

# CPA Evolution: Avoiding Professional Extinction

Joshua Herbold

<https://orcid.org/0000-0002-5857-5064>

The accounting profession is changing. In and of itself, that shouldn't surprise anyone. My first accounting class was in the early 1990s, and we learned how to: write a journal entry into a general or specialized journal, post that entry to a ledger, foot the totals for each account in the ledger, transfer the totals to a trial balance, and use the trial balance to compile basic financial statements, all by hand (and in pencil—too many potential mistakes to use pen!). Today, nearly all that knowledge is either obsolete or close to it. Certainly, these are still important steps in the accounting process! But we no longer need to do all of this manually. Today, we have multiple tools that can automatically record most of the information that we collect, and accounting and analytics software that help us interpret and report the results of an organization's efforts. Technology has enabled accountants to relegate the repetitive, mundane tasks to software and computers, which has freed up our time for much more interesting and engaging work.

Of course, advances in technology have also led to major changes in the world in which we, as accountants, function. These changes have been so fundamental that they're being referred to as the fourth industrial revolution. Following closely on the heels of the third industrial revolution—which encompassed the digitization of much of the information that we use—this may be the first time in recorded history that the same people are experiencing multiple industrial revolutions. The point is that “change” has become the new normal. The world is now in a constant state of change. The goal of a well-designed accounting system is to record and report on what happened in an organization over a period of time, so when the world in which that organization operates changes, the accounting system—and thus the profession—needs to change as well.

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Within the accounting profession, new technologies are changing the work that entry-level accountants are being asked to do. Many time-consuming but uncomplicated tasks, like reconciliations, are being automated or outsourced. Newly licensed CPAs are increasingly expected to be able to do more complex tasks that involve critical thinking, problem solving, and analytical skills. New technologies like automation (whether through robotic process automation, known as RPA, or automation that is built into accounting and enterprise software systems) are being used in place of having a new accountant follow a step-by-step procedure for hours or days on end. The knowledge and skills that employers expect from new accountants is rapidly evolving, and if employers can't find accountants with these skills, they'll go elsewhere to find new employees. This is exactly the trend that the American Institute of CPAs (AICPA) has observed. In its latest AICPA Trends Report<sup>1</sup>, they note that hiring of accounting majors by U.S. public accounting firms has decreased (11% in the latest report, 30% total decline over the last two biennial reports). At the same time, hiring of non-accounting majors by those same firms increased over 55%. Nearly one-third of all hires by U.S. public accounting firms are now non-accounting majors.

In response to these trends and changes, the AICPA partnered with the National Association of State Boards of Accountancy (NASBA, a national group comprised of accounting regulators from all U.S. states and jurisdictions) in a project now known as CPA Evolution<sup>2</sup>. The CPA Evolution project will culminate in a new structure for the CPA exam, currently scheduled to debut in January 2024. This new structure shares some features with the current CPA exam model: four sections, each taken individually, with a total of no more than 16 hours of testing. But the content in those four sections is going to change dramatically. Currently the four sections of the CPA exam are Auditing and Attestation, Financial Accounting and Reporting, Business Environments and Concepts, and Regulation. The new CPA exam structure, which has been approved by both AICPA and NASBA, is a “core + discipline” model. Three sections of the new CPA exam will cover core accounting, audit, and tax concepts, and a fourth section will dive deeper into various specific disciplines within the accounting profession.

According to the AICPA and NASBA, this model will ensure that all newly licensed CPAs have a strong understanding of the “basics” of the profession. The AICPA is still working on the details regarding the content to be covered in each section of the exam, but the general expectation is that most of the foundational concepts in accounting, audit, and tax that are on the current CPA exam will be tested in one of the three “core” sections of the new CPA exam. Technology underlies nearly all the work that CPAs do, so questions about relevant technology (for example, spreadsheets, databases, basic data analytics, RPA, and/or blockchain, to name just a few) will be woven into the core exam sections where appropriate.

The “core + discipline” model is also flexible, because new disciplines can be added (and old disciplines “phased out”) when significant changes to the profession emerge. When the new exam is released in 2024, three disciplines will be offered: Business Analysis and Reporting, Information Systems and Controls, and Tax Compliance and Planning. (Each of these sections is discussed in more detail below.) Examinees will choose one of these disciplines in which to demonstrate deeper knowledge. (The AICPA has been asked whether examinees can signal knowledge in more than one area by taking additional discipline sections after passing one of the disciplines; they have stated that this will not be allowed. According to AICPA and NASBA, the purpose of the CPA exam is to demonstrate that a candidate has the minimum knowledge and skills necessary to be licensed as a new CPA, not to demonstrate that a candidate is an expert in multiple areas.) After passing the three core sections of the exam and one of the discipline sections, examinees will have “passed” the entire exam.

1 The AICPA Trends Report is published every two years. As of the writing of this editorial, the latest report is from 2019: <https://www.aicpa.org/interestareas/accountingeducation/newsandpublications/aicpa-trends-report.html>.

2 <https://evolutionofcpa.org/>

Assuming that a candidate meets the other licensure requirements in their state (typically including education, experience, and ethics requirements), a candidate who passes the new CPA exam can earn their CPA license. One issue that has been very important to AICPA and NASBA throughout the CPA Evolution project is that all candidates will earn the same CPA designation, with no differentiation between candidates who take different discipline sections of the exam. For example, a candidate who passes the “Tax Compliance and Planning” section of the new CPA exam will not be referred to as a “CPA-Tax”; they will simply be a CPA. The designation/license is the same for all candidates who pass the exam, and the rights, obligations, and privileges will remain the same for all CPAs. Furthermore, candidates are not limited to practicing in the discipline in which they tested. For example, a candidate who passes the “Tax Compliance and Planning” discipline can still work in audit if that is where their career path leads. Of course, the AICPA’s professional standards note that CPAs should not take on engagements for which they don’t have or can’t obtain the required knowledge. The bigger point, though, is that the discipline that a candidate chooses does not limit their future career path.

The specific content for each of the sections of the new CPA exam is still being developed, but a draft of the potential content for each area can be found in the “CPA Exam Practice Analysis Survey Background” document released by AICPA<sup>3</sup>. The vision is for the three disciplines to include the following general topics (see the background document for more details):

- **Business Analysis and Reporting (referred to as BAR):**
  - **Financial statement analysis**, including analysis of current period and historical accounting and other data, prospective/forward-looking analytics, COSO<sup>5</sup> Enterprise Risk Management Framework
  - **Technical accounting and reporting topics**, including more advanced/complex financial accounting topics like revenue recognition, lease accounting (for lessors; lessee accounting is in the core), consolidations (including foreign currency translation/remeasurement), business combinations, SEC reporting requirements, emerging reporting frameworks, and employee benefit plans
  - **State and local government accounting**, including the comprehensive annual financial report (CAFR), government-wide financial statements and reconciliations, and typical transactions for governmental entities
- **Information Systems and Controls (referred to as ISC):**
  - **System and organization controls (SOC) engagements**, including SOC 1 and SOC 2 engagements
  - **Governance, processes, risks, and controls**, including COSO Internal Control Integrated Framework, AICPA 2017 Trust Services Criteria, business processes and controls, information systems and infrastructure, information technology change management, business continuity, and incident response planning
  - **Information, system security, confidentiality, and privacy**, including information security concepts and frameworks, information system controls, network and other security, data governance frameworks and standards, confidentiality/privacy regulations and controls

3 Retrieved on 10 September 2021 from <https://assets.ctfassets.net/rb9cdnjh59cm/54u8x0bxJHFZ7Ckx27Kz0F/92d3c7c32a367ee9d3444d4ebf013423/draftcoredisciplinesurveybackground.pdf>

- **Tax Compliance and Planning (referred to as TCP):**
  - **Individual tax/financial planning**, including tax planning considerations (gross income, adjusted gross income, taxable income, computation of tax, estimated taxes, and tax credits), passive activity and at-risk loss limitations, gift taxation compliance and planning, and personal financial planning for individuals (which includes, among many other items, tax liability management, estate/gift/wealth transfer planning, and investment and retirement planning)
  - **Entity tax compliance**, including regulations and calculations for C-corporations, S-corporations, and partnerships, as well as for trusts and tax exempt organizations
  - **Entity tax planning**, including the tax treatment for the formation/liquidation of business entities, and tax planning for C-corporations, S-corporations, and partnerships
  - **Property transactions**, including nontaxable dispositions, amount/character of gains and losses, and related party transactions

In a survey of accounting students, nearly 90% replied that they either already knew which discipline they would choose or would feel comfortable in choosing a discipline. When asked to rank the discipline that they were most likely to choose, about 50% of students said they would choose Business Analysis and Reporting, 25% would choose Information Systems and Controls, and 25% would choose Tax Compliance and Planning.<sup>4</sup> While there is certainly some concern among today's students about the transition to the new exam (and AICPA and NASBA report that they are developing a plan for those candidates who start but do not finish the CPA exam prior to the launch of the new version in January 2024), most students seem comfortable with the structure and material for the evolved exam.

The changes to the CPA exam are indeed significant, but they are necessary for our profession to keep pace with the world in which we operate. During my career, I've seen the exam change multiple times: from a paper-based exam to a computer-based exam, from twice-yearly testing (where candidates took all four sections over a two-day period) to continuous testing, from questions that were all multiple choice or essay to questions that simulate tasks and issues in practice, etc. Thus, it makes sense that this project is referred to as an evolution, and not a *revolution*. When put in context, it seems only natural that the exam would have to change as the profession changes. The knowledge and skills that helped a CPA succeed twenty years ago will not be as useful for today's new CPAs. Fortunately, we work in a profession that recognizes the need for change and has been proactive and careful about implementing the necessary changes, while retaining the core knowledge that sets our profession apart. For a profession with one foot rooted in tradition and the other stepping deliberately into the future, it seems apt to celebrate these changes by paraphrasing a 600-year old proclamation: The CPA exam is dead. Long live the CPA exam!

4 Results of the survey are reported at <https://evolutionofcpa.org/>.