Campus to Clients

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CPA Exam Aligns with Model Tax Curriculum

As a result of the 2008 AICPA practice analysis survey, the content of the Uniform CPA Examination has been updated and now reflects many of the recommendations of the Model Tax Curriculum (MTC). The revisions include an emphasis on tax planning and the role of taxes in decision making, and they also incorporate new topics such as multijurisdictional tax issues. Indicative of the congruence between the new exam content and the MTC, the MTC is now listed in the reference section for the tax area of the CPA exam. Faculty and practitioners should become familiar with the MTC and these CPA exam revisions to prepare students and staff for both the exam and current practice demands.

Model Tax Curriculum

As discussed in this column in February 2008, the MTC was completely revised in 2007 (see Dennis-Escoffier and Rubin, "Curriculum Tools of Tax Educators," 39 *The Tax Adviser* 110). The primary objective of the new MTC is to help students understand taxation's role in business decision making and financial reporting and to build a foundation for future study in the tax field even if they do not plan to become tax professionals. The new MTC is significantly different from earlier versions in that it does not prescribe the amount of time to be devoted to specific topics for each course. Instead, it begins with learning objectives and outcomes that a student should achieve before entering the profession. The learning objectives state that a student should have the ability to:

- Comprehend the rationale for tax laws by differentiating the types of tax bases and weighing the multiple objectives tax policymakers consider when developing tax law;
- Apply analytical reasoning tools to assess how taxes affect economic decisions for all taxpaying entities (including individuals, partnerships, and subchapter C and S corporations):
  - Through the amount and timing of income recognition and deductions;
  - Related to property transactions that generate recognized, deferred, or no taxable gains or losses; and
  - Related to organizational form decisions.
- Analyze how taxes affect financial reporting, including:
  - Comparing and contrasting book and tax differences and how they affect tax-based and financial reporting–based income statements and balance sheets;
  - Detecting FAS 109 issues, including applying the accounting standards for determining deferred tax assets and liabilities; and
  - Developing an awareness of internal control issues related to tax reporting.
- Develop a fundamental understanding of the components of taxable income determination across taxable entities so that the student builds a foundation for effectively learning future tax laws in order to implement future tax compliance and planning strategies;
- Draw supportable conclusions on tax issues by using research skills (including accessing and interpreting sources of authoritative support) to identify and evaluate strengths, weaknesses, and opportunities;
- Communicate tax conclusions and recommendations in a clear and concise manner to relevant stakeholders;
- Appreciate the professional and ethical obligations as well as community service opportunities for tax service providers;
- Improve his or her interpersonal skills; and
- Develop technological skills necessary to undertake tax planning,

compliance, and research strategies. [Model Tax Curriculum, 2007]

These objectives are followed by a matrix, which maps the recommended learning outcomes to the AICPA core competencies and technical tax curriculum content. The technical content included in the MTC is based on a modified version of the previous tax content specification outlines (CSOs) for the CPA exam. Recommendations include a strong emphasis on tax research skills (including accessing and interpreting sources of authoritative support along with the ability to communicate conclusions and recommendations in a clear and concise manner), a good working knowledge of book and tax differences (including how they affect tax-based and financial reporting–based statements), and an understanding of the role of taxes in decision making. Technical topics added include the legislative process, an introduction to tax-exempt organizations, and a conceptual understanding of state, local, and multinational tax issues. The complete MTC can be downloaded from http://tax.aicpa.org/Community/Model+Tax+Curriculum.htm.

Results of Practice Analysis Survey

In December 2008, the AICPA Board of Examiners (BOE) issued the *2008 Practice Analysis Technical Report* (www.cpa-exam.org/download/2008_Practice_Analysis_Technical_Report.pdf), and on May 15, 2009, the BOE approved the updated *Content and Skill Specifications for the Uniform CPA Examination* (AICPA 5/15/09) (www.cpa-exam.org/download/CSOs-SSOs-Preview-09Q3.pdf), which will serve as the blueprint for content and skill requirements for future CPA exams. The content and skill specifications are based on a practice analysis survey of thousands of CPAs conducted over the previous two years and represent the most significant change to the CPA exam since the previous practice analysis survey was conducted in 2000.

The 2000 survey resulted in the reorganization of the exam into four sections: auditing and attestation (AUD), financial accounting and reporting (FAR), regulation (REG), and business environment and concepts (BEC). Tax topics are tested in the REG section. Based on the 2000 survey results, CSOs were developed that identified the technical content to be tested on each of the four sections of the exam. Each topical area was assigned a percentage range that represented the total test points associated with that content area.

In 2006, the BOE authorized a new practice analysis to ensure that the exam continues to assess the knowledge that is normally required of entry-level CPAs. The new practice analysis survey focused not just on the knowledge but also on the skills needed by entry-level professionals, how they are linked to the tasks CPAs perform, and how they might be assessed on the exam. This resulted in three broad categories of skills:

- Knowledge and understanding;
- Application of the body of knowledge; and
- Written communication.

The exam will evaluate knowledge and understanding through multiple-choice questions on all sections of the exam. It will assess application of the body of knowledge through task-based simulations in all sections except for BEC. For these new task-based simulations (which will replace the current simulations), candidates will have access to authoritative literature, spreadsheet software, and other resources to demonstrate their proficiency in applying their knowledge. The ability to perform tax research (a key learning objective of the MTC) is an example of a skill that would be tested in these new task-based simulations. Candidates could be asked to:

- Identify the appropriate research question.
- Identify key search terms for use in performing electronic searches through large volumes of data.
- Search through large volumes of electronic data to find required information.
- Organize information or data from multiple sources.
- Integrate diverse sources of information to reach conclusions or make decisions. [Board of Examiners, Examinations Team, *Content and Skill Specifications for the Uniform CPA Examination*, pp. 36–37]

For previous exams, only the Internal Revenue Code and regulations were used as sources in performing tax research. The results of the recent practice analysis indicated that CPAs must often rely on a variety of information and data sources, so the testing of research skills should be expanded and other sources should be included. Some of the resources that are being considered for possible use include "Thomas, [which is] the Library of Congress record of legislation, the U.S. Tax Court database of tax court rulings, and information databases, such as financial reports submitted to the SEC in XBRL format" ("Talking to . . . Richard DeVore, Ed.D., Simulation Development Leader for the Uniform CPA Examination," *The Uniform CPA Examination Alert* 6 (Spring 2009)). A decision has not yet been announced on the use of these other resources for task-based simulations.

Some of the other tasks that candidates will be expected to perform include:

- Identify situations that might be unethical or a violation of professional standards, perform research and consultations as appropriate, and determine the appropriate action. . . .
- Apply analytical reasoning tools to assess how taxes affect economic decisions related to the timing of income/expense recognition and property transactions. . . .
- Identify the differences between tax and financial accounting. [*Content and Skill Specifications for the Uniform CPA Examination*, pp. 3, 22.]

CPA Exam Content Changes

The CPA exam will retain the same four sections (AUD, FAR, REG, and BEC), and tax topics will continue to be tested in the REG section along with business law. There are, however, some changes in content. Exhibit 1 (available at www.aicpa.org/pubs/taxadv/nov2009/table1.pdf) compares the previous content specifications with the new content specifications for the REG section of the CPA exam.

The impact of the MTC is most visible in the area of REG with the addition of tax planning to federal tax processes, procedures, and accounting. The weighting has been slightly increased (from 8–12% to 11–15%), but more importantly new topics have been added, such as the role of taxes in decision making as well as tax research and communication. These are topics that the MTC strongly endorses as a required part of any tax curriculum. New technical topics added to this area that were also recommended by the MTC include the impact of multijurisdictional tax issues and the federal tax legislative process. In addition, the MTC recommended an awareness of issues for tax-exempt organizations, which has now been added to the content specifications for taxation of entities.

The REG section will also include questions on business structure that were previously part of the BEC section. This is a good move because these topics relate more to tax than to BEC, but the result is a decrease in business law coverage. Questions on business structure had comprised 17–23% of the BEC section of previous exams. The business law area of future exams will make up 17–21% (compared with the previous 20–25%) of the REG section, but the inclusion of business structure questions will further shrink coverage of business law. In this litigious society, a good understanding of legal issues is important to all professionals.

Exhibit 2 (available at www.aicpa.org/pubs/taxadv/nov2009/table2.pdf) compares the previous exam content specifications with the new content specifications for the AUD, FAR, and BEC sections of the exam. Moving the area on business structure from BEC to REG frees up space in the BEC section, so corporate governance (which includes rights, duties, responsibility, and authority of boards of directors, officers, and other employees) will now make up 16–20% of the questions in that section. BEC topics related to information technology and information systems have been redefined and will be presented from the perspective of managing a business entity. The planning and measurement area (previously 22–28%) of BEC has been expanded into two separate areas: strategic planning (10–14%) and operations management (12–16%).

Written communication will now be tested through the use of responses to essay questions only in the BEC section of the exam, which will make up only 10–20% of that section. Comments from practitioners on the BOE exposure draft show some concern about the reduced writing requirements (six writing assignments had previously been included in REG, AUD, and FAR). Most practitioners indicated that there should be more emphasis on writing skills, so this is an area that educators should continue to emphasize in their classroom assignments as much as possible.

While topics related to ethics and responsibilities in tax practice will continue to be tested in the REG section of the exam, questions on the code of professional conduct and independence will now be tested in the AUD section. Candidates will be expected to demonstrate an awareness of the International Ethics Standards Board for Accountants (IESBA) and its role in establishing requirements of the International Federation of Accountants (IFAC) Code of Ethics for Professional Accountants.

Topics in the AUD section are reorganized by type of engagement and then by engagement step. Risk assessment related to information systems internal controls is now included in AUD, while other topics related to information technology remain in the BEC section. In addition to testing knowledge, the AUD section will expect candidates to perform tasks such as preparing or reviewing source documents and entering data into general and subsidiary ledgers; preparing consolidated financial statements; analyzing financial statements, including variance, trend, and ratio analysis; and applying judgment to evaluate assumptions and methods underlying estimates, including fair value measures of financial statement components.

One of the most significant upcoming changes in the FAR section is the inclusion of international financial reporting standards (IFRS). The CSOs state that candidates will be expected to identify and understand the differences between financial statements prepared on the basis of generally accepted accounting principles (GAAP) and IFRS.

Conclusion

Although the new CSOs were based on the practice analysis survey of workplace responsibilities and not college curricula, one can see a convergence between the new content specifications and the MTC. Educators can help prepare their students by following the MTC's recommendation and by providing more research and writing assignments. Students need to become comfortable using professional resources in performing tax research and should take advantage of every opportunity to hone their writing skills. An increased integration between the tax curriculum and financial accounting as well as other general business areas can reinforce the broad business perspective that is part of the core competencies expected for new professionals entering the workplace and tested on the CPA exam.

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EditorNotes

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