AICPA®

CPA Evolution and Pipeline Update

Rich Gallagher, CPA, Senior Director – AICPA Examinations Team

Joe Maslott, CPA, Associate Director – AICPA Examinations Team

Agenda

- CPA Pipeline

- Practice Analysis Update

- Overview of Core and Discipline Exam Sections

  - REG/TCP

  - FAR/BAR

  - AUD

  - ISC

CPA Pipeline

National Student Clearinghouse data

- From the fall of 2019 – 2021
  - Undergraduate enrollment has fallen 6.6% = 1,025,569 students
  - Largest two-year decrease in more than 50 years
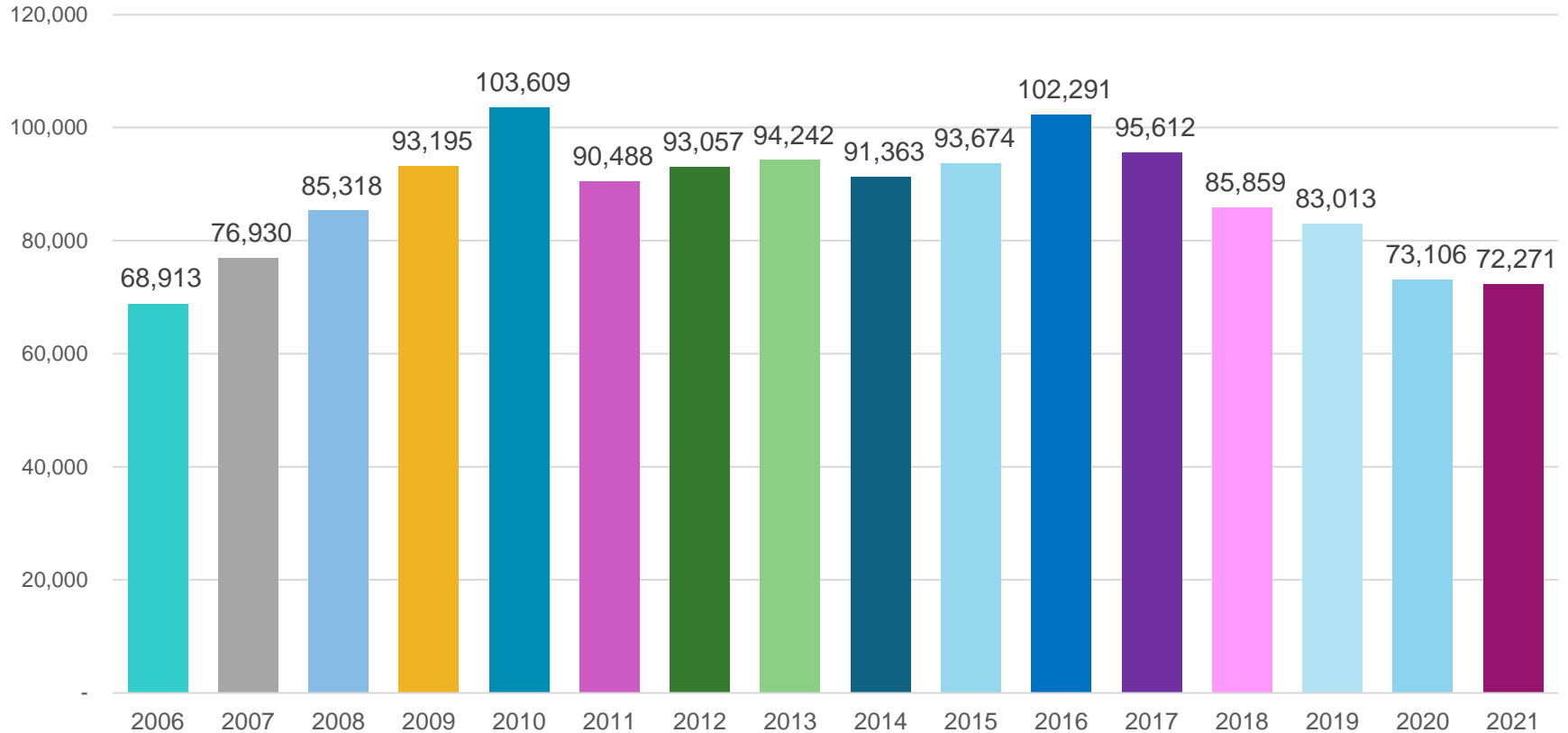 - ~13% drop in Community College enrollment (706,106 students)

https://nscresearchcenter.org/current-term-enrollment-estimates/   January 13, 2022
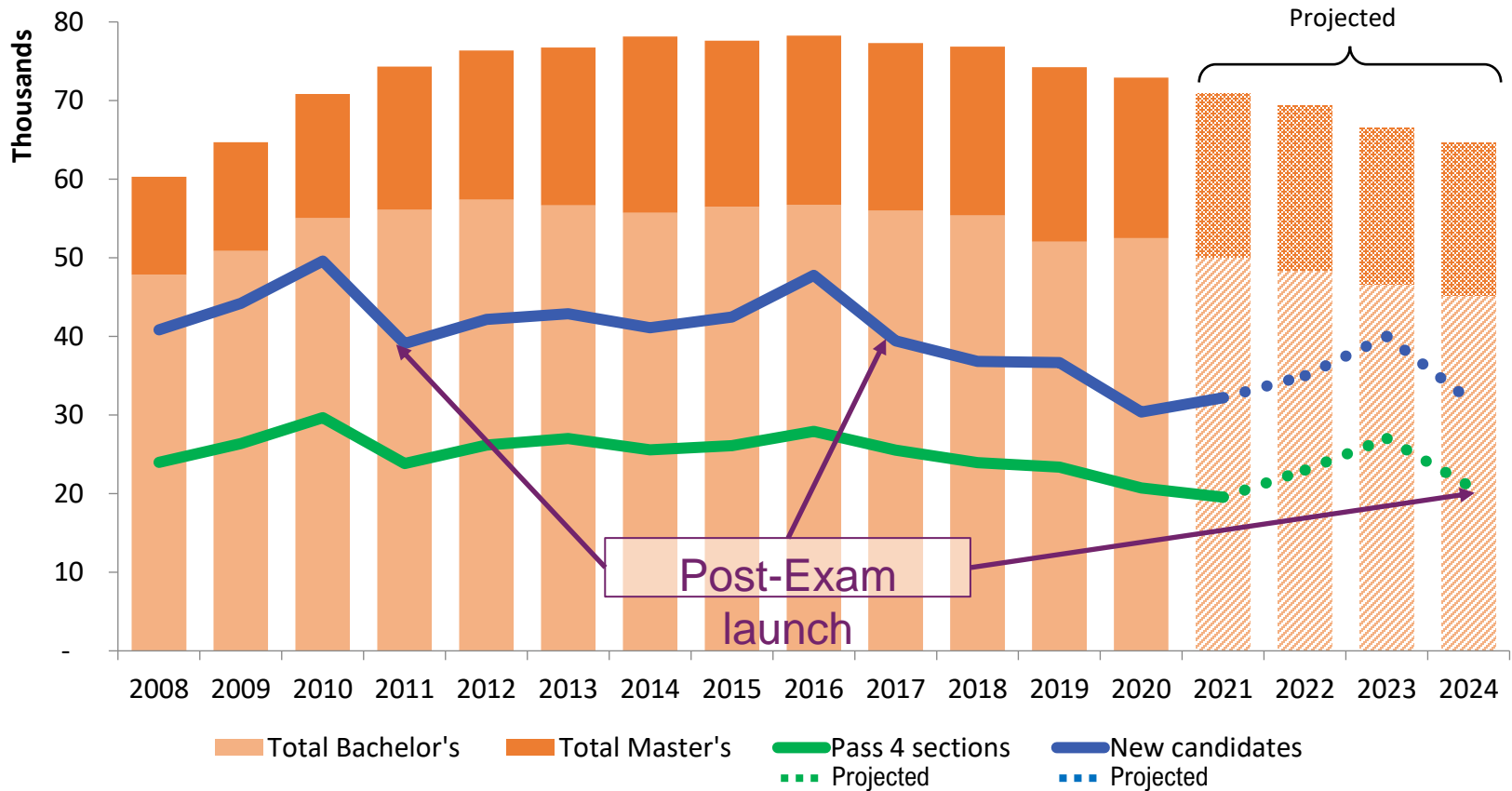
Macro demand and supply influences

- Increased outsourcing and offshoring

- Technology, automation and data analytics displacing lower-level tasks and talent

- Specialized/industry knowledge and higher-level needed v. general knowledge

- Hiring of non-higher education talent; education by experience/company-based training

- Reduction in US birth rates

- Tighter immigration policies

- Declining college enrollment and increase in skilled trades

- Increased cost of education and higher levels of student debt

- Students more focused on short-term ROI

- Increased competition and salaries from careers requiring same level or less education

- College rankings rewarded by starting salaries

CPA Exam Candidates taking at least 1 section each year

Year	Candidates
2006	68,913
2007	76,930
2008	85,318
2009	93,195
2010	103,609
2011	90,488
2012	93,057
2013	94,242
2014	91,363
2015	93,674
2016	102,291
2017	95,612
2018	85,859
2019	83,013
2020	73,106
2021	72,271

Accounting graduate and CPA Candidate trends

Projected

Thousands

Legend: Total Bachelor's · Total Master's · Pass 4 sections · New candidates · Projected · Projected

Post-Exam launch

Sources: IPEDS, NASBA, AICPA

Note: 2021 CPA exam data is actual, 2021 graduates are projected
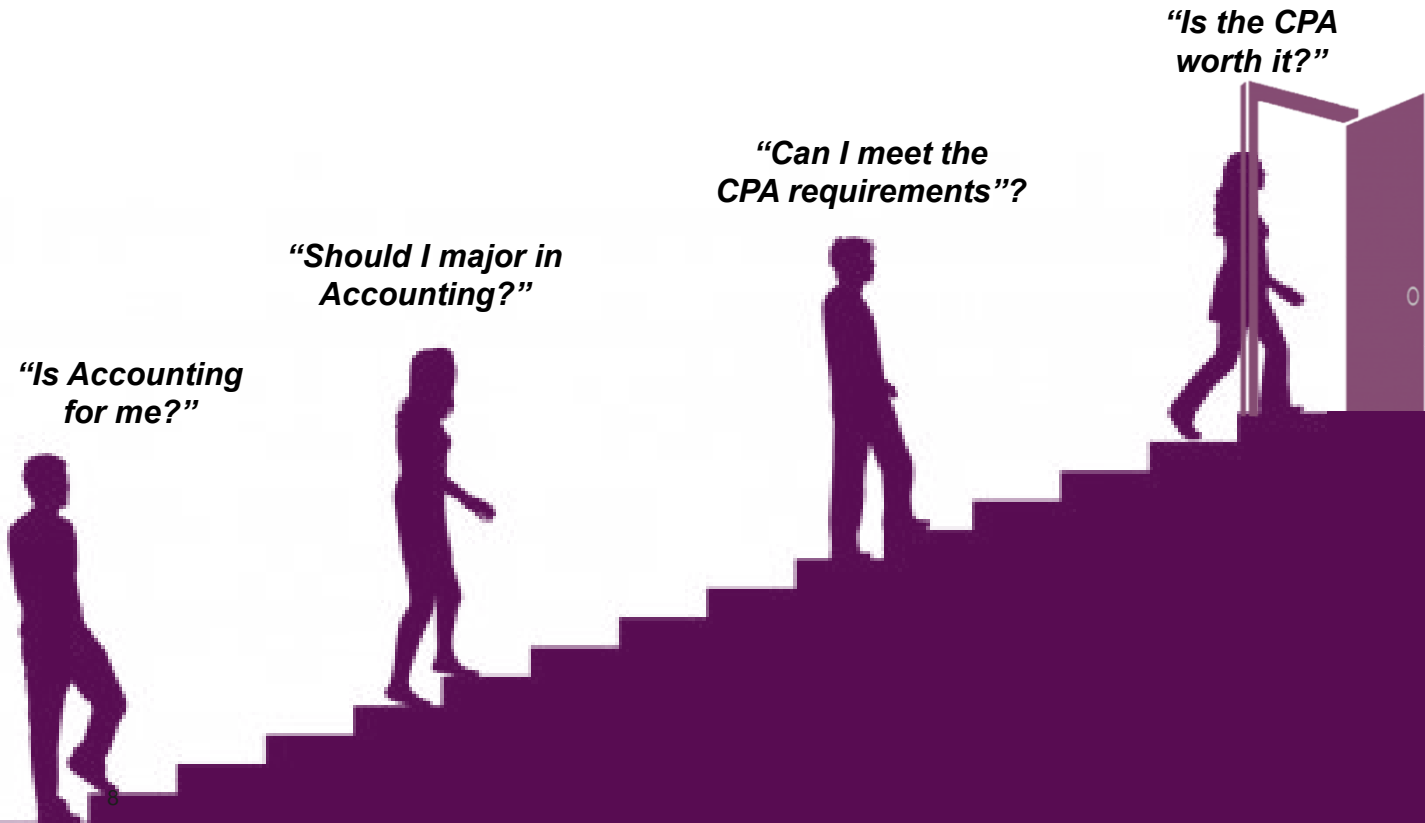
Emotional journey and inflection points

Accounting education and the pathway to CPA

The CPA is a journey!

"Is Accounting for me?"

"Should I major in Accounting?"

"Can I meet the CPA requirements"?

"Is the CPA worth it?"

Entrepreneurship*

Growth*

Stability*

Fulfillment*

Culture*

Belonging*

8

Obstacles on the Journey

CPA!

Graduates & CPA Candidates

- High costs: +30 credits, test prep, CPA Exam, time
- Data needed to support candidates with targeted, personal support activities
- Exam takers today: high focus on short-term ROI, career flexibility, and cultural belonging

Firms

- Inconsistent financial support & scheduling flexibility for candidates
- Inconsistent promotion of CPA designation within the firm
- Hiring fewer CPAs into audit / tax and hiring more non-CPAs

High Schools

- No STEM recognition and no AP course
- Low CPA & accounting profession awareness, and relatively few accounting teachers and courses
- Varying school district structures (state, regional, local) create curriculum challenges

Colleges/Universities

- Fewer college students, and fewer students enrolled in accounting (both U.S. & international)
- Higher college costs, and more college resources going to STEM programs
- Fewer CPA professors and inconsistent technology resources among colleges

9

What is a Practice Analysis (PA)?

- ***A research project to define the knowledge and skills required of newly licensed CPAs (nlCPAs)***

    - Foundation of the validity and legal defensibility of a licensure examination

    - Ensures a direct link between the knowledge and skills assessed on the Exam and important aspects of nlCPA practice

    - Does not seek to predict job success

New licensure model: Core and Disciplines
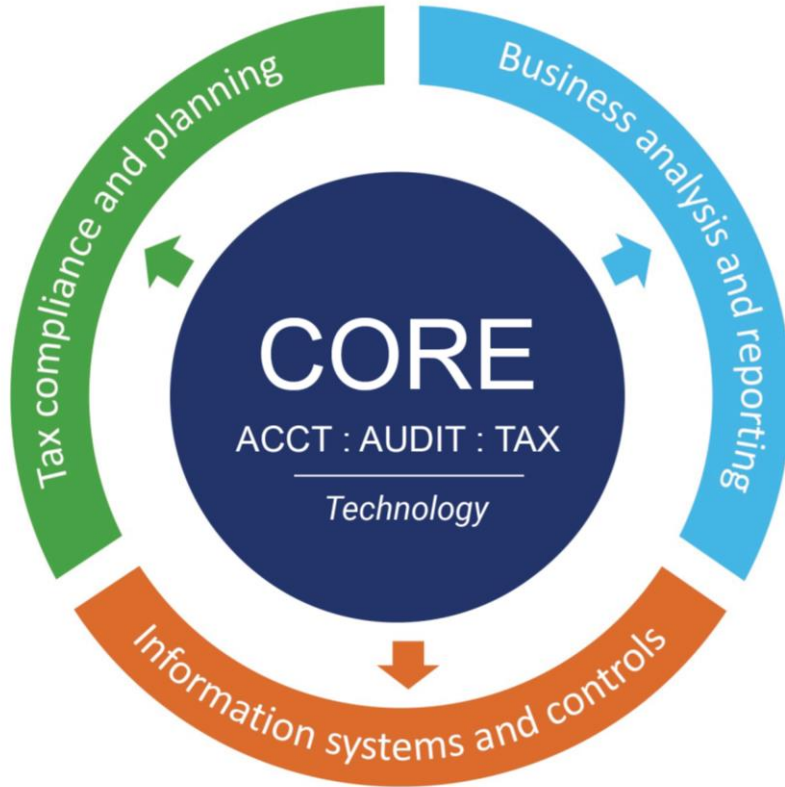
Strong **Core** with accounting, auditing, and taxation/regulation along with a recognition of the impact of technology

Knowledge & skills in (one of) three **Disciplines**

Reflects reality of practice

Adaptive and flexible

One CPA license

Enhances public protection

Guiding principles

- The Core Exam Sections assess the knowledge and skills universal (common) to all nlCPAs.

- Discipline Exam Sections assess knowledge and skills in the respective Discipline domain applicable to nlCPAs.

What might the Exam look like?

What we expect would stay the same:

- Designed for 1 – 2-year level

- No new experience requirements to sit for the Exam

- Candidates pass 4 sections

- Exam sections can be taken in any order

- No change to the 18-month credit policy per Exam section

How may the Exam change?

Navigating the Core + Disciplines:

Candidates pass the three Core sections and one Discipline section (max = 4 sections)

Candidates don't have the option to pass additional disciplines

All sections cover discrete content and a range of skills (including higher order)
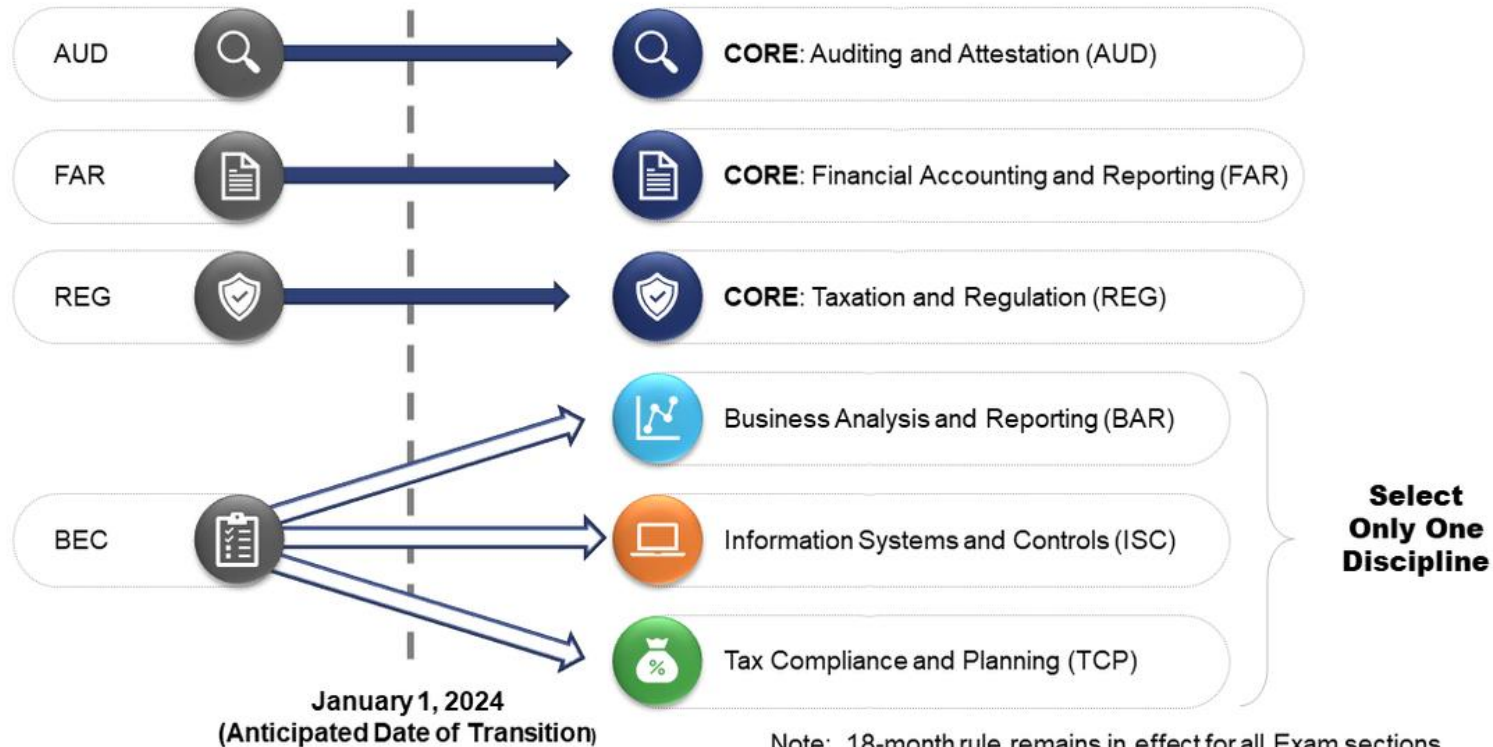
Discipline passed will not differentiate the license granted

CPA EXAM TRANSITION POLICY

Current Exam Section Not Yet Passed or Where Credit has Expired

Section to Take on 2024 CPA Exam

AUD → **CORE**: Auditing and Attestation (AUD)

FAR → **CORE**: Financial Accounting and Reporting (FAR)

REG → **CORE**: Taxation and Regulation (REG)

BEC →
- Business Analysis and Reporting (BAR)
- Information Systems and Controls (ISC)
- Tax Compliance and Planning (TCP)

Select Only One Discipline

January 1, 2024 (Anticipated Date of Transition)

Note: 18-month rule remains in effect for all Exam sections.

Exam Infrastructure Changes

- Assessing research and related critical thinking skills differently

- Replacing the Excel spreadsheet with a JavaScript based spreadsheet

- Removing the Written Communication Task from the CPA Exam

- Eliminating Multistage adaptive testing in the multiple-choice question testlets

https://www.aicpa.org/resources/download/infrastructure-changes-to-the-cpa-exam-in-2024

Exposure Draft, Announcement, and Launch

- Exposure Draft, including Blueprints, are available for public comment from July – September 2022

- 22Q4 – staff and BOE review of comments

- January 2023 – publish final CPA Exam Blueprints and Final Report on aligning the Exam with the CPA Evolution Licensure Model

- January 2024 – begin testing

Data and Technology Concepts

- Data and technology will be assessed in all Core and Discipline Exam sections. This includes:

  - A focus on understanding how data is structured and flows through underlying systems.

  - Determination of methods to transform data to make it useful for decision-making.

  - Verifying the completeness and accuracy of source data.

  - Using the outputs of automated tools, visualizations, and data analytic techniques to:

    - Assist in risk assessment or to complete planned procedures.

    - Prepare financial statement, account analysis, tax returns, supporting schedules.

    - Identify patterns, trends and correlations to explain an entity's results.

Applied Research Concepts

- Focus on reviewing and using excerpts of source materials to complete a range of tasks including identifying issues, analyzing facts, and determining appropriate responses.

  - REG/TCP: Internal Revenue Code, Treasury Regulations

  - FAR/BAR: FASB Accounting Standards Codification, GASB Statements

  - AUD: Auditing Standards, Attestation Standards, Accounting and Review Services Standards

  - ISC: Standards, regulations, frameworks

Content Overview – REG

- The REG section tests the knowledge and skills that nlCPAs must demonstrate with respect to:

    - U.S. ethics and professional responsibilities related to tax practice.

    - U.S. business law.

    - U.S. federal tax compliance for individuals and entities with a focus on recurring and routine transactions.

- Tax compliance will focus on a nlCPAs role in both the preparation and review of tax returns.

Content Overview – TCP

- The TCP section tests the knowledge and skills that nlCPAs must demonstrate with respect to:

    - U.S. federal tax compliance for individuals and entities with a focus on nonroutine and higher complexity transactions.

    - U.S. federal tax planning for individuals and entities with a focus on a nlCPAs role in determining the tax implications of proposed transactions, available tax alternatives or business structures.

    - Personal financial planning (PFP) with a focus on planning strategies and opportunities that a nlCPA typically identifies in connection with the preparation and review of individual tax returns.

Content Overview – Split between REG and TCP

- The following examples highlight the split between routine and recurring (REG Core) and nonroutine and higher complexity (TCP Discipline):

  - The REG Core will test individual gross income concepts like wages, interest and dividends, guaranteed payments received from a partnership, and income from a qualified retirement plan, while the TCP Discipline will test gross income concepts like the exercise of incentive stock options (ISO), imputed interest on a below-market rate loan, and compensation earned while employed outside the U.S.

  - The REG Core will test the acquisition and depreciation of property and the TCP Discipline will test nontaxable dispositions of property.

  - The REG Core will test concepts related to the determination of ordinary business income (loss) of C corporations and pass-through entities and the TCP Discipline will test concepts related to transactions between the owners and the entities (contributions, distributions, liquidations).

Content Overview – FAR

- The FAR section tests the knowledge and skills that nlCPAs must demonstrate with respect to financial accounting and reporting frameworks used by for-profit (public and nonpublic) and not-for-profit entities. The frameworks eligible for assessment include the standards and regulations issued by the:

  - Financial Accounting Standards Board (FASB)

  - U.S. Securities and Exchange Commission (U.S. SEC)

  - American Institute of Certified Public Accountants (AICPA)

  - Foundational concepts related to the accounting requirements for state and local governments as issued by GASB

- The assessment of financial accounting and reporting concepts will focus on a nlCPAs role in the preparation and review of financial statements, account balances, and transactions to ensure compliance with the applicable frameworks.

Content Overview – BAR

- The BAR section tests the knowledge and skills that a nICPA must demonstrate with respect to:

  - Analyzing financial statements and financial information with a focus on a nICPAs role in comparing historical results to budgets and forecasts, deriving the impact of transactions, events (actual and proposed) and market conditions on performance measures and comparing investment alternatives.

  - Select technical accounting and reporting requirements under the FASB and SEC that are applicable to for-profit business entities (e.g., stock compensation, business combinations, derivatives) and higher order skills related to revenue recognition and lease accounting.

  - Financial accounting and reporting requirements under GASB that are applicable to state and local government entities.

Content Overview – Split between FAR and BAR

- The following examples highlight the difference between content to be assessed in the FAR Core and BAR Discipline

    - The FAR Core will test the preparation and review of financial statements in accordance with the appropriate framework, while the BAR discipline will test the analysis of financial statements, including the comparison of current period financial statements to prior periods or budget and the interpretation of financial statement fluctuations and ratios to explain an entity's performance.

    - The FAR Core will test routine and recurring transactions within select accounts such as cash, accounts receivable, inventory, property, plant and equipment, etc., while the BAR discipline will test more complex technical accounting topics such as stock compensation, business combinations, derivatives and hedge accounting, etc.

    - Certain topics will be tested in both the FAR Core and BAR Discipline, such as revenue recognition and accounting for leases. For example, the FAR Core will test the understanding and application of the 5-step revenue recognition model and the BAR discipline will test the analysis and interpretation of agreements, contracts, and other supporting documentation to determine whether revenue was appropriately recognized.

    - The FAR Core will test foundational concepts related to state and local governments, including measurement focus, basis of accounting and determining the appropriate funds to record activities, while the BAR Discipline will test preparing the government-wide and funds financial statements

Content Overview – AUD

- The AUD section tests the knowledge and skills that nICPAs must demonstrate with performing the following engagements:

  - **Audit engagements** including financial statement audits, compliance audits, audits of internal control integrated with an audit of financial statements and audits of entities receiving federal awards or grants. Audits include issuer entities subject to the requirements set forth by the PCAOB, nonissuer entities subject to the requirements set forth by the AICPA's ASB or governmental entities subject to the requirements of the GAO or the Office of Management and Budget.

  - **Attestation engagements** including assertion-based examinations, direct examinations and review or agreed-upon procedures engagements that are subject to the requirements set forth by the AICPA's ASB.

  - **Accounting and review service engagements** including preparation, compilation and review engagements that are subject to the requirements set forth by the AICPA's Accounting and Review Services Committee.

Content Overview – AUD

- The assessment will focus on a nICPAs role in planning, risk assessment, performing procedures, obtaining evidence and reporting for these engagement types.

- Emphasis added to AUD – Area II

  - Internal and external factors related to understanding an entity and its environment including basic economic concepts such as supply and demand and business cycles.

  - Understanding an entity's control environment and business processes including an understanding of the COSO Internal Control - Integrated Framework, entity-level controls and the design of internal controls, IT systems and related IT general controls. SOC 1® reports as they affect the audit of user entity financial statements are also included.

Content Overview – ISC

- The ISC section tests the knowledge and skills that nICPAs must demonstrate with respect to:

- IT architecture components and the use of cloud-based models for IT infrastructure, platforms and services.

  - Enterprise and accounting information systems, the business processes they enable and controls over processing integrity.

  - System availability and IT change management.

  - Data collection, storage and usage throughout the data life cycle.

Content Overview – ISC

- ## Security, confidentiality and privacy.

  - Select portions of specified regulations, standards and frameworks related to information security and privacy that are considered by management in designing and implementing information systems and related controls

  - Types of threats and attacks (including cyber) to which an entity may be subject.

  - Controls the entity uses to prevent, detect and respond to those threats and attacks.

  - Controls the entity uses to maintain the confidentiality and privacy of information.

  - An entity's incident response plan.

  - Testing an entity's controls over security, confidentiality and privacy.

Content Overview – ISC

- Considerations for SOC® engagements

    - Form, content and management assertions in SOC 1®, SOC 2® and SOC 3® reports and the intended users of those reports.

    - Aspects of engagement planning and reporting for SOC 1® and SOC 2® engagements.

    - Procedures related to complementary user entity controls and complementary subservice organization controls.

    - Procedures to compare management's system description to suitable criteria in a SOC1® engagement or to the description criteria in a SOC 2® engagement."

    - Trust services criteria for SOC 2® engagements.

Exposure Draft

- Exposure Draft, including preliminary CPA Exam Blueprints, to be published on or around July 1, 2022

Thank you