, and auditing procedures to given situations.
5. Use with reasonable facility other disciplines related closely to the discipline of accounting, such as quantitative methods, statistics, finance, economics, marketing, and behavioral science.

The content of the CPA examination is strongly influenced by the report of the Committee on Education and Experience Requirements for CPAs.*

Format of the Examination

The examination in Accounting Practice generally consists of multiple-choice questions and problem-type questions although short explanations may sometimes be required for these problem-type questions. The examinations in Accounting Theory, Auditing, and

*Appendix D “Academic Preparation for Professional Accounting Careers,” AICPA, 1969. Approved by Council, May 1969.

Business Law generally consist of multiple-choice questions and essay questions. Brief computations or journal entries may sometimes be required in Accounting Theory or Auditing examinations for essay questions.

Including multiple-choice questions in all sections broadens the coverage of the examination. The multiple-choice questions may involve indicating “true” or “false” for *each* response or selecting the one best response. Two examples illustrate the possible formats.

Example A: Indicate “True” or “False” for each response.

95. Which of the following accounts should be classified as a current asset?
- Building.
 - Income tax payable.
 - Cash.
 - Retained earnings.

Answer sheet 95.	True	False
	a:.....	<input type="checkbox"/>
	b:.....	<input type="checkbox"/>
	c <input type="checkbox"/>	:.....
	d:.....	<input type="checkbox"/>

Example B: Select the best response.

95. Which of the following accounts should be classified as a current asset?
- Building.
 - Income tax payable.
 - Cash.
 - Retained earnings.

Answer sheet 95. a:..... b:..... c d:.....

The candidate should answer multiple-choice questions as directed and *not* attempt to explain the answer. Since multiple-choice questions are mechanically graded, candidates’ comments associated with them are *not* considered.

The candidate should, however, include necessary explanations with problem-type and essay questions. These questions are reviewed by graders, and explanations may affect points earned by the candidate.

The candidate should answer *all* questions assuming that every item is material unless otherwise stated or otherwise determinable from the given data.

The candidate should number and letter his answer to correspond with the respective numbered and lettered parts of an essay question or problem-type question.

Emphasis of Each Section

To provide candidates with an understanding of the emphasis of each of the four sections (Auditing, Accounting Theory, Accounting Practice, and Business Law) comprising the complete CPA examination, annotations and lists of topics are presented below. These annotations and lists are intended *only* to be illustrative and do *not* necessarily include all matters which may appear on the examination. The examination may also include questions on recent (within approximately twelve months) developments or problems related to professional accountancy, particularly those matters being currently discussed in the profession's literature on accounting standards and auditing standards, although they are not mentioned in the following pages. New developments in other areas, e.g., federal income taxation, may be included on the examination at any time.

Candidates should realize that it is not possible to make clear-cut distinctions as to the classification of topics. There is a considerable overlapping of topics in three sections—Auditing, Accounting Theory, and Accounting Practice. For example, auditing questions usually require a knowledge of accounting theory and practice as well as of auditing procedures. Also, business law questions are often set in an accounting or auditing environment and answers may involve integration with financial or managerial accounting and auditing knowledge.

Auditing

The emphasis in the Auditing examination is placed on testing the candidates' knowledge of generally accepted auditing standards and procedures as they relate to the CPA's functions in his examination of financial statements. Special attention is given to matters which are the subjects of Statements on Auditing Standards, and, to a lesser extent, subjects covered in Statements on Responsibilities in Tax Practice, Statements on Management Advisory Services, and Industry Audit Guides. Many questions in the Auditing section may involve, directly or indirectly, knowledge of generally accepted accounting principles. The following areas of knowledge are tested regularly in the Auditing section.

Ethics and professional responsibilities. Questions relating to ethics and professional responsibility may appear from time to time. These questions will be based on the profession's rules of professional conduct and interpretations. The subjects of these questions might include professional relationships with clients and other CPAs (including the confidential nature of these relationships), professional independence, professional conduct, and standards of professional practice.

This topic also includes knowledge of the systematic array of ideas and basic doctrines that logically explain the nature of, the reasons for, and the social significance of auditing. Areas to be tested include the attest function, the doctrine of due care and concepts of independence, integrity, and professional responsibility.

Candidates should know, understand, and be able to explain the generally accepted auditing standards of the profession. Questions may require an explanation of the standards or an interpretation of their meaning. Understanding of the standards may be tested by requiring their application to specific situations.

Planning and control of the audit engagement. Questions will be asked about the planning, supervision, and review of an audit engagement, and about policies and procedures for maintaining quality control during an audit engagement. Candidates should understand the need for audit arrangements and maintaining satisfactory relations with directors, management, and shareholders. Questions will cover audit program planning, scheduling of work, and documentation in audit work papers.

Internal control concepts and procedures. Questions on this topic may require knowledge of control in all areas of the accounting process, and the objective and planning of these controls. In given situations, candidates should be prepared to identify and report strengths and deficiencies in both manual and electronic data-processing systems of internal control, recommend ways to correct the deficiencies, and suggest changes in the duties of employees to strengthen the systems. Knowledge of flowcharting as a tool of the auditor in this area and understanding of the degree and manner by which internal controls and system strengths affect audit procedures may also be tested.

Auditing evidence. Candidates may expect to be tested on their understanding of the significance of the various kinds of evidence collected and evaluated during an audit. Such evidence is obtained by observations, inquiries, examination of documents, confirma-

tions, client representations, comparisons, analyses, and the like. Candidates should also know the kinds and importance of information that the CPA may look for and expect to find in the examination of contracts, minutes, articles of incorporation, leases, insurance policies, partnership agreements, and other documents usually encountered in the course of an audit.

Special audit situations. Candidates may expect to be tested on special auditing situations, such as first-time audits, operational or program evaluation auditing, reviews of subsequent events, and the use of the computer or statistical sampling in performing an audit.

Electronic data-processing systems and computers are chiefly treated in the Auditing section as types of systems which the CPA should understand for audit purposes. Testing in this area will be at the level where candidates are required to demonstrate (1) a basic knowledge of a computer system—the function of the component parts, the general capabilities of the system, and the more universal terms associated with the computer; (2) the ability to design, analyze, and flowchart a system of modest complexity; (3) a general knowledge of the common commands used in computer languages sufficient to program, debug, and test a simple problem; and (4) an understanding of the control procedures and needed modification of auditing methods to conform to computerized systems and to audit using the computer.

Candidates should understand the theory of statistical techniques such as sampling and should be able to apply the techniques in accounting or auditing situations. Such questions will appear regularly at levels of difficulty justified by current usage in this area of knowledge.

The Auditing section may include the testing of candidates' ability to recognize the need for constructive suggestions that arise from auditing or consulting engagements. Such suggestions may pertain to situations such as modifications of the accounting or costing system, realignment of personnel duties, strengthening of security measures, and similar internal control processes.

Audit programs and procedures. Frequently, a question will be included on audit programs and procedures. Such a question may provide a situation and ask for the audit program or procedures which the CPA would apply, or the question may give an audit procedure and ask for a discussion of it. Candidates should understand the objectives and purposes of the audit procedures, as well as the procedures themselves, including auditing by computer and statistical sampling. Developing an audit program or a set of

audit procedures can be simplified by visualizing the accounting process by which the data are recorded and flow through the records.

Auditor's report. Questions dealing with the auditor's report may be expected in each examination. The candidate may be presented with a situation and required to write an appropriate auditor's report in which the opinion might be unqualified, qualified, or adverse, or an opinion might be disclaimed. Candidates should understand the implications and significance of the auditor's report since they may be required to comment on a given auditor's report. Other questions may bear upon matters such as statement presentation, footnotes, disclosures, and forms of opinions.

Candidates may also expect questions pertaining to the CPA's responsibilities when associated with unaudited financial statements. Knowledge of the adequacy of disclosures in the auditor's report will also be frequently tested.

Current developments. Candidates should be familiar with current issues and controversies in the accounting profession together with current pronouncements. Where current pronouncements change previous requirements, candidates will not be expected to be familiar with the newest pronouncement until approximately twelve months after publication, depending on the significance of the pronouncement for current practice and the clarity of supporting rules or interpretations.

Accounting Theory

The objective of the Accounting Theory section of the examination is to test the candidate's conceptual knowledge of accounting. Such knowledge consists of a rather wide assortment of ideas variously described as assumptions, axioms, standards, postulates, conventions, principles, rules, objectives, and so forth, that collectively are often referred to as "generally accepted accounting principles."

In general, theory questions tend to ask the candidate to indicate which of several principles or standards are to be considered controlling in specific situations, to discuss alternative courses of action, or to support or criticize suggested answers to specific questions. Alternatively, the questions may ask for explanation and justification of well-established accounting practices. Theory questions will not be limited to financial accounting, but may deal with managerial accounting topics, accounting in the not-for-profit sector, and may even ask for explanation and justification of certain

practices considered acceptable for federal income taxation purposes.

Topics that are the subjects of pronouncements of the Accounting Principles Board (APB) and of the Financial Accounting Standards Board (FASB) are likely to appear regularly in Accounting Theory. Occasionally topics that concern other accounting authorities, such as the Securities and Exchange Commission, will appear on the examination, especially when they are controversial. Candidates are consequently urged not only to study the latest accounting textbooks and the pronouncements of the APB and FASB, but also to read the leading accounting journals and other current literature.

Answers to theory questions should be in accord with modern accounting theory and not with income tax laws, regulations, and practices unless specifically required or vital to a complete discussion of the issues involved.

Accounting Practice

The Accounting Practice examination tests the *application* of conceptual knowledge of accounting. The problem-type questions may require the candidate to prepare journal entries, financial statements, supporting financial schedules, or work sheets. As with the Accounting Theory section, this section tests current authoritative pronouncements. Federal income taxes are a regular part of the Accounting Practice examination, and candidates will be expected to possess up-to-date knowledge of this subject.

While quantitative techniques applicable to professional accounting may appear in any section of the CPA examination, they more frequently appear in the Accounting Practice examination. Candidates may be tested on their knowledge of the accounting and other business applications of modern algebra (linear and non-linear), calculus (differential and integral), probability and statistics, and other applied mathematical techniques.

Accounting Theory and Accounting Practice Topics

The topics covered by Accounting Theory and Accounting Practice are similar despite the different emphasis of each section. The following list illustrates the wide range of the subject matter, but does not include all topics that may appear (no significance should be attached to the order of the topics in the list):

Allocation of income taxes
Analysis of financial statements

Budgeting, forecasting, and capital budgeting
Business combinations—mergers and acquisitions
Consolidated statements
Corrections of accounts and financial statements
Cost accounting—job order, process, standard, distribution, direct, etc.
Federal income taxes
 Computation of estimated expenses and liability
 Difference between accounting principles and income tax rules
Financial statements (including footnotes) for the going concern
 Statement of Financial Position (Balance Sheet)
 Earnings (Income) Statement and Statement of Retained Earnings
 Statement of Changes in Financial Position
Fund accounting—municipal and other not-for-profit organizations
Insurance
Intangibles—valuation and amortization
Inventories
Investments
Leases
Liabilities
Long-term contracts
Multinational operations
Owners' equity
 Individuals
 Partnerships
 Corporations
Pension costs
Price-level adjustments
Property, plant, and equipment—acquisition, valuation, depreciation, depletion, and disposal
Quantitative methods and techniques, mathematics, statistics, and probability (applied to appropriate situations)
Valuations—replacement costs, realizable values, market values

Business Law

The objective of the Business Law examination is to test the candidates' knowledge of the textbook treatment of legal problems inherent in business transactions and their accounting and auditing implications. Candidates are expected to recognize the existence of legal problems and the basic legal principles that are applicable,

and they are usually asked to indicate the probable result of the application of basic principles of law to the problem. The answer to an essay question in the Business Law examination usually requires a statement of the reasoning the candidate used to arrive at his conclusion.

The Business Law section is chiefly conceptual in nature and broad in scope. It is not intended to test candidates' competence to practice law or their expertise in legal matters. The intent is to determine that their knowledge is sufficient to enable them to recognize relevant legal problems, to apply the underlying principles of law to accounting and auditing situations, and to seek legal counsel, or recommend that it be sought, when it is appropriate to do so.

The examination deals with federal and uniform laws. Where there is no federal or uniform law on a subject, the questions are intended principally to test candidates' knowledge of the majority rules. Federal tax elements may be covered where appropriate in the overall context of a question.

The following topics, listed alphabetically, may be expected to be the subject of business law questions.

Accountant's legal responsibility. Knowledge of the accountant's common law civil liability to clients and third parties is tested under this topic. The common law civil liability is based either upon contract or tort (negligence or fraud). Also included is the accountant's civil and criminal liability imposed by federal statutes, such as the Federal Securities Acts of 1933 and 1934. Finally, the accountant's rights regarding work papers and privileged communication are included.

The candidate is expected to be familiar with current developments and recent cases involving accountants.

Antitrust. Questions will appear based upon the basic provisions of federal antitrust laws—which concern the preservation of competition—and their application in situations requiring accounting disclosure. The Sherman, Clayton, Robinson-Patman, and Federal Trade Commission Acts are the major sources of law in this area.

Bankruptcy. The Federal Bankruptcy Act is the basis for questions dealing with bankruptcy. This topic includes methods of dealing with financial failure in lieu of bankruptcy, acts of bankruptcy, voluntary and involuntary petitions in bankruptcy, administration of the bankrupt's estate, preferences, priorities, exemptions, duties of a bankrupt, bankruptcy offense, and the effect of a discharge on the bankrupt's debts.

Commercial paper. The major provisions of Article 3 (Commercial Paper) and Article 4 (Banking) of the Uniform Commercial Code come under this topic which is traditionally referred to as Negotiable Instruments. It includes the types of negotiable instruments, the concept and importance of negotiability, the requisites for negotiability, negotiation, holding in due course, defenses, and the rights of the parties to the instrument.

Contracts. This topic is concerned with the fundamental legal elements necessary for a contract enforceable in a court of law. The subject matter includes the following: offer, acceptance, consideration, legality, capacity to contract, unfairness in the bargaining process (e.g., fraud), the Statute of Frauds, third-party rights, performance, breach, and remedies.

Estates and trusts. This topic includes the administration of a decedent's estate and the administration of a trust.

Federal securities regulation. Knowledge of the Securities Act of 1933 and the Securities Exchange Act of 1934 is tested under this topic. Included are the scope of the 1933 Act's registration requirements, exempt securities, exempt transactions, and the liability of the various parties involved in making a public offering of securities. Included within the coverage of the 1934 Act are the application of the Act's rules to both listed and unlisted corporations, corporate reporting requirements, antifraud provisions, disclosure of insider information, and short-swing profits.

Forms of business organizations. Three major areas of business law are covered by this topic. One is the area of agency with the main focus upon the subject of imposition of liability in contract and tort by the agent upon his principal. This area of law may be tested in situations relating to proprietorships, partnerships, or corporations. Another major area is partnership law which encompasses the characteristics of the partnership and limited partnership; the rights, duties, and liabilities of the partnership and the partners among themselves and to third parties; and the rights of the various parties upon dissolution. The third major area is corporate law with emphasis on traditional state regulation of the corporation as contrasted with federal regulation. Included in the subject matter are corporate characteristics; incorporation; corporate rights, powers, and liabilities; corporate financing; directors' and officers' duties and liabilities; and stockholders' rights.

Insurance. Under this topic primary emphasis is placed upon life and property (fire) insurance in relation to the successful man-

agement of a business. The topic embraces matters such as the insurable interest in the lives of owners and managers of the business entity and its debtors, and the insurable interest in property which the business owns, rents, or has sold under various financial arrangements.

Property. This topic is concerned primarily with real property law, although the distinction between real and personal property is also included. Among the subjects covered are the various estates in land, conveyances of real property, the landlord-tenant relationship, and real property mortgages.

Regulation of the employer and employee relationship. Questions on this topic are based upon the Fair Labor Standards Act, the Social Security Act, and typical state workmen's compensation laws. The emphasis of these questions is on the impact that these laws have on employer-employee relationships.

Sales. This topic is largely concerned with Article 2 (Sales) of the Uniform Commercial Code which includes contracts for the purchase or sale of goods, warranty protection of the buyer, privity of warranty, allocation of risk of loss, and the buyer's and seller's rights, duties, and remedies. In addition, problems arising as a result of a bulk purchase, covered by Article 6 (Bulk Sales) of the Uniform Commercial Code, are included.

Secured transactions. Article 9 (Secured Transactions) of the Uniform Commercial Code, which contains a comprehensive set of laws regulating security in personal property, is covered under this topic. The Article applies whenever personal property is used as security for a debt and to outright sales of accounts receivable and chattel paper. Creation, attachment, and perfection of a security interest, and the various priorities and rights of creditors and third parties are included.

Suretyship. Included in this topic are the identification and characteristics of the surety relationship, the various rights of the parties to the relationship, the surety's defenses, and the co-surety relationship.

Preparation of the Examination

Factors in the Preparation of the Examination

A primary consideration when the examination is prepared is the meaning of the CPA certificate. Since the certificate is granted un-

der accountancy statutes enacted in the public interest, it must be issued only to properly qualified persons. The public's need for assurance of professional competence on the part of those receiving the CPA designation must be fully satisfied. The examination plays a major role in the licensing procedure by measuring the candidate's technical competence (including technical knowledge and the application of such knowledge) in the discipline of accounting, the exercise of good judgment, and the understanding of professional responsibility.

Questions selected for the examination must be at a level suitable for testing the technical competence of the prospective CPA. Each question must elicit answers that can be graded on a uniform basis.

In the selection of topics for the examination, special consideration is given to statements, opinions, and standards issued by Institute committees, the Accounting Principles Board, and the Financial Accounting Standards Board. Candidates are tested for their knowledge of these pronouncements because, as CPAs, they are expected to be familiar with them and to apply them in the course of their professional functions. Recent developments in the professional practice of public accountancy, as reported by current literature, and significant aspects in federal income tax law are frequently the subjects of examination questions.

Another factor considered when an examination is prepared is the comprehensiveness of the examination's overall content. Each examination should provide a broad coverage of the full body of technical knowledge required of CPAs. Carefully selected multiple-choice questions are an effective means for providing the needed broad coverage in a minimum amount of time.

Another major factor is the balance of subjects making up an examination. No single subject should receive undue weight on the examination. If, upon review of the entire examination, it is found that undue weight has been given to a topic such as cost accounting, income taxes, managerial accounting, or any other topic, questions on the topic will be modified or replaced with others to bring the subject coverage into balance.

Board of Examiners and Its Role

The Board of Examiners (Board) of the American Institute of CPAs supervises the preparation of the Uniform CPA Examination and the operation of the Advisory Grading Service. The Board formulates the policies for preparing and grading the examination, and for all related matters.

The Director of Examinations of the AICPA has the executive responsibility for the preparation of the examination and the operation of the Advisory Grading Service. The Director operates within the confines of the policies established by the Board and the administrative structure of the Institute.

The Board consists of nine AICPA members. These Board members represent large and small accounting firms and academia. Members also represent different sections of the country. Many members have served on boards of accountancy and thus have first-hand knowledge of state board activities and policies.

Reporting to the Board are five permanent subcommittees plus other subcommittees and task forces. The permanent subcommittees are Accounting Practice, Accounting Theory, Auditing, Business Law, and Grading. The grading subcommittee will be discussed in a later section. Each of the other subcommittees is responsible for its respective section of the examination. This responsibility involves reviewing questions and answers for every examination for overall coverage, fairness, clarity, and technical accuracy.

Initially, specifications of topics for each examination section are prepared by the staff of the examinations division and are considered by the Board about eighteen months before that scheduled examination date. The Board reviews these specifications for overall balance and fairness for the entire examination. If the Board rejects a proposed topic for coverage, the topic is eliminated from the specifications and another is substituted. The Board's overriding concern is that the topics test the discipline of accounting in fair, unambiguous, and straightforward questions.

Once the specifications are approved, a first draft of questions and answers is prepared by the staff and sent to the respective subcommittees for their review. The subcommittees may suggest revisions to the staff. Such revisions may be editorial or technical in nature and may range from correcting a typographical error to completely restructuring a question.

The staff prepares these changes and sends a second draft to the respective subcommittees. The second draft is discussed, and this review may reveal ambiguities or technical errors that were not originally identified. Furthermore, major new developments or authoritative pronouncements may necessitate revisions. By this time, however, major changes are generally rare.

The staff then prepares a third draft which is sent to the subcommittee members and the entire Board for final approval. At this point the examination is virtually in final form, and changes are usually minor.

Two major aspects of the preparation of the examination are evident here. First, each question and answer is reviewed several times by different people within the necessary security constraints. This assures that the CPA examination is one of high quality; that is, it is well balanced, technically accurate, relevant, and fair. Second, the subcommittees and the Board of Examiners are actively involved in and responsible for the preparation of the examination.

Sources of Examination Material

A substantial portion of the examination is prepared by the staff of the examinations division and by consultants who develop questions in specified areas or on designated topics. Consultants, who are usually educators, are selected for their knowledge of specific areas and for their awareness of examination techniques.

The efforts of the staff and consultants are supplemented by questions contributed voluntarily by accounting professors and practitioners. Contributions not immediately fitting into the content of an examination under preparation or not suitable to form a complete question are kept in a stockpile maintained at the Institute offices. This stockpile is a ready source of ideas and situations from which the staff or consultants can prepare complete questions. Sometimes several contributions on the same subject are combined into one examination question.

The names of those whose contributions are used in the examination are listed in the *Journal of Accountancy* shortly after the examination is given. The *Uniform CPA Examination Questions and Unofficial Answers* published after each examination also lists contributors of material used in the examination.

Examination Security

The examination is prepared, printed, and administered under tight security measures. During all phases of preparing, editing, typing, reviewing, proofreading, and the like, examination drafts are under the surveillance of staff members of the examinations division. Drafts, notes, and other writings relating to the examination are kept under lock and key until the examination is administered.

Questions and answers submitted to the stockpile do not constitute a security risk because there is no assurance that they will ever be used in the examination. For this reason contributions are also solicited from CPA candidates, and a contribution from a candidate may appear in the examination in revised form. Once a con-

tribution is selected for examination use, however, it becomes subject to the usual security procedures.

Exposure drafts are sent to the Board of Examiners and subcommittees through channels which assure that they will not fall into unauthorized hands. The exposure drafts are kept under tight security measures until the examination is given. Correspondence about the examination is also kept secured.

After printing, examination booklets are inspected and sealed for shipment to the boards of accountancy. Once these booklets are received by the boards, it is their responsibility to maintain security and to ensure that the correct booklets are distributed for the particular section of the examination.

Grading of the Examination

The objective of the Advisory Grading Service is to grade the candidates' examination papers fairly and uniformly. This is attained through the application of the defined grading bases (approved by the Board of Examiners) to the candidates' papers with as many as three subsequent reviews of the papers, and through statistical controls over the grading. The application of defined grading bases assures candidates that the content of their examination papers will be measured uniformly regardless of the jurisdiction in which they reside or the city in which they take the examination.

Grading Bases

Initial development of the grading bases for an examination is done by grading supervisors and experienced graders. The grading subcommittee of the Board of Examiners reviews their work and approves the final grading bases to be used in actual grading. The task requires about two weeks and is begun on the Saturday after the examination is administered. During these two weeks, the majority of the candidates' papers are received at the Institute from the examination centers, are inspected, and are prepared for grading.

The first step in the development of the grading bases is to analyze the drafts of the unofficial answers for the purpose of preparing lists of grading concepts. A grading concept is the expression of an idea, thought, or opinion that can be clearly defined and identified. These initial grading bases are intended to provide a starting point for reaching the final grading bases.

The next step is to study a large number of candidates' papers in order to get a sampling of the candidates' responses to the questions. Additional concepts gleaned from the responses are added to the initial grading bases and noted for inclusion in the published unofficial answers. Evaluations are made of differing approaches to the questions and of alternative interpretations of data and statements given in the situations posed in the examination questions. If the interpretations are deemed reasonable, the grading bases will provide for these approaches and interpretations.

After identification and definition of the grading concepts, the next step is to apply the revised grading bases to a sample of candidates' papers. The results of this test grading are subjected to statistical analyses to ascertain the validity of the concepts and to determine the grading weights to be assigned to them. These statistical analyses include item analysis and studies of grade correlations and grade distributions.

The grading bases are revised a second time in light of the statistical analyses and are then applied to another sample of candidates' papers. The results of this application are subjected to further statistical analyses for assurance that the bases are fair and equitable. Some minor refinements may be made to put the grading bases in their final form for application to the candidates' papers.

None of the grading done during the course of developing the grading bases is final (official) grading. The sample papers are returned to the general population of papers, and are later withdrawn in proper sequence for final grading without being identified as the sample papers used to validate the grading bases.

Multiple-choice questions are also subjected to intensive analysis for the purpose of developing grading scales to convert candidates' raw scores to final grades. Should a substantial portion of the candidates select an answer other than the anticipated selection, the validity of their selection is studied. If the alternative selection is found to be valid, it too is accepted for full credit.

The maximum point values for each question are approximately proportional to the minutes allotted to the question in the suggested time budget printed in the examination booklet. The total of the weights assigned to the concepts for an answer always exceeds the point value of the question. For example, the total of the concept weights for a ten-point question will be twelve or more points. Thus, a candidate would not have to provide all of the concepts to get a near maximum grade for the answer given and, conversely, would not be given more than the maximum assigned point value for the question.

The Grading Process

When the grading bases are in final form, the four-stage grading process begins. Candidates should remember that throughout the grading process their anonymity is preserved. The only information about a candidate available to the graders is the candidate number, which appears on the examination papers to identify him and the jurisdiction. No information is available to the graders about the candidate's education, experience, age, number of sittings, or other personal characteristics. As a result, the candidate's performance on the CPA examination is measured solely by the papers submitted. Candidates must receive a grade of 75 or more on each section to receive a "pass" on the entire examination.

First grading. The first grading is done by graders assigned to grade individual questions. For example, each essay question in the Theory section will be graded by a different grader. Since the Theory section is usually composed of five or six essay questions, that number of graders would do the first grading of a candidate's paper.

A grader assigned to a single question, which will be graded during the full grading session of six or seven weeks, becomes an expert in the subject matter of the question and in the evaluation of the candidates' answers. Thus, grading is objective and uniform.

The purpose of the first grading is to separate the candidates' papers into three groups: obvious passes, marginal, and obvious failures.

Second grading. Upon completion of the first grading, a second grading is made by reviewers. Obvious passes and failures are subjected to cursory reviews as part of the grading controls. Marginal papers, however, receive an extensive review.

The graders who make the extensive reviews have had years of experience grading the CPA examination. They have also participated in the development of the grading bases and have access to item analysis for multiple-choice questions identifying concepts as discriminating or as rudimentary. An important indicator of the competence of the candidate is whether grade points were earned chiefly from discriminating concepts or from rudimentary concepts. During this review of the overall paper, significance is attached to the form and presentation of the paper, use of English, logic, and other factors which must be judged with an element of subjectivity.

Third grading. After the papers have been through the second grading for all parts of the examination, the resultant grades are listed by candidate number and compared for consistency among

subjects. For example, if a candidate passes two subjects and receives a 69 in a third, the 69 paper will receive a third grading in the hope that the candidate, now identified as possessing considerable competence, can have the paper raised to a grade of 75 by finding additional points for which to grant positive credit. This third grading is done by the section head or a reviewer who did not do the second grading of the paper.

Fourth grading. The Director of Examinations applies a fourth grading to papers that received the third grading but have grades that are inconsistent. The Director knows that the papers have already been subjected to three gradings, and that it would be difficult to find additional points for which the candidates should be given credit. Therefore, the paper is reviewed with this question in mind: "Considering the overall presentation in this paper, does this candidate have the technical competence to function effectively as a CPA?" If the answer appears to be "Yes," the candidate is passed. Obviously, very few candidates are passed in this manner, but this fourth grading assures that marginal candidates receive every possible consideration.

Candidates' Preparation for the Examination

Positive Attitude Toward the Examination

Passing the CPA examination is the critical first step for persons entering professional accounting. It is the most important single accomplishment for aspiring CPAs, necessary for almost everything else they will do. It should not be taken lightly, but neither should it be thought of as an impossible undertaking. The first task of the candidate is to develop a positive attitude toward the examination—an attitude that passing the examination is a reasonable, attainable goal, but one requiring substantial effort. This is most important since it will determine how well the general review suggestions that follow will be carried out.

Candidates should view the examination as challenging and involving extensive preparation. Preparing adequately will enhance one's opportunity to pass, and passing is definitely an attainable objective.

Candidates must discipline themselves to review broadly. This may be done through self-study, a college or university review course, or a private review course. A candidate taking a review course at a college, university, or elsewhere must still study. Mere

attendance at such a course is *not* sufficient to pass the examination.

Although motivation to prepare is an elusive quality, it is a major contributing factor to a candidate's success. Candidates possessing high motivation strive energetically for the CPA certificate and regard the CPA examination as a stepping-stone to professional recognition. These determined candidates prepare for and attempt the examination with greater enthusiasm than do candidates with low motivation. The consequences are inevitable: candidates who have the requisite intelligence and who are eager to be CPAs usually pass the examination early in their professional careers, but those lacking this ambition often have severe difficulty in passing it.

Requisites for Success

There are three necessary conditions for success on the CPA examination: (1) an adequate general intelligence, (2) the education provided by a degree with a major in accounting, and (3) an intensive review for an extended period of time.

There is a greater chance for success if an appropriately educated candidate takes the examination at the earliest date after becoming eligible. Much of the examination tests knowledge obtained from academic study for entry into the accounting profession. Undue delays after graduating from college, therefore, are likely to result in the candidate's forgetting information essential to success on the examination.

There are no simple formulas which can be applied to every candidate to ensure success. Candidates vary in general intelligence, educational background, and emotional makeup, so each must develop his own procedures for learning accordingly. Two initial steps are essential. A candidate should (1) learn what the goals of the examination are, study the types of topics covered, ascertain what will be expected of him (studying this booklet will help substantially) and (2) objectively evaluate himself, his capabilities and limitations, in the light of the findings in (1). These steps are essential if the candidate is to develop a study plan appropriate to his circumstances, and only the candidate can do this. There are some general guides, however, that might profitably be considered as a start in developing a study plan.

Preparation and Review

Extensive preparation and an intensive review are necessary. Successful candidates do not attempt the examination unprepared; they

realize that success is a matter of preparation and not luck.

Some candidates attempt the examination with limited preparation. The consequences are inevitable. Failure to prepare broadly—because the topics appearing in the examination are selected to provide a broad coverage—reduces the opportunity to successfully complete the examination.

Preparation for the examination should be carried out over a period of months, and not left to the last week or so before the examination. Candidates should develop a review schedule setting forth the topics to cover and the time to spend on each. Physical strain is reduced if the study periods are limited to two to three hours daily rather than setting aside full weekends.

A cardinal requirement is that the study material be the latest publications. Textbooks should be no more than a year or two old. If the candidate has been out of college for a few years, the textbooks used may be out of date even though they are the latest editions by the authors. A common error is to use study materials passed along by a generous CPA who completed the examination years earlier.

General Review Suggestions

Organized review program. Once the candidate has developed the proper attitude and has analyzed his own weaknesses and strengths, he is ready to formulate the plan of attack—the review program. Obviously the total hours of study needed, the topics to concentrate on, and the procedures to follow will depend upon the educational background, experience, and emotional makeup of each candidate; but the following procedures should be considered by all candidates.

A candidate should formulate a rigorous plan of study and review. This may mean an intensity of study not undergone before. Time for study should be budgeted. Several short study periods are more productive than a weekend marathon. There is plenty of time each day to prepare if time is used efficiently. Studying consistently is important. One of the major challenges is “sticking with it,” devoting a minimum of two or three hours daily to review. This requires a selection of hours that are best suited to study and, then, conscientious, tenacious adherence to a self-imposed schedule. Self-discipline is the most difficult task of all.

Preparation to include all sections. The candidate should not think that it is more efficient to prepare for only one or two sec-

tions. On the contrary, the best performance is achieved by the candidate who prepares for all sections of the examination. This is because all sections—Auditing, Accounting Theory, Accounting Practice, and Business Law—are so interrelated and interdependent that review of one is beneficial to the others. After all, good practice is based on knowing the underlying theory. Because practice and theory have been influenced heavily by the attest function of accounting, it follows that knowledge in these two areas is essential, though insufficient by itself, to pass the Auditing section. Concepts of business law prevail in any financial or managerial accounting or auditing environment.

Answering past CPA examination questions. One way to prepare for the CPA examination is to study past CPA examination questions and unofficial answers thoroughly and answer selected questions within the allotted times. By so doing, the candidate develops confidence in his own abilities, improves his techniques, and increases his knowledge and understanding of the various accounting topics. The candidate, however, should realize that because of new pronouncements, prior questions may have answers that are different from the answers currently published.

Answering questions, however, should not be used as a primary studying device. The candidate should first study a topic thoroughly from texts and other sources and then answer CPA examination questions which cover that topic. How well the candidate answers will indicate how well he understands the subject matter and whether or not additional review is necessary in that area.

Questions should be used primarily to develop approaches to answers. The emphasis should be on the most productive procedures in the preparation of answers and on the reasoning underlying them, rather than merely on the answers themselves. Questions should be answered by the individual alone, not in collaboration with others.

The unofficial answers to prior CPA questions are available from the AICPA and other sources. References for each question are also available for previous questions and unofficial answers. Candidates may be aided in their study by noting references often used for the examination.

However, working only with published questions and unofficial answers frequently is not the best way to begin one's 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 to be used in specific situations, but he has not formulated any general policy of ap-

proach. As a result, when faced with a fairly complex situation, he does not know where or how to begin. He may glance at the answer provided without even attempting to answer the question himself. The danger of studying in this manner is that the individual is lulled into thinking that he has prepared adequately for a topic. The fact that he has to resort to the answer should be adequate warning of his deficiency.

In summary, the candidate should prepare thoroughly for a topic before answering questions related to it. Then he should select questions related to the topic and work them through to complete answers as near to examination conditions as possible. He may then check his answers against the AICPA's unofficial answers keeping in mind acceptable alternatives (discussed in the following paragraphs), and decide whether or not additional study time needs to be spent on the topic.

Awareness of alternative terminology. When preparing for likely accounting topics, the candidate must recognize that terminology is not uniform. Variations in terminology that is drawn from many sources will inevitably appear in a national examination. 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."

Recognizing alternative answers. The candidate should also recognize that there is usually more than one way to approach a question. Alternative answers can arise because (1) there are slight variations in practical accounting procedures or techniques and (2) there are different schools of thought on certain accounting matters. Therefore, the candidate must anticipate situations that are not precisely equivalent to either the textbook treatments that are known or the situations that have been encountered in practice.

The American Institute of Certified Public Accountants takes elaborate steps to ensure equitable grading of CPA examinations. The graders recognize and give full credit to all alternative answers that are reasonable. Therefore, the CPA candidate should not be discouraged if, in the course of review, published answers are found that do not precisely agree with the approach learned in specific accounting courses. The Institute finds it impractical to publish all alternative answers, so it usually confines its "unofficial answers" to one widely accepted approach. These published answers are neither official nor necessarily the only acceptable answers; yet many candidates mistakenly believe that they are.

CPA examination questions are intended 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 alternative assumption is being rejected.

Many candidates will have had practical experience in auditing, taxation, or some phase of accounting practice before taking the examination. A warning is in order for these candidates. They should not hold fast to the particular techniques and procedures which they have followed in practice. Many times these have been tailored to fit a particular set of circumstances, a particular audit engagement, or a particular firm. For these cases, such practices may be ideal. The answers to the CPA examination questions, however, must reflect generally accepted practices and techniques and the procedures generally followed in the circumstances presented. Thus the procedures followed by particular accounting firms may not be the best procedures to follow on the examination.

Publications to Review

As the candidate's review progresses, he becomes aware of the topics most likely to be covered by examination questions. Certainly the review should include good intermediate and advanced financial accounting books, auditing texts, cost accounting texts, and federal income taxation books. References cited for prior examinations in the questions and unofficial answers may help indicate which source to use. The candidate should not neglect the issuances of the APB and the FASB, nor should he overlook AICPA publications such as the Code of Professional Ethics, Statements on Auditing Standards, Statements on Management Advisory Services, the Accounting Research Studies of the former accounting research division of the Institute, and the Industry Audit Guides. A list of AICPA publications appears monthly in the *Journal of Accountancy*, or a copy of the latest catalog of publications 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* and *The Accounting Review* deserve close attention. The candidate should not ignore various *Journal* sections such as "Accounting and Auditing," "Taxation," "Accounting and EDP," and "Practitioners Forum." The candidate is expected to demonstrate a willingness and an inclination to keep abreast of accounting literature as a part of his professional responsibilities.

In conclusion, there is no magic method for preparing. If one word were used to describe what is essential for success, that word would be *discipline*, many hours of carefully planned, strictly *disciplined* work. The words of Thomas A. Edison are appropriate here: "I never did anything worth doing by accident, nor did any of my inventions come by accident."

General Suggestions for Taking the Examination

Knowledge of the subject matter is essential for success on the examination; nevertheless, there are some techniques which could result in the few additional points that might mean the difference between success and failure. You should keep them firmly in mind, and practice them during the time spent reviewing so that they can be utilized most efficiently during the examination. They are generally applicable to all sections of the examination.

Be punctual. On the days that you take the examination, plan your personal schedule so that you will arrive at the examination room well in advance of the starting time. Allow ample time for traffic delays, checking your coat, and other inconveniences that might cause you to be late. You should be settled in your seat and accustomed to your surroundings at the time the examination begins. If you anticipate any emergency telephone calls, advise the proctor to expect them and tell him where you are seated.

Take supplies. You will be given examination paper for your answers as well as for scratch paper. Do *not* bring any paper or printed material to the examination room. Your possession of such material might result in your being barred from participation in the examination.

Bring with you an adequate supply of pens, pencils, and erasers. Because of the problem of keeping pencils sharp, you may use mechanical pencils. Bring an ample supply of lead and a reserve pencil or two. A good eraser that will not smudge the paper will ease the task of erasing. A pencil with a No. 2 lead should be used to mark the answer sheets for the multiple-choice questions because these answer sheets are scored by optical scanning equipment. *Electrographic pencils must not be used on the answer sheets.* In the interest of maintaining uniform examination conditions, mechanical or electronic aids are *not* permitted in the examination room.

While eating sandwiches and other foods in the examination room is usually prohibited, proctors probably will not object to

your bringing small amounts of candy that can be eaten to maintain your energy level during the examination period.

Budget your time. You should be able to answer all parts of all questions if you budget your time carefully. A schedule of estimated minimum and maximum times for each question is printed on the cover of each examination booklet. An example of such a schedule can be found in "Information for Candidates," page 34.

These estimates should be used as a guide in budgeting the time you spend on each question. Limit the time you spend on a question to the estimated maximum and, if necessary, return to the question if you have any time left after writing answers to all questions. You may prefer to limit the time spent on a question to the estimated minimum so that you will have time left after writing answers to all questions.

If you encounter a question covering a topic about which you have extensive knowledge, you should still limit your time to that in the time budget rather than writing a lengthy answer and thus cutting short the time you have for writing answers to other questions.

It is also advisable to allot the full budgeted time to the multiple-choice questions and not to "save" time by making hurried selections of answers. Objective questions appear in every examination. Hastily selected incorrect answers will show that you do not possess the knowledge being tested. Generally, time for each question is adequate if you have prepared properly.

Write legibly. Your handwriting should be reasonably legible and your paper neat in appearance. Your answers need not be printed or be in artistically attractive handwriting, nor should you use pencils or ink of different colors. Extensive underscoring for emphasis of points believed to be of major consequence is unnecessary. Do not cut down the comprehensiveness of your answers by striving for perfection in handwriting or presentation.

Answer essay questions in proper, concise English. This will improve your answer. Say what you mean and mean what you say. Quality and quantity of ideas are desired, not quantity of words. Do not repeat the questions; this wastes valuable time.

Answer the most familiar questions first. If you are in doubt about where to start, scan all questions to identify their subject matter and answer first the question covering the topic with which you are most familiar. It is not necessary to answer the questions in

the order they appear in the booklet; you can arrange your answers in numerical sequence when the examination is over.

Answering questions in the order of their familiarity will bolster your confidence. Furthermore, in the early stages of the examination this procedure will start the flow of your knowledge and will enable you to “warm up” to the task of displaying your knowledge for the graders.

Read the question. Read the entire question carefully to get a general idea of the subject matter being tested and then reread the question for pertinent facts and data. Underscore important data or facts in the examination booklet for ready identification.

You might approach a question by reading the requirements first and then reading the situation for the information it contains. This procedure might enable you to identify the data more rapidly and to classify them for pertinence.

Respond to the requirements. Your answers should respond directly to the requirements and not be broad expositions on the topic of the question. You should not identify the general subject matter of a question and proceed to set forth all you know about the subject without regard to specific requirements. Such unresponsive answers can only lead the graders to conclude that you do not possess the necessary professional judgment expected of CPAs.

Your answers should not contain contradictions within themselves. While you may in some cases wish to discuss both sides of a question, make it clear that you are presenting two lines of reasoning or opposing arguments, not contradicting your early statements.

Use examples freely to illustrate the statements you make, but be certain that the examples provide logical support or present reasonable applications. Well-chosen examples often are a short and easy way of expressing an idea or supporting a conclusion. On the other hand, inapplicable examples can cast doubt on your comprehension of the subject matter.

Interpret requirements with common sense. If you have difficulty in interpreting a requirement or if you believe the requirement expects an unduly long answer, remember that requirements are not intended to be tricky and that the time budgets are intended to provide close guidelines for the amount of time you should spend on each answer. If you believe a requirement is out of line, you should question your assumptions. If, after rereading the question, you still believe that an assumption is needed about the intent of the

requirement, state your assumption and supporting reasons in your answer.

Prepare adequate answers. You should aim for complete answers. The length is of little consequence if this aim is achieved. You should guard against the extremely brief answer that, no matter how well directed, is likely to omit important points. Inasmuch as you cannot, nor are you expected to, determine the relative importance of points for grading purposes, you should write fully on each question. While conciseness is a desirable quality of good writing, you should endeavor to present complete and comprehensive answers and should avoid extremely brief answers, which are often mistakenly offered as complete answers.

Organize your answer. After you understand clearly the requirements of the question and have digested the data, organize your answer to respond directly to the requirements. You will save time, avoid false starts, and write coherently if you organize your answer carefully before you begin to write it in final form. You might find that preparing rough outlines assists you in organizing your answers.

The requirements of the question are intended to be the framework on which you should construct your answers. These requirements are carefully phrased to elicit specific knowledge.

Each principal idea should be the subject of a separate paragraph. You should follow the rules of good grammatical construction and place the principal idea of the paragraph in the first sentence. Subsequent sentences in the paragraph should present subordinate or supporting concepts, or illustrative examples.

You can best express your knowledge if you employ short paragraphs, comprised of short sentences. Long, involved paragraphs and complicated sentences may create the impression that you do not understand the subject matter. Moreover, short paragraphs, each limited to one principal idea, can better emphasize the main points in your answer.

Select the efficient approach. Selection of an inefficient, though not necessarily incorrect, approach to a question can waste precious time. Before putting your answer on paper, devote some time to determining what approach you will use, and then think through the answer to its conclusion. If an answer appears to require extensive arithmetical computations, set up the formulas or show the sequence of computations, properly labeled, before starting any of the arithmetic. This is logical time utilization that will assure maxi-

mum credit both for your knowledge of the subject matter and your professional skill in recognizing and completing the significant part of the answer first.

A common cause of lost time is the development of work sheets that are not needed or that are more elaborate than necessary. If the requirement, for example, asks for a statement of changes in financial position, you should *not* prepare the elaborate work sheets sometimes developed for these statements. Similarly, you should not prepare formal journal entries with explanations unless they are required.

If it appears that you lack the time to complete the requirements, work until the last few minutes of the time budgeted for the question and then state briefly how you would complete it. You should remember, however, that resorting to explanations rather than completing the requirements for a number of questions would probably lead the graders to conclude that you were not fully prepared.

Be specific. Be so specific that there can be no mistaking your meaning or reasoning. Answer as though the grader were a junior accountant on your staff. The grader does not know you and can make no assumptions about your knowledge.

Support all answers. Support your answer with legible calculations properly labeled that can be identified as sources of amounts in formal schedules, entries, work sheets, or other answers. If graders can trace an error to its source in calculations, you will frequently receive much of the credit which you might otherwise lose for an incorrect answer. If computations are unavailable, unintelligible, or are not labeled, it is impossible for the grader to “look behind” your final answer.

Give your reasons. The graders pay as much attention to the reasons you offer for your conclusions as they do to the conclusions themselves. Hence it is as important for you to know why certain auditing procedures are applied, or the objectives of the procedures, as it is to know the procedures themselves. Similarly, it is as important to know the reasoning behind an accounting procedure as it is to know the application of the procedure. Support the computations. Let the grader know what you know.

A common error is to cite authorities instead of giving the underlying reasons or supporting logic. Graders do not expect citations from textbooks or authoritative pronouncements; they want to know the *reasons* for the authoritative opinions.

Evaluate the reasonableness of computations. Graders realize that in taking the examination you are not working under usual accounting conditions; therefore you are more likely to make arithmetical mistakes. The following position is taken by the graders regarding mathematical mistakes.

Mistakes made and not detected in the normal course of using crosschecks and other controls are regarded as indications of weakness. You are not expected to set up elaborate controls to detect errors. But if the error could have been found by crossfooting two or three items or by balancing a series of debits and credits, the graders would regard your error as avoidable.

Moreover, failure to detect an error that would have been detected by an individual who has good judgment as to relationships of amounts is regarded as an indication of weakness. For example, in a recent examination a candidate computed a corporation's retained earnings account as being in excess of one trillion dollars and made no comment on the reasonableness of the amount. Errors of this type may be avoided if you scrutinize the results for their reasonableness.

Apply your general knowledge of business. The examination is chiefly a collection of business-like situations that could be encountered by a professional accountant. Apply your general knowledge of business activity in formulating your answers. Try to visualize the circumstances of the situation. The exercise of some imagination and the display of a general knowledge of business activities will be helpful to you.

Attempt all questions. It is improbable that you know absolutely nothing about a given question. You would receive partial credit for any relevant information you might discuss.

Identify and turn in all papers. All papers should be identified by question number and page sequence in the space at the top of the sheet. The unlined sheets provided for scratch purposes should also be identified and turned in; these scratch sheets may contain computations essential in developing an understanding of your answer. Often grade points are earned for the work done on the scratch sheets. Your papers should be arranged in proper sequence before turning them in when you are finished. You should show all work in an organized and labeled manner.

Study the "General Rules Governing Examination" and the "Information for Candidates," beginning on page 32.

Scope

Subjects, Days, and Times

The CPA examination is given twice a year, in May and November. Requirements, application forms, and examination dates should be obtained from the state or other jurisdictional boards of accountancy. Examination dates are also published in *Uniform CPA Examination Questions and Unofficial Answers: A Supplement to the Journal of Accountancy*. The sequence of the examination sections and their times are as follows (the two parts of Accounting Practice constitute a single section):

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.
Business (Commercial) Law	Friday	8:30-12:00 Noon
Accounting Theory	Friday	1:30- 5:00 P.M.

Uniform CPA 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 return the card 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 and recording it on your examination paper correctly cannot be overemphasized. If a question calls for an answer involving a signature, do not sign your own name or initials.

2. Answers must be submitted on paper furnished by the Board and must be completed in the total time allotted for each subject stated on the printed examinations. 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 printed examination booklets*. Arrange your answers in the order of the questions.

3. Answers should be written in pencil and preferably with No. 2 lead. Use only one side of the paper. Use the plain sheets, Form F, for calculations, working notes, etc. *Neatness and orderly*

presentation of work are important. Credit cannot be given for answers that are illegible.

4. Use a soft pencil, preferably No. 2 lead, to blacken the spaces on the separate answer sheets for the objective-type questions.

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

6. 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 booklets providing you do not leave the examination room before one-half hour prior to completion time.

7. 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.

8. The only aids candidates are permitted to have in the examination room are pens, pencils, and erasers.

9. The fixed time for each session must be observed by all candidates. Each period will start and end promptly. It is the candidate's responsibility to be present and ready at the start of the period and to stop writing when told to do so.

Uniform CPA Examination—Information for Candidates

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 are given in the printed examination booklet. 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 proportionate to the time required. The following is an example of time estimates as they appear on the printed examination booklets:

All questions are required:

	Estimated Minutes	
	Minimum	Maximum
No. 1	40	50
No. 2	40	50
No. 3	50	60
No. 4	50	60
No. 5	40	50
Total	<u>220</u>	<u>270</u>

2. If the candidate is unable to complete all the answers called for in the examination, a partial answer is better than none and will receive appropriate credit.

3. The candidate should avoid explaining how to solve the problem instead of actually solving 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 in this manner.

4. Formal journal entries should not be prepared unless specifically required by the problem. Time may be saved by entering adjustments, reclassifications, etc., directly on the work papers. Elaborate work papers should not be prepared unless they are of assistance in solving the problem. If both work papers and formal statements are required and time is not adequate to complete both, the work papers should be completed.

5. In questions which permit alternative treatment, the credit given for the solution will depend on the knowledge 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 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.

Conclusion

The Board of Examiners and the staff of the Examinations Division of the American Institute of Certified Public Accountants feel

keenly their responsibility to the fifty-four boards of accountancy for preparation and advisory grading of examinations. They are aware that these services must appropriately safeguard the public interest and, at the same time, identify all candidates with appropriate competence as prospective CPAs. The measures taken to discharge that responsibility are described in this booklet.

The suggestions for taking the examination are intended to help you to become a CPA. They may also be of considerable help to you in your career. This is as it should be—the technical qualities and abilities tested by the examination are, in general, those required for success as a professional accountant.

State (Jurisdiction) Boards of Accountancy

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 (jurisdictions). While the principal features of the various jurisdictional laws and regulations have much in common, there are important differences in many provisions. This section does not explain all of the various features of these laws and board regulations, but it does point out some of the background and the history of regulations and covers in a general way the principal 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 updated periodically by Commerce Clearing House. However, the primary source of accurate, up-to-date information available to a candidate is his jurisdiction's board of accountancy. He should not hesitate to use the services which are available to him. Members of these boards assume a serious responsibility in administering the laws of the jurisdiction. The CPA candidate may be sure that, to the full extent that they are able to do so, board members want to help him qualify as a CPA. The laws and rules are not arbitrary and unreasonable but are intended to ensure that the interests of both business and the general public are served by granting the CPA certificate only to those who have demonstrated the required competence.

Early Development

The profession of modern public accounting had its origin in Great Britain during the last half of the nineteenth century. 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 interest of the investors. These accountants formed the nucleus of the public accounting profession in the United States. In 1896, New York passed the first law creating the title "certified public accountant," and set the pattern for jurisdictional control of the public accounting profession.

Boards of Accountancy

Although there are variations in accountancy laws throughout the nation, each jurisdiction has formed a board of accountancy. The majority of these boards of accountancy consists of CPAs appointed by the governor for a specified term. In addition to the CPA members, some boards include practicing public accountants, consumer representatives, an attorney, economist, or a public official as members.

Boards receive authority from jurisdictional statutes. The laws of the jurisdictions are of two types. Some, whose legislation is termed "permissive," do not restrict public accounting practice to CPAs but merely restrict the use of the title. Others, termed "regulatory," limit practice within prescribed areas to CPAs or to those who were in practice as of the effective date of the law. Most of the regulatory laws empower the jurisdictions' boards to promulgate and enforce rules of professional conduct and rules and regulations for the orderly administration of the statutes.

State Societies of CPAs

Boards of accountancy should not be confused with state societies of CPAs. Boards are administrative branches of the respective governments, whereas state societies are voluntary, private, professional organizations that perform on a state level the activities performed on the national level by the American Institute of Certified Public Accountants.

Reciprocity

The uniformly high standards achieved by using a common examination and a central advisory grading service give the CPA certificate national acceptance. Generally, a CPA of one jurisdiction may get a “reciprocal” certificate without examination from another jurisdiction if he meets the qualifications imposed by the latter.

In addition to the Uniform CPA Examination, many boards administer an ethics examination (generally an open-book examination) before a CPA certificate is issued.

Conditional Status

The passing grade in each subject is 75. Conditional status is granted to those candidates who receive a passing grade in some but not all subjects. Some boards grant conditional status to the candidates who pass only one subject; other boards require that at least two subjects (or Accounting Practice alone) be passed before conditional status is awarded. Many boards require a minimum grade in the subjects failed in order for a candidate to receive conditional credit for the subjects passed.

A candidate who receives conditional status is generally given a limited number of attempts to pass the remaining parts. Most boards give the candidate two to five opportunities before the conditional credit expires. After expiration of the conditional credit, the candidate must be reexamined in all four subjects.

Each candidate is encouraged to familiarize himself with the precise rules and regulations governing the granting of conditional status in his jurisdiction.

Other Requirements

Application for admission to the CPA examination should be made to the appropriate jurisdiction's board of accountancy in time to meet the application deadline set by the board. Many boards require the completion of an information questionnaire in addition to the standard application form.

There are several requirements that may be imposed by the jurisdiction before a candidate is permitted to sit for the examination.

- Some boards require public accounting experience before a candidate is eligible to take all or certain parts of the examination.
- Most boards require that the applicant have a college degree with a concentration in accounting and other business subjects; many boards, however, allow substitution of public accounting experience for formal academic education.
- Many boards require the applicant to be a citizen of the United States or to have duly declared his intention of becoming a citizen; some boards, however, have eliminated the citizenship requirement and others are considering similar action.
- Most boards require that the applicant be a resident of the jurisdiction in which he applies, or be employed therein, either at the time of applying or the date of qualifying for a CPA certificate.

The applicant is notified by his board of accountancy as to whether he has been accepted for admission to the examination, and, if accepted, as to the time and place to report. He also receives his grades from the board and should address any inquiries with respect to his CPA status to the board and *not* to the American Institute of Certified Public Accountants.

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