



November 30, 2015

AICPA Examinations Team
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Via email: ExposureDraft@aicpa.org

Re: Exposure Draft: Maintaining Relevance of the Uniform CPA Examination

The New Jersey Society of CPAs (NJCPA) Accounting Educators Community is pleased to respond to the request for comments from the American Institute of CPAs (AICPA) on its *Exposure Draft: Maintaining the Relevance of the Uniform CPA Examination Invitation to Comment* (Exposure Draft). The NJCPA represents more than 15,000 certified public accountants and prospective CPAs. The comments herein represent those of some of the individuals of our Accounting Educators Community only and do not necessarily reflect the views of all members of the NJCPA.

We support the AICPA and Board of Examiners (BOE) in their efforts to ensure that the Uniform CPA Examination (Exam) continues to test the minimum competencies needed to become a licensed certified public accountant.

Response to Exposure Draft Questions

Section A. Comments/responses that will be considered for implementation in the next version of the Exam.

- I.** *Increased focus on testing of higher order skills is the most significant change proposed for the next Exam. Should the proposed next Exam reflect an increased focus on testing of higher order skills? If not, please explain.*

We support the increased focus on testing of higher order skills to better prepare individuals for their work in the profession. While it is important to know the subject matter, it is critical to be able to utilize that knowledge in practice-based application. The testing of higher order skills is consistent with the decrease in concentration of newly licensed CPAs on routine, non-complex tasks, and a gradual shift of the role of a newly licensed CPA to advisory and consulting activities. The management of this shift is critical in light of independence considerations for assurance services.

However, we have reservations regarding the impact that the testing of higher order skills through increased focus on task based simulations (TBS) and the use of new TBS types will have on candidates taking the Exam before they have any practice experience. Many employers expect newly hired CPAs to pass the Exam, or significant parts thereof, before or simultaneously with beginning employment. So, candidates sit for the exam without practice experience. Yet “recognizing issues, identifying errors, challenging assumptions and applying both professional judgment and skepticism” (Exposure Draft, p. 8) are skills that are honed from actual practice in the field.



A candidate, who has internships or co-op experiences while in college, will have a distinct advantage with TBS. Ideally all accounting students could participate in internship or co-op experiences, but this is not the reality for many students, particularly low-income and minority students.

Unfortunately, African-Americans/Black, Hispanic/Latinos, and Native Americans are not given access to opportunities in the same proportions as they are represented in society. According to the AICPA report *2015 Trends, In the Supply of Accounting Graduates and the Demand for Public Accounting Recruits*, of the newly hired professionals, only 3 percent were African-American/Black, 8 percent were Hispanic/Latino and 0 percent was Alaskan/Native American. According to the U.S. Census African-Americans/Blacks were 13.2 percent, Latino or Hispanic were 17.4 percent and Native Alaskan/American Indian were 1.2 percent of the population. Given these dismal numbers, especially for African-Americans/Blacks, and the fact that many firms traditionally hire from co-ops and internships, it is safe to conclude that these minority groups will be at an even greater disadvantage with the next version of the Exam. We encourage the AICPA and the BOE to consider a gradual phase in of increased TBS focus and new TBS types while the profession continues to focus on initiatives to resolve this very serious problem of lack of diversity within the profession.

II. *Are the analyses and related conclusions in the Next Version of the Exam section (on pages 8 to 14) appropriate and supportive of the assessment of competent, newly licensed performance? If not, please explain.*

Yes. The analyses and related conclusions in the Next Version of the Exam section, as presented, are generally appropriate and supportive of the assessment of competent, newly licensed performance. However, the following items require additional consideration:

- a. We suggest that the inclusion of TBS to the BEC Section be implemented gradually to allow time for adjustments to curriculum and the proper preparation of Exam candidates.
- b. The refinement and expansion of TBS may require assessment of Evaluation skills in Exam sections other than AUD. The Document Review Simulation (DRS) is a necessary extension applicable to the FAR section of the Exam. As an example, Area II H (Debt covenant compliance) is a natural area for Evaluation-based DRS.
- c. There is an ever-increasing need for Content Integration. An example is Area III H (Research and Development Costs) in light of the significance of Research and Development tax credits and the overlap to Area V in the REG section of the Exam.

III. *Are there significant areas of content missing from the detailed blueprints that should be included? If yes, please explain.*

- a. In REG, Area I, there is no specific reference to Ethical Considerations (other than to regulations). A newly licensed CPA will need to identify situations that may be outside these rules. For example, the textbooks provide numerous ethical issues faced by tax preparers, such as: “should I accept a new client who appears to be less than trustworthy?”
- b. In REG, Area II, there is no reference to Conflict Resolution. A newly licensed CPA needs to have an understanding of viable conflict resolution options. This should include an understanding of the Courts, Administrative Agencies (IRS, SEC, etc.), and Alternate Dispute Resolution processes – especially



arbitration and mediation. An additional topic for possible inclusion is the Dodd-Frank Wall Street Reform and Consumer Protection Act.

- c. We suggest that REG, Area II E., Business Structure, and REG, Area V A., Tax Treatment of Formation and Liquidation of Business Entities, be related or integrated as both tax and non-tax advantages and disadvantages strongly influence the form of business structure in the formation of a new business entity.
- d. In REG, Area III, A.3., we recommend the addition of an analysis of an agreement to determine whether like-kind exchange treatment applies.
- e. In REG, Area III, B., due to the fairly consistent inclusion in the Code in the last decade, we recommend that consideration be given to adding the topic of “bonus depreciation.”
- f. In REG, Area IV, G., calculation of the income tax liability should include a computation of the tax on self-employment income, long-term capital gains and qualified dividends.
- g. The elimination of Interim Financial Reporting as a separate topic (Exposure Draft, p. 20) should be re-evaluated, as it is a content area directly related to higher order skills of analysis and evaluation.
- h. Although the Exposure Draft clearly states (page 9) that the tasks in the blueprint are representative and not all-inclusive, the heightened importance of drawing upon the Conceptual Framework as a critical foundation for higher order skill assessment suggests that an expansion of FAR Area I A., Conceptual Framework for Business and Non-business Entities, is in order.
- i. The elimination of Liquidation basis financial statements from the FAR section of the Exam (Exposure Draft, p. 20) should be re-evaluated.
- j. We recommend that adequate emphasis be maintained on the audits of governmental and not-for-profit entities. Over a trillion dollars of federal grants are issued to state and local governments, universities, hospitals and nonprofit organizations. Newly minted accounting professionals should know when Generally Accepted Government Auditing Standards (GAGAS) are required and when a single audit or OMB A-133 audit is required. This is especially important when auditing not-for-profit organizations that receive federal funding. Under AUD, Area III, Performing Further Procedures and Obtaining Evidence, the Exam should ask candidates to consider when GAGAS should be applied. These standards should be applied in all audits of governmental organizations, programs, activities and functions. Under AUD, Area IV, Forming Conclusions and Reporting, the Exam should include a basic understanding of when to perform single audits or OMB A-133 audits. The Single Audit Act of 1984 and OMB Circular A-133 require state and local governments and not-for profit organizations that expend \$750,000 or more of federal financial assistance in a fiscal year to have a Single Audit.

IV. *Are there significant areas of content in the detailed blueprints that should be excluded? If yes, please explain.*

Yes. In REG, Area III, C., we do not know the extent to which a newly licensed CPA would know, or need to know, detailed specifics regarding Estate and Gift Taxation and would request additional confirmation from professionals.



V. *Do the content ranges in each section of the Exam in the summary blueprint align with the content knowledge required of newly licensed CPAs? If not, please explain.*

We generally agree that the content ranges align with the content knowledge required of newly licensed CPAs, however several concerns are noted below.

- a. We are concerned with the reduced focus on Business Law in the REG section of the Exam from a minimum of 17 percent to 5 percent (Exposure Draft, p. 21). An understanding of business law is essential for practicing accountants and legal issues are only becoming more ubiquitous.
- b. We are also concerned about the reduced focus on Financial Management in the BEC section of the Exam from a minimum of 19 percent to 11 percent (Exposure Draft, p. 17). Complex financial practices continue to evolve. Practicing accountants and auditors need a thorough understanding of financial transactions.
- c. In all four sections of the Exam, the number of content areas is reduced and, in most cases, the allocation ranges of the content areas are expanded. This has the effect of providing less guidance to Exam candidates and to educators. While we can appreciate the need for flexibility in Exam content, as educators we find this change to be unhelpful to the development of relevant curriculum and the preparation of accounting students.
- d. It would be helpful if the blueprints provided weights for the individual content groups within each area.

VI. *Are the skill level ranges identified for each section of the Exam in the summary blueprint representative of the skill levels required by newly licensed CPAs? If not, please explain.*

We agree that the skill level ranges are representative of the skill levels required of a newly licensed CPA who is defined as “one who has fulfilled the applicable jurisdiction’s educational and experience requirements and has the knowledge and skills typically possessed by a person with two years experience” (Exposure Draft, p. 6). However, as noted in our response to Question I we think that “recognizing issues, identifying errors, challenging assumptions and applying both professional judgment and skepticism” (Exposure Draft, p. 8) are skills that are honed from actual practice in the field and are, therefore, concerned that those taking the Exam prior to obtaining practice experience will be at a disadvantage.

We suggest that the Evaluation skill level be incorporated in the FAR section of the Exam.

VII. *Does the detailed blueprint, including content and representative task statements, provide sufficient information for CPA candidates to understand the knowledge and skills expected of a newly licensed CPA on which they will be tested? If not, please explain.*

No. While we believe the current Content Specification Outline provides a better roadmap for CPA candidates, it lacks sufficient details regarding the representative task statements.



Section B – Comments/responses that will require further time to evaluate and for potential implementation at a future time.

The AICPA welcomes and encourages comments for consideration related to the views expressed in The Future of Practice Analysis section (page 23) and for future versions of the Exam, beyond what can be operationalized by 2017. Examples of potential areas that might be considered for comments include (but are not limited to) The Future of Practice Analysis section, as well as potential future changes to Exam sections, the written communication assessment model, further integration of content among Exam sections and a capstone exam section.

- a. In order to improve convenience for the candidates and thereby enhance the likelihood that they will complete their pursuit of the CPA credential, we strongly recommend that the following changes to the test administration model be implemented as quickly as possible.
 1. Black out months should be eliminated. Candidates should be afforded the opportunity to take each section of the Exam during each month of the year.
 2. Retesting of a failed section should be available to a candidate immediately after the candidate has learned that they did not pass the section.
 3. The requirement that a candidate must pass all four sections of the Exam in 18 months is unrealistically restrictive. Eighteen months is simply too short a time for a candidate working a full-time job that likely requires hours of 40 or more per week. We recommend that the requirement be revised to allow a candidate 36 months to pass all four parts of the Exam.

To the extent that these changes require the approval of state boards rules or regulatory changes, those approvals or changes should be sought without delay.

- b. The BEC section will include TBS for the first time. In addition, the next version of the Exam will feature increased background material and data, which will require candidates to determine what information is or is not relevant to the question, which reflects actual practice. This change should be introduced gradually to allow for adjustments to curriculum as needed.
- c. We agree that retaining the BEC section instead of replacing it with a separate integrated section provides for assessment of meaningful knowledge important to the practice of public accounting.
- d. The addition of one hour of testing time in each of the BEC and REG sections will necessitate a fee increase of \$20 for each section. In addition, the plan to use Microsoft Excel on the Exam will lead to a further, unspecified, fee increase. We strongly recommend that fee increases be carefully considered and controlled. While we agree that becoming a CPA is a good long-term investment, preparing for and sitting for the Exam is already an expensive proposition and can be a barrier to entry for low-income candidates.
- e. Colleges and universities that educate accounting students need time to implement significant changes to their programs. For example, Taxation of Entities is shifting from 18-24 percent to 30-40 percent with a corresponding decrease in Business Law. This will present a significant challenge for many undergraduate accounting programs. Some programs only require students to take Tax 1 (taxation of individuals). This shift will require reconstitution of the major course requirements to increase preparedness. We recommend that, in future Exam revisions, sufficient time and notice be afforded to educators for implementation of significant changes to their programs.



- f. Noted in “The Future of Practice Analysis” section of the Exposure Draft is the statement that “the Exam Staff expects to be able to update the Exam more frequently with variations and enhancements to the types of questions asked and the skills assessed” (Exposure Draft, p. 8). While responsiveness to the changing needs of employers is commendable, we suggest that updates to types of questions asked and skills assessed be staged in a manner that allows educators time to develop and revise curriculum to support such changes.

Thank you for the opportunity to comment.

Respectfully submitted,

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