The CPA Exam: A Good Investment for the Future

An Honors Thesis (ID 499)

by

Jon M. Price

Thesis Director

Ball State University
Muncie, Indiana
May 1986

Spring 1986
OUTLINE

I. History
   A. The history of accounting
   B. The first CPA examination
   C. The evolution of responsibility of the CPA

II. Registration
   A. Information and requirements for taking the exam
   B. The application process

III. Preparation
   A. Make a commitment
   B. Prepare a study plan
   C. Mental readiness

IV. After Passing the Test
   A. Requirement for continuing the license to practice
   B. Revocation and suspension of the certificate
   C. Opportunities with the certificate
I can still remember it now as if it were yesterday. I was walking down the fifty yard line with my mother on one side and my father on the other. The public address announcer was telling the entire crowd, among other things, that my ambition in life was to become a CPA. It was senior night at my high school, and little did I know at that time what it was going to take to reach that pinnacle in my career. Even now as I reflect back on the long hours of hard work involved with getting my degree, I realize that much lies ahead. One of the most important of these future accomplishments will be passing the CPA exam.

My four years of studying accounting at the college level has led me to writing this paper. It will not, by any means, try to instruct the candidate on what to study. Rather, it is my purpose to attempt to drop a few helpful hints along the way while imparting information about the certificate that I have discovered in my research. But first, before getting into any depth about these subjects, it is necessary to define the parameters of the accounting profession itself. A brief history of accounting, the first CPA exam, and the evolution of responsibility for the CPA will all be discussed after a definition is established.

What is a Certified Public Accountant? Actually it is not difficult to define. A Certified Public Accountant is a person that has shown a high degree of competence in the field of accounting, and has also completed the necessary requirements to become licensed by the
proper regulatory body. Many people can legitimately call themselves accountants because of one virtue or another, but only those who have achieved the highest levels of accomplishment can call themselves Certified Public Accountants.¹

The CPA hasn't always been in existence. Actually, the role of the accountant, and in particular the auditor, has changed a great deal over time. The concepts and ideals used in current-day accounting were unheard of at the beginning of the twentieth century. Even though the technique has changed a great deal over time, the fact remains that audits have been used in one form or another throughout the recorded history of commerce and government finance.

From history, we can see that the word auditor means one who hears. This meaning came from the fact that governmental accounting records could only be approved after a public hearing was held and the accounting records read aloud. This, of course, was a very crude form of auditing, but it did lay the foundation for what was to become today's modern auditing techniques.

From the medieval times, up through the Industrial Revolution, the main function of the auditor was to attest to the fact that people who were in positions of financial responsibility in either commerce or government were acting and reporting results in an honest fashion.

When the Industrial Revolution started, companies began to grow at tremendous rates. With this growth, the original owners of manufacturing concerns, or others as the case may be, were forced to hire in the services of managers. With the separation of ownership and total management, owners wanted to protect themselves from fraud and deception. In reaction to this, the owners turned to the auditors for help with this difficult problem.² A real need was beginning to
develop, and the accountant was there to fill the gap. This was one of the first events that gave the accounting profession a boost and eventually established a need for the accountant to develop some standard for credibility. This is where the idea of the Certified Public Accountant began to materialize.

The beginnings were modest, but the need was there. Eventually the idea materialized and the first CPA examination was held in New York in the year 1896. By today's standards it was very simple. Only five candidates took the exam of which three passed. At this time, the exam consisted of three parts: 1) theory of accounts, 2) practical accounting, and 3) auditing. To pass the test, a candidate was required to answer 75% of the questions correctly. This is the same percentage required to pass the Indiana exam at the present time. To be able to hold the title of CPA, one had to be at least twenty-five years old with five years of satisfactory experience, which included either study of accounting or actual job experience. Some accountants were able to pass the exam, but were not old enough to either satisfy the age or experience requirements. In these cases, a certificate was not issued, but instead the title of Junior Accountant was held until all requirements could be satisfied.3

Some accountants did not have to pass the CPA examination to become a CPA. Of the fifty-six CPA certificates presented in 1896 and seventy handed out in 1897, most were due to the waiver of examination rule. Under the New York law, accountants who already practiced under the certificate of qualification as expert accountants could call themselves CPAs. It was a crude beginning, but most professions were generated from similar histories. From these humble beginnings, we were to have the respected profession that so many have
come to know and enjoy.\footnote{4} By the year 1913 the section on law had been added to the exam. But at this time, much criticism was being aired from accountants. Many were saying that the test was too easy and, in fact, they were right. For example, history shows that most people passed Auditing, Theory, and Law, but many were unable to pass the Practice section. It was felt that the Law section could be passed with a few days of intense studying. Auditing basically required the knowledge from one book, and Theory asked very elementary questions about bookkeeping definitions.

Even though the Practice section was rarely passed, it was felt that the questions asked here were more like puzzles than real-life accounting problems. Eventually, over time, all of this was eradicated and we have what is now regarded as one of the most difficult and exhaustive professional tests in existence.\footnote{5}

Just as the difficulty of the exam has changed over time, so has the responsibility of the accountant. In the eighteen hundreds, the auditor was mainly concentrating his efforts on detecting fraud. As accounting moved into the twentieth century, the emphasis moved away from fraud to the determination of the fairness of financial statements. This came about because millions of Americans were now investing their money in stocks and bonds. Investors tended to base their decisions on the financial statements of the company under consideration. From this a need for accuracy developed. Rather than being primarily responsible to the banks, auditors were now more responsible to the public who were the users of corporate financial information. This trend has continued up to the present day audit philosophy. With the increased litigation, accounting firms have become extremely
cautious when applying their procedures and issuing opinions. This only serves to increase the quality of service provided by the CPA.6

Over the course of time, there have been various factors that have influenced the responsibility of the CPA. Of all of these factors, probably none has been greater than the influence the Securities and Exchange Commission has played in accounting. One accounting professor has even gone as far as to say modern accounting is a traceable result of the SEC influence. Surely there is no question that the creation of this branch of government gave auditing the boost it needed. A few of the areas that the SEC has influenced include, 1) changes in auditing procedures, 2) increased responsibility and liability for the accountant, 3) new financial disclosures for business, and 4) regulation of the accounting profession.7 Most of today's large and profitable audits are with companies that are registered with the SEC. It is the CPA's responsibility to work with and at times answer to this branch of government.

Now that some background of accounting and the CPA has been established, it would be good to turn to the CPA exam itself. You might ask yourself, what do I need to do to take this exam. The first step is to familiarize yourself with the process that needs to be undertaken. The Uniform CPA Examination is given two times each year (May and November) in all states and jurisdictions of the United States. It is administered by the Board of Examiners of the American Institute of Certified Public Accountants (AICPA). By giving the exact same test to each candidate, uniformity is ensured. In turn, this requires a person to possess a high quality body of accounting knowledge in order to be designated a Certified Public Accountant.8
The actual CPA exam consists of four sections. The first section is Accounting Practice which is divided into two parts, each given separately. The other three sections include Auditing, Business Law, and Accounting Theory.\(^9\)

Registration deadlines are March 1, for the May exam, and September 1, for the November exam.\(^{10}\) It is no one else's responsibility but the candidate's to meet these deadlines. As for the exam itself, it is administered over a two and one-half day period consisting of Wednesday afternoon and all day Thursday and Friday. Below are the actual sections and the times when each is taken.

<table>
<thead>
<tr>
<th>Section</th>
<th>Day</th>
<th>Time</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounting Practice (Part 1)</td>
<td>Wednesday</td>
<td>1:30-6:00 p.m.</td>
</tr>
<tr>
<td>Auditing</td>
<td>Thursday</td>
<td>8:30-12:00 noon</td>
</tr>
<tr>
<td>Accounting Practice (Part 2)</td>
<td>Thursday</td>
<td>1:30-6:00 p.m.</td>
</tr>
<tr>
<td>Business (Commercial) Law</td>
<td>Friday</td>
<td>8:30-12:00 noon</td>
</tr>
<tr>
<td>Accounting Theory</td>
<td>Friday</td>
<td>1:30-5:00 p.m.</td>
</tr>
</tbody>
</table>

In total, the exam consists of 19\(\frac{1}{2}\) hours of questioning.\(^{11}\)

Several eligibility requirements must be met before a person can take the CPA examination. To take the exam, one must be at least 18 years of age. Along with this, the candidate must have lived in Indiana for sixty days prior to the test, or have had permanent legal address in Indiana for the previous ninety days.

There are also educational requirements that must be met before a person is permitted to sit for the CPA exam. First of all, a four-year baccalaureate degree is required from a college that is approved by the board. If a degree is not obtained by the examination date, evidence must be shown that the degree will be obtained within sixty days after the administration of the test.\(^{12}\)

The educational requirements must contain a minimum specified number of hours in business areas such as business administration, accounting, economics, and other subjects. More than likely, this is
a subject that needs no attention because the business college will be sure to set up its curriculum so that these requirements are met. Anyhow, it may be good to know something about this. Some of the requirements include forty semester hours or the equivalent in accounting, business administration, and economics. Of these forty hours, at least twenty of them should be accounting with no more than six of the forty hours being business law.13 One thing to keep in mind when considering the information above and about to follow is that it pertains specifically to Indiana. This test is administered by each state and some variations in the requirements are present from state to state.

The Indiana requirement for passage of any part of the exam is 75%. At least two of the four parts must be passed in order to get credit for any part passed. In other words, a candidate must pass at least two parts or he gets no credit at all. Furthermore, the parts that are failed, if any, must achieve at least a 50% or no credit will be granted on any subject passed. It is obvious that this prevents the candidate from concentrating review on one or two subjects while totally disregarding the other parts until the next test. One must be relatively consistent in all areas in order to pass the CPA exam.14

The process involved with applying for the exam is much easier than passing it. One of the first aspects to keep in mind when applying for the CPA exam is that there are different forms provided for persons taking the exam for the first time and persons repeating the exam. The application process costs $125 for the first-time candidate, or for someone who is taking the exam again and has failed all parts previously. Candidates who have already passed sections
must pay $85 for each reexamination. Payment of these fees is made by check to the Indiana State Board of Public Accountancy. The application process itself is relatively simple.  

Finally, in order to be eligible for the CPA exam, a candidate's character must be confirmed on the application by no fewer than three people. Those people who sign the application must be citizens of the United States, while at least two must be residents of Indiana.

Now that all of the formalities of the application process have been completed, the real test will begin. It is time to begin studying for the CPA exam. The first step in any major effort usually involves making a commitment. Taking the CPA exam is no different. A person can spend several years of his life making half-hearted efforts to pass and never be successful. The person who is contemplating sitting for the exam must do some soul-searching. Do you really want to spend all that time studying for an exam that few completely pass the first time? With commitment, the serious candidate can be one of the few.

At this point it would be logical to discuss and define what commitment is. It is an intangible concept that must be grasped. First of all, the decision to commit involves the intense feeling that the candidate will put forth the best possible effort. Write down on a piece of paper how you feel about the exam and pull it out whenever some motivation is needed. The key here is taking the intangible concept of commitment and converting it to a tangible form so it can be used as a motivational force.

One of the final steps to making a commitment involves believing in yourself. This aspect cannot be stressed enough. Many times, in my conversations with students of accounting taking the exam in May, I have seen this lack of confidence. Many of them say that they are
just taking it for experience. Although experience may be helpful, these people are missing a good opportunity. This exam can be passed on the first try. Believe in yourself going into this effort and the chances of success will be much greater.

A topical explanation of what to study for the CPA exam is beyond the scope of this paper. Instead, the question that should be addressed is how to study for the exam. There is much more to passing this exam than just knowing the information. There is no doubt that this is important, but also being able to deal with the pressure can play a rather large role in determining whether the exam is passed or not.

How should a candidate study for the exam? Barron's, a well known publisher, has issued its suggestions on how to study for the CPA exam. After reviewing Barron's study program and a few others, I felt that including this multi-step guide would give the candidate a relatively good idea of what it takes to pass the exam. This program is somewhat general. It doesn't tell the candidate how many hours to study or what to study because each person has unique strengths and weaknesses. Instead, the program gives the candidate a general outline for success.

The first stage of this plan involves a self-evaluation. Take into consideration your work habits and discipline as well as your academic preparation. One helpful guide to evaluating yourself is the abridged AICPA Content Specification Outline. This outline, which can be found in many study guides, covers each section of the exam and details the general subject matter that can be covered. Take this outline and determine how familiar you are with each subject. This will give you a good idea about what needs work. Remember that each part is worth a certain percentage and it would not be wise to
get bogged-down in a section that is not worth much. After taking this self-evaluation, you will be ready to move on to the next step which involves choosing a study plan.17

There are different paths that can be chosen when considering a study plan. A self-study plan may be appropriate, or a formal course such as the one offered here at Ball State University may be more suitable. In either case, you must ask yourself a series of questions to determine which of your options is better. This list is by no means exhaustive, but it does outline the general areas that should be addressed.

1) How up to date is your knowledge of accounting?
2) How much new learning will be necessary?
3) How much do you know about the exam itself?
4) How much time can you devote to review?
5) Are you a procrastinator?
6) How well can you study on your own?

All of these are serious questions and need to be answered carefully. The main idea to keep in mind is that you must do what is best for you. Success may well depend on your decision at this stage and how well it is followed.

Now that the choice of the study plan is made, you must arrange your life around the decision. At least two to three hours of the day should be devoted to classroom attendance or self-preparation. This amount of time is sizable and will most likely cause you to make some priority choices.

Next it is time to get started. This can be one of the hardest steps. As Barron's so adroitly put it, "Procrastination is the thief of time, and time is the candidate's scarcest resource." Don't get caught up in all of the details associated with starting this project. Once the course is decided, action should follow.18

As you advance through your study plan, intensity may start to
fade. This is not an uncommon occurrence when someone is attempting to complete a long, tedious program. As setbacks and obstacles are encountered and you become discouraged, deal with it. Look at it as nothing more than a passing mood. If you possess the motivation and self-discipline that characterizes a successful candidate, you will not lose the momentum that has already been established.

Here are a few suggestions that may help a candidate maintain the intensity needed to successfully complete the study program. First of all, you need to set daily goals. Decide what to study and what questions are going to be answered. Secondly, keep track of your progress. Progress can be a source of motivation. Also, with the nature of the review program being so lengthy, it becomes necessary to know your place so that time doesn't run out. Finally, it is important to keep fit mentally as well as physically. Most CPAs will agree that the exam is very tough physically. Besides the obvious advantages of being fit, it is well established that physical fitness and mental alertness are causally connected. When dealing with mental fatigue or frustration, don't be afraid to walk away from it during a study session. A short break should help clear the neurological circuitry.19

Another important point to keep in mind is to eliminate distractions. Disturbances can come from friends, family, the television, or other areas. A possible solution to this is the utilization of a library. The library is generally exempt from the distractions that are present at home or the apartment. Moreover, the library can provide a wealth of information for the candidate taking the exam.20

As stated before, this exam will test more than your knowledge of the subject matter. It is also, to some extent, a psychological battle. The exam is constructed to test the candidate's ability to
function under pressure. This is why it is most essential to have established your mental preparedness before attempting the exam. Analyze all of the situations in which you feel pressure, and make sure you have the ability to cope with them. If you are prepared to deal with pressure in a constructive manner, then you have nothing to fear.

In terms of mental preparation, confidence is the most important factor. Without this key element, all of your preparation will collapse around you when faced with an unfamiliar problem. After all of your preparation, you should be confident. You have learned how to approach a difficult problem and get the best possible solution. You also understand how the test is graded and are relaxed knowing that a perfect answer is not needed. With all of this before you, you must convince yourself that you can pass the exam. A simple fact remains: If you don't have the confidence, all the preparation in the world may not help!\(^{21}\)

After receiving the CPA certificate, the learning experience will not be over. Accountants (CPAs) who want a permit to practice must complete certain continued education requirements. In Indiana, a CPA must complete eighty hours of instructional courses that are given by board recognized sponsors dealing with approved subjects. The eighty hours must be completed within a two year period in order for this requirement to be met.\(^{22}\)

The continuing professional education requirements can be met in various ways. The CPA can earn hours by taking a board approved class, instructing a group, teaching a graduate level class, or undertaking a self-study course. Each of these examples listed above have certain restrictions and limitations in order to prevent any sort of abuse when
Even if the requirements are met to keep a license, there are various acts that will cause a CPA to have his certificate or license revoked. A CPA who doesn't conduct his practice according to these rules will be subject to disciplinary action if a board hearing finds him guilty.

If a CPA has knowingly engaged in fraud or deception when earning the license, he is subject to action. Another problem would be present if a CPA is convicted of a crime that relates to his ability to continue to practice properly. A CPA is also in danger of losing his license if a practice is continued when professional incompetence is present. This could be due to several factors, some of which include a failure to keep current with professional theory or practice, a physical or mental disability, or an addiction to some type of drug.

A CPA's conduct while working on an engagement may also fall under close scrutiny. This means that a practitioner may be in danger of losing his license if he has engaged in lewd or immoral conduct while on the job. There are other possible infractions that can occur, but most deal with deception in one form or another. Common sense seems to be the rule here. Accounting is a highly regarded profession and any act that discredits it can bring punishment upon the CPA.

The state board may impose a variety of punishments upon the CPA. The permanent revocation of a certificate, license, or registration is always possible provided the infraction is serious enough. Other sanctions include the suspension of certificate or license, censure of a practitioner, issuance of a letter of reprimand, or placement of the CPA on probation. This is not a full list of offenses or sanctions, but the important ones have been recognized.
One of the rewards associated with being a CPA involves the variety of opportunities available for a career path. Four broad categories have been established for accounting and they are: 1) Public Accounting, 2) Business and Industry, 3) Government, and 4) Education. Based on data from the census, public accounting has the largest concentration of all CPAs with 61.6%. Business and industry come next with 31.3% of all CPAs, followed by government and education with 3.8% and 3.3% respectively.27

One aspect that is worth considering is that the value of the certificate gives an accountant many things, of which credibility is definitely one. It has been my own experience to be able to see the respect given to this achievement. When talking with various people involved with finance, I was given strong encouragement to pursue the certificate, even if I didn't choose accounting as a career. The title of CPA simply carries a good deal of weight outside the profession.

But what will the CPA title do for me within accounting? It is a license to practice in the most simple form. But once again, credibility must be suggested. If public accounting is the chosen field, then it is a must. Most accountants working in other sections of the accounting industry will also be pursuing the exam. Even though it is not a legal necessity, it provides the look of success which is very important when following a business career.
NOTES


4 "The First CPA Exam," p. 44.

5 "The First CPA Exam," p. 46.


8 Stenzel, p. 7.

9 Stenzel, p. 8.


11 Stenzel, p. 8.

12 Indiana State Board of Public Accountancy, Indiana Information for Applicants for Uniform CPA Examination (Indianapolis: Indiana State Board of Public Accountancy, 1985).

13 Indiana Information for Applicants for Uniform CPA Examination.

14 Indiana Information for Applicants for Uniform CPA Examination.

15 Indiana Information for Applicants for Uniform CPA Examination.

16 Stenzel, p. 20.

19 Person, Wolinsky, and Beekman, p. 15.
21 Stenzel, p. 23.
22 Indiana State Board of Public Accountancy, Indiana State Board of Public Accountancy Laws (Indianapolis: Indiana State Board of Public Accountancy, 1985), p. 34.
23 Indiana State Board of Public Accountancy Laws, p. 34.
26 Indiana State Board of Public Accountancy Laws, p. 13.
27 Stenzel, p. 5.
BIBLIOGRAPHY


