BEFORE AND AFTER: PASS RATES AND THE NEW CPA EXAM
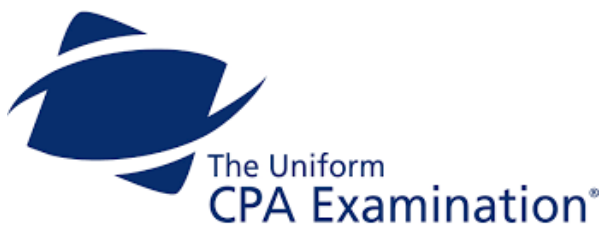
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The Uniform CPA Examination®

I n April of 2017, important changes were implemented to the Uniform CPA Exam, including greater emphasis on task-based simulations and higher-order critical thinking skills. These changes were announced by AICPA on Sept. 1, 2015, to reflect the continuing evolution of the accounting profession.

As changes in the business world impact the profession, in conjunction with the advancement of technology, employers are expecting today's newly licensed CPAs to demonstrate a higher-order skillset to perform more difficult tasks earlier in their careers. To meet this need, AICPA determined that the Uniform CPA Exam must test these higher-order skills, which are needed immediately in the workplace (AICPA 2017b). The changes are important to uphold the public's continued trust in a CPA's technical knowledge and professional judgment.

A brief overview of the changes is presented in this article. For a more thorough examination of the revision process and the updated Exam, please see the September/October 2016 *Today's CPA* article titled "The Only Constant is Change: Upcoming Changes to the Uniform CPA Exam." The purpose of this article is to explore changes in pass rates in the first eight quarters following revision of the Uniform CPA Exam.

While the subject matter and content of the 2017 CPA Exam reflects some of the change, the primary change relates to the increased level at which the matter is tested (Rogers CPA

Review 2017a). The purpose of the changes is to ensure that the Exam tests the skills that newly licensed CPAs must possess to continue to protect the public interest. These skills include:

- Critical thinking and problem-solving,
- Professional skepticism,
- Effective communication skills,
- Well-developed research skills,
- A strong understanding of the business environment and processes, and
- Ethical and professional responsibilities.

Approximately 600 representative tasks are identified as critical to a newly licensed CPA's role in protecting the public interest (AICPA 2017b). The representative tasks combine both the applicable content knowledge and skills required in the context of the work of a newly licensed CPA[1]. The appropriate skill level is identified using Bloom's Taxonomy, based on the nature of the assigned task.

The first skill level defined in Bloom's Taxonomy focuses on remembering and understanding. Specifically, this skill requires the perception, comprehension and retention of the significance of an area using learned knowledge. The second skill level is application, requiring not only recall, but use or demonstration of knowledge, concepts or techniques. At the third skill level, analysis, each applicant is tested on his/her ability to conduct examination and study of the interrelationships of separate areas to identify causes and find evidence to support inferences. The highest skill level in Bloom's Taxonomy is evaluation, the assessment of problems and the use of informed judgment to draw conclusions.

SKILL LEVELS IN BLOOM'S TAXONOMY

1. **Remembering and Understanding**

2. **Application**

3. **Analysis**

4. **Evaluation**

While the previous version of the Uniform CPA Exam was primarily designed to test the lower-level skills of remembering and understanding with some attention paid to application, today's Exam places more emphasis on assessing higher-order skillsets, such as application, analysis and evaluation. The skills of remembering and understanding are still tested, but less explicitly, as these higher-level skills require retention of appropriate knowledge.

Each of the four examinations demands higher-order skills than previous versions. With the changes, the:

- Audit and Attestation (AUD) section now contains analysis skill-testing consisting of approximately 15-25% of the section; evaluation skills are tested in 5-15% of the content.
- Business Environment and Concepts (BEC) section includes analysis skill testing, which includes approximately 20-30% of the content.
- Financial Accounting and Reporting (FAR) section tests application skills at approximately 50-60%, with analysis falling to 25-35%, and remembering and understanding skills falling to 10-20%.
- Regulation (REG) section also increased the testing of application skills to 50-60%, with analysis, remembering and understanding each falling to between 15-30%.

AICPA also incorporated a new type of Task-Based Simulation (TBS) called Document Review Simulation (DRS). DRS is tested on the AUD, REG and FAR sections of the Exam. DRS tests candidates' application skills and then progresses to test evaluation and analysis skills.

The purpose of the DRS is to increase the authenticity of the Exam by testing real-life tasks performed by a CPA. Candidates will be required to reference documents, such as legal letters, phone conversation transcripts, and authoritative literature to differentiate between important and unimportant information.

Do Higher Expectations Mean Lower Pass Rates?

The perceived degree of difficulty is important to candidates, employers, clients and regulators, and will continue to be tested as the Exam evolves. To be certain that the changes implemented do not have a negative effect on the public trust of the accounting profession, the CPA Exam must certify that all passing applicants possess the skills and knowledge required of entry-level CPAs.

Given the focus on higher-order skills in the 2017 quarter 2 revision, many in the profession predicted a significant

drop in pass rates in the period following adoption. On the other hand, some asserted that candidates might perform better, with greater emphasis on higher-level thinking skills and less on the memorization of a broad base of accounting information.
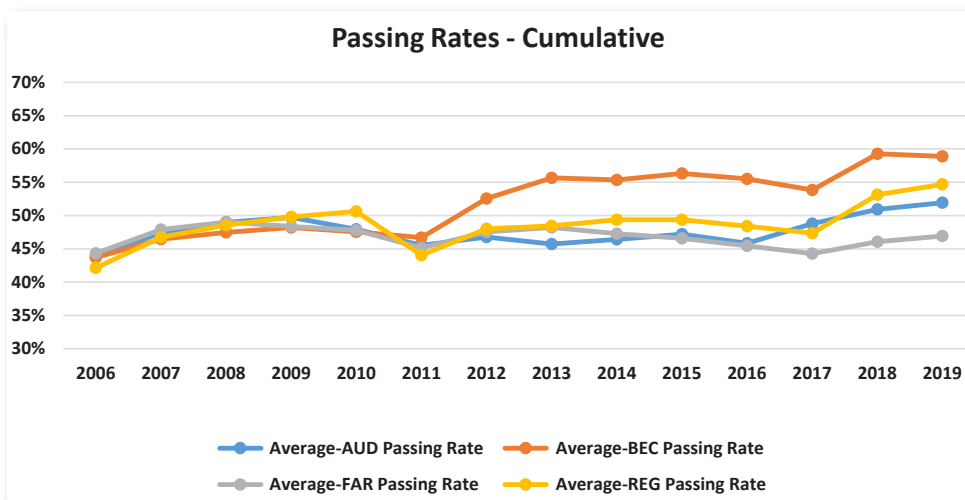
To answer whether the pass rates increased or decreased after the 2017 revision, we obtained passing rate data from 2006 through 2019 from the AICPA website (AICPA 2017c) and present the results in linear charts in Exhibits 1 through 5. A passing score requires the applicant to obtain a total reported score of 75 to pass each section (AICPA 2017d). Section scores are reported on a scale that ranges from 0 to 99.

It is important to note that this score is neither a percentage correct score nor can it be interpreted as a percentage. The total scores in the AUD, FAR and REG sections are weighted combinations of scaled scores from MCQs and TBSs. The BEC section contains a weighted combination of the scaled scores from MCQs and TBSs, as well as scaled scores from written communication tasks. These scaled scores on the MCQ and TBS portions of the exam are calculated using formulas that consider factors such as the relative difficulty of each question and whether the question was answered correctly.

The results in Exhibits 1 through 5 report the percentage of candidates in each period (year for Exhibit 1 and quarter for Exhibits 2 through 5) who achieved a score of 75 or higher.

Exhibit 1 depicts the cumulative historical passing rates by section. The AUD, FAR and REG sections follow a fairly steady trend throughout the years hovering between 45% and 50% of candidates passing the Exam. This trend began

in 2007, as this was the first year for any of the sections to jump above 45% of candidates passing.

One interesting trend is the increase in the BEC section passing percentages starting in 2012. The historical trend shows that the BEC section has the highest passing rate among all four sections both before and after the 2017 Exam revision. With eight quarters of data available, we focus on the trend and most recent quarters' pass rates for each of the four Exam parts in Exhibits 2, 3, 4 and 5.

Exhibit 2 displays the historical trend of passing rates as they relate to the AUD section. In recent years, the AUD section has had one of the lowest passing rates. Through 2007 to 2010, the AUD section was among the highest passed sections, consistently reporting numbers near or above 50% of candidates passing; however, this changed in 2011 when additions such as TBSs were introduced. Passing rates for the AUD section after the 2011 changes dropped below 50% of candidates passing.

Exhibit 2 – AUD Pass Rates by Quarter

This is a graphical representation of the national passing rates for the AUD section by quarter for 2016 through 2019 (Q2). The revision became effective for all exams in Quarter 2 of 2017.

Exhibit 1 – Historical Cumulative Pass Rates Since 2006
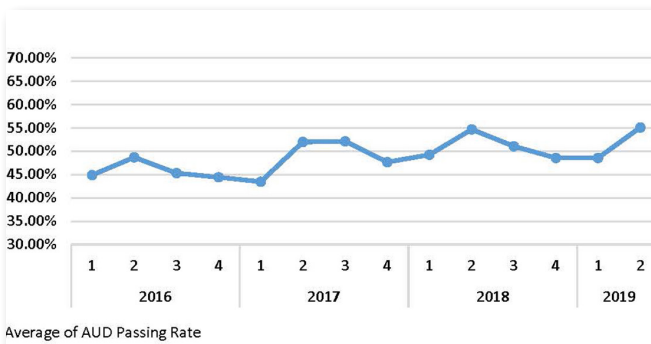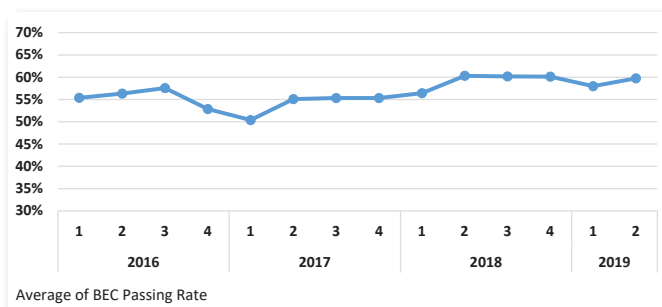

This is a graphical representation of the cumulative national passing rates for all sections from 2006 through 2019 (Q2).

However, with eight quarters of data after the Exam rewrite, the pass rate has notably risen. The 55% pass rate for the second quarter of 2019 is the highest pass rate since at least 2006. The pass rate fell somewhat for the third quarter of 2018, but increased during the second quarter of 2019, where it remains well above prior benchmarks more than a year after the revisions.

Exhibit 3 graphs the historical trend of passing rates for the BEC section. As discussed earlier, the BEC section has

Exhibit 3 – BEC Pass Rates by Quarter
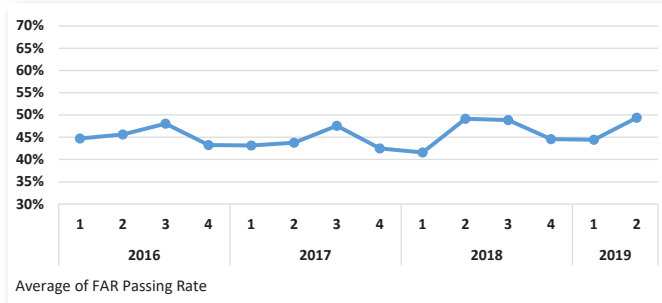

Average of BEC Passing Rate

This is a graphical representation of the national passing rates for the BEC section by quarter for 2016 through 2019 (Q2). The revision became effective for all exams in Quarter 2 of 2017.

the highest passing rate percentage in recent years. The data shows an upward trend in the rates, with the largest increase occurring after the 2011 changes. Rising from 47% in 2011 to 52% in 2012, the BEC section continued its increase through 2013 to 2016, as its passing rate rose to above 55% all four years, becoming the only section to reach this mark. The data shows the 2017 changes leave the pass rate well above the other exams, hovering around 60% through the second quarter of 2019.

Exhibit 4 displays the historical trend of passing rates as they relate to the FAR section. By examining the data from 2006 through 2017, the FAR passing rates seem to follow a steady trend of about 48%, with performance peaking in the second and third quarters as recent graduates take what many consider the most difficult of the four exams. This trend persists into the most recent eight quarters, with a slight overall change in pass rates quarter over quarter, but much less noticeable of those for AUD and BEC.

Exhibit 4 – FAR Pass Rates by Quarter
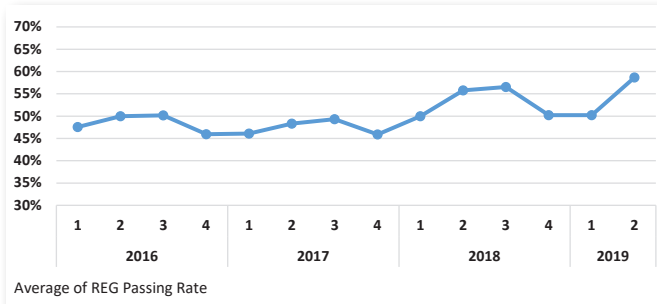

Average of FAR Passing Rate

This is a graphical representation of the national passing rates for the FAR section by quarter for 2016 through 2019 (Q2). The revision became effective for all exams in Quarter 2 of 2017.

REG passing rates are depicted in Exhibit 5. After a steady climb in passing rates from 2006 through 2010, passing rates for REG dropped significantly after the 2011 change. However, in the following years, the rates recovered and look consistent with the trend before the 2011

changes, averaging near 48% throughout the years under examination.

Exhibit 5 – REG Pass Rates by Quarter

Average of REG Passing Rate

This is a graphical representation of the national passing rates for the REG section by quarter for 2016 through 2019 (Q2). The revision became effective for all exams in Quarter 2 of 2017.

The drop in 2011 reduced the cumulative passing rate for the REG section to below 45%, the first time the section had dropped that low since 2006. Following the revision in 2017, REG pass rates appear to dip slightly before climbing to over 50% in 2018, a height not seen since 2010. The increase peaks in the available data at 59% for the second quarter of 2019. It's possible that candidates may have been highly motivated to pass REG prior to the Tax Cuts and Jobs Act of 2017 (TCJA) becoming testable for examinations in 2019, partially explaining the increase.

Long-term Impact

With just over a year of testing events occurring since the revised Exam's implementation, it is impossible to predict the long-term ramifications on pass rates. AICPA's scoring system and constant content revisions virtually guarantee pass rates will continue to vary. However, with eight quarters of data to compare, overall, only FAR demonstrates any decrease in pass rates and this decline appears to have been reversed with higher performance by candidates in recent quarters.

For AUD, BEC and REG, the focus on higher-order skills appears to benefit candidates overall, with marked increases in performance apparent for each of these parts. As a new generation of CPAs is less a repository of information than skills, candidates rising to the challenge of application, analysis and evaluation provide a bright horizon for the accounting profession.

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[1]This includes tax preparation services, preparing financial statements, budgeting services and several audit/assurance services provided to clients.