



Report from the Board of Examiners

NASBA Regional Meetings
June 2008
Colleen K. Conrad, CPA
BOE Chair

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2007/08 BOE MEMBERS

- | | |
|---|---|
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| <input type="checkbox"/> Whit Broome | <input type="checkbox"/> James Flagg |
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| <input type="checkbox"/> Larry Field | <input type="checkbox"/> Sharon Walters |
| <input type="checkbox"/> David Harrison | <input type="checkbox"/> Barbara Porter |
| <input type="checkbox"/> Lisa Johnson | <input type="checkbox"/> Doug Warren |

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Four Parts of the CPA Exam

- Auditing & Attestation (AUD)
- Financial Accounting & Reporting (FAR)
- Regulation (REG)
- Business Environment & Concepts (BEC)

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A Few Definitions

- CSOs = Content Specification Outlines
- SSOs = Skill Specification Outlines

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Updating Exam Specifications: Exposure Draft

- Proposed CSOs/SSOs approved by the BOE for exposure in 3/08
- Exposure Draft released on 5/1/08
- Comments are due by 7/31/08**
- New CSOs/SSOs to be approved by BOE – late 2008

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Proposed Changes – AUD

- Ethics and independence tested in AUD (versus REG). Ethics in tax practice to continue to be tested in REG.
- New AUD CSOs include IT topics with regard to assessing risks surrounding internal control of information systems in auditing or attestation services.

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Comparison of Current and Proposed Content Coverage (AUD)

Current

- Plan the Engagement (22-28%)
- Internal Control (12-18%)
- Obtain & Document Info (32-38%)
- Review & Evaluate Work (8-12%)
- Communication & Reporting (12-18%)

Proposed

- Auditing Engagements (51-57%)
- Assurance & Attest. Engagements (8-12%)
- Acctg. & Review Services Engagements (16-20%)
- Professional Responsibilities (16-20%)

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Proposed Changes - FAR

- Regulatory reporting requirements (e.g. SEC reporting) added
- Topics related to other comprehensive bases of accounting (OCBOA) expanded to include financial statements of employee benefit plans/trusts.

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Proposed Changes – IFRS in FAR

- IFRS questions to be included in Concepts and Standards for Financial Statements
- If IFRS become generally accepted in the U.S., IFRS testing will be expanded and extended into other FAR Areas

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Comparison of Current and Proposed Content Coverage (FAR)

Current

- Financial Statement Concepts (17-23%)
- Typical Items in Fin. Statements (27-33%)
- Specific Types of Transactions (27-33%)
- Governmental Acctg. & Reporting (8-12%)
- Not-for-Profit Acctg. & Reporting (8-12%)

Proposed

- Conceptual Framework for Financial Statements (13-17%)
- Financial Statement Accounts (26-34%)
- Unique Transactions, Disclosures (31-39%)
- Governmental Acctg. & Reporting (8-12%)
- Not-for-Profit Acctg. & Reporting (8-12%)

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Proposed Changes - REG

- Topics expanded under Federal Taxation of Entities to include tax-exempt organizations and taxation of estates
- Topics related to business structure (currently tested in BEC) now to be included as part of business law area in REG.

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Comparison of Current and Proposed Content Coverage (REG)

Current

- Ethics(15-20%)
- Business Law (20-25%)
- Fed. Tax Proced. (8-12%)
- Fed. Taxation - Property (8-12%)
- Fed. Taxation - Individuals (12-18%)
- Fed. Taxation - Entities (22-28%)

Proposed

- Ethics (15-19%)
- Business Law (17-21%)
- Fed. Tax Accounting (11-15%)
- Fed. Taxation - Property (9-13%)
- Fed. Taxation - Individuals (16-22%)
- Fed. Taxation - Entities (18-24%)

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Proposed Changes - BEC

- Corporate governance topics added – responsibilities and authority of boards of directors, officers, employees and internal control issues in corporate governance
- Information technology and information systems topics redefined
- Planning and measurement area expanded and new topics added

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Comparison of Current and Proposed Content Coverage (BEC)

Current

- Business Structure (17-23%)
- Economic Concepts (8-12%)
- Financial Management (17-23%)
- IT (22-28%)
- Planning & Measurement (22-28%)

Proposed

- Corporate Governance (8-12%)
- Economic Concepts (12-16%)
- Financial Management (19-23%)
- Information Systems & Communication (13-17%)
- Strategy & Planning (17-23%)
- Operations Mgmt. (17-23%)

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Proposed Changes - SSOs

- Skills redefined in new categories:
 - Knowledge and understanding
 - Application of the Body of Knowledge, including Analysis, Judgment, Synthesis, Evaluation, and Research
 - Communication

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Where to Download the
Exposure Draft:

www.cpa-exam.org

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Improving the CPA Exam:
CBT-e and the Invitation to
Comment

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Invitation to Comment Timeline

- Invitation to Comment (ITC) on CPA Exam Improvements distributed in 10/07
- Responses received through 1/31/08
- BOE actions – 3/08 & 4/08

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**82 ITC Responses Received,
Including:**

- 25 State Boards
 - 2 NASBA Committees
 - Several individual state board members / staff
 - Firms
 - Academic programs and educators
 - State Societies
 - Review course providers
 - CPAs in public accounting and industry
 - Candidates
-

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ITC Proposals and BOE Action

Approved in 3/08:

- Task-Based Simulation (TBS) Development
 - TBS Implementation with new CSOs
 - Maintaining current examination schedule
 - Investigation into possible reduction in total examination time in the future
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**ITC Proposals and BOE Action
(continued)**

Removed from CBTe in 3/08 based on ITC responses:

- Investigate objective assessment of communication skills
 - Introduce subject matter simulations in BEC if objective assessment of communication proves feasible
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ITC Proposals and BOE Action (continued)

Approved in 4/08 after further discussion:

- Administration of all essay questions in BEC
- Supported by the majority of the boards expressing an opinion, but by a slight margin. As a result, the BOE decided to follow up with non-supporting states before making a decision.

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Reasons Given For Not Supporting Moving Essays to BEC

- Opposed to assessing written communication at all
- Believe assessing written communication is so important it should be assessed in every section
- Desire essays to be scored for content as well as writing skill and that content should be specific to each section of Exam
- Concern that weight given to essays during scoring will make it too difficult for poor writers to pass BEC

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Rationale for BOE Decision

- The objections did not have a common theme
- The scoring formula can ensure that the writing is not over-emphasized during scoring
- The results to date show that content (AUD v. REG v. FAR) does not make a difference in the writing scores
- Moving the essays will reduce scoring costs
- Moving the essays will contribute to a reduction scoring timelines for three sections

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New Research Task Format is:

- a simpler and more intuitive research task response process
- to be implemented on the CPA Examination as of July 1, 2008

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Materials and Notifications

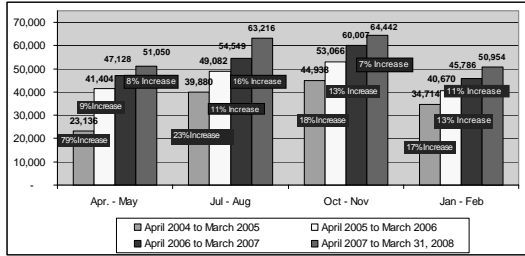
- Slides demonstrating the new format were distributed to State Boards in 3/08
- New Tutorial and Sample Tests posted on the CPA Exam website in 5/08
- NASBA distributed a blast e-mail to candidates with open NTSs on 5/8/08 announcing the new format. Reminders to candidates will follow.

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A Few Statistics . . .

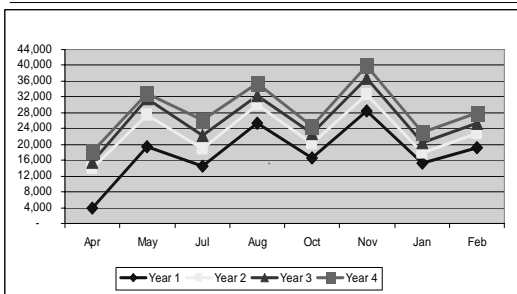
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Window-Over-Window Total Volume



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Seasonality (Year-Over-Year)



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Passing Rates

	2004	2005	2006	2007	2008
	Apr-Dec	Jan-Dec	Jan-Dec	Jan-Dec	Jan-Mar.
AUD	42.54%	43.62%	44.01%	47.57%	44.66%
BEC	44.61%	44.16%	43.81%	46.56%	46.94%
FAR	42.09%	43.11%	44.54%	48.15%	45.95%
REG	40.67%	40.61%	42.33%	47.03%	45.66%

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Are Sims and MCQs the Same?

All Candidates	Pass Total, Pass MCQs	Fail Total, Fail MCQs	Pass Total, Fail MCQs	Fail Total, Pass MCQs	Percent Agreement
AUD	46%	41%	1%	11%	87%
FAR	43%	43%	5%	9%	86%
REG	44%	40%	2%	14%	84%

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Are Sims and MCQs the Same?

Candidates Close to the Cut (70-80)	Pass Total, Pass MCQs	Fail Total, Fail MCQs	Pass Total, Fail MCQs	Fail Total, Pass MCQs	Percent Agreement
AUD	48%	22%	4%	26%	69%
FAR	48%	22%	13%	16%	71%
REG	49%	18%	5%	27%	68%

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International
Test Administrations

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Background

- NASBA has requested we consider international administrations
- AICPA is participating in a joint committee with NASBA
- Considerations
 - Professional rigor
 - Business model
 - Processes, procedures, technology
 - Test security

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Concept (Goals and Objectives)

- ✓ **Maintain and enhance the US CPA designation as a premier global designation**
 - Protect the public interest
 - Protect domestic "franchise"
 - Maintain relevance internationally
 - Offset some domestic Exam expenses
- ✓ Leverage current international demand for the Exam to establish international market presence while US GAAP is different

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Current Demand

	Candidates		Sections	
	2006	2007	2006	2007
Japan	2670	2280	8238	6756
Korea (ROK) South	1091	1232	3733	4207
Canada	1024	1046	2874	2767
India	394	596	1352	2081
Hong Kong	276	256	797	700
Germany	166	145	497	430
Bahamas	148	149	466	405
Jamaica, WI	146	156	343	357
United Arab Emirates	135	158	413	495
Other	1620	1715	4254	4531
Total	7670	7733	22967	22729

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Current Domestic Market Share (Sections in 2007)

DE ²	4332	ME	949
NH ²	4063	IL ¹	924
CA ^{1,2}	3378	VT ²	850
CO ²	2906	WA	846
MT	1105	GU ¹	595
AK	1043		

¹ Processes eligibility in state. Others use an agency (e.g. CPAES)

² 120 hour states

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Emerging Public Protection Issues for the CPA Examination

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Emerging Issues

- Implications of **IFRS** for entry-level CPAs?
- Effect of **FASB Codification** on research tasks for entry-level professionals?
- How will **XBRL** change the analysis tools used by entry-level CPAs?
- For protection of the public interest, what is more important for entry-level CPAs – **knowledge recall or use of judgment?**
- As CPA's clients work with more foreign companies what **additional knowledge and skills** will be needed by entry-level CPA's?

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Questions?

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