

7-1987

Accounting Theory and the CPA Exam

Debra A. Bullis

William C. Kilpatrick

Follow this and additional works at: <https://egrove.olemiss.edu/wcpa>



Part of the [Accounting Commons](#), and the [Women's Studies Commons](#)

Recommended Citation

Bullis, Debra A. and Kilpatrick, William C. (1987) "Accounting Theory and the CPA Exam," *Woman C.P.A.*: Vol. 49 : Iss. 3 , Article 3.

Available at: <https://egrove.olemiss.edu/wcpa/vol49/iss3/3>

This Article is brought to you for free and open access by the Archival Digital Accounting Collection at eGrove. It has been accepted for inclusion in Woman C.P.A. by an authorized editor of eGrove. For more information, please contact egrove@olemiss.edu.

Accounting Theory and the CPA Exam

By Debra A. Bullis and William C. Kilpatrick

The Accounting Theory section of the Uniform CPA Examination may end on the November 1989 exam date. An exposure draft, "Proposed Changes in the Uniform CPA Examination," prepared by the AICPA Board of Examiners, advocates the combination of the Accounting Theory and Accounting Practice sections. The current subject matter of these two sections would be reallocated into two new sections, Accounting and Reporting — A (Business Enterprises) and Accounting and Reporting — B (Taxation; Managerial; and Governmental and Not-For-Profit Organizations). The Board has proposed the combination of the two sections because of content overlap and to "eliminate duplication" [AICPA, 1987].

The Study

The purpose of this research was to determine if the Accounting Theory section of past Uniform CPA Examinations was a duplication of accounting practices and procedures or if the exams actually tested candidates on their knowledge of accounting theory. The research consisted of:

- A. Developing criteria for differentiating between exam questions dealing primarily with theory and those dealing primarily with practice;
- B. Reviewing the multiple choice questions of the theory portions of the Uniform CPA Examinations given from May 1980 through May 1985, and classifying the questions asked on those exams according to our established criteria;
- C. Analyzing and summarizing the results of the review;
- D. Drawing conclusions about what has been done in the past and what implications

this may have for the profession in the future.

Differentiating Between Theory and Practice

To develop criteria for differentiating between exam questions dealing primarily with theory and those dealing primarily with practice, it was necessary to first differentiate between accounting theory and accounting practice. The profession has struggled in its effort to provide a central unifying theory; in the continuing process, a variety of terms, sometimes without clear definitions, have been used. The words "concepts," "principles," "postulates," "standards," "rules," "procedures," and "methods" have been used in discussing accounting theory as well as accounting practice.

Based on the criteria established, all multiple choice theory exam questions were evaluated and classified as either a theory question or a practice question.

The AICPA has had a great influence on the development of accounting theories, policies, and procedures. From the beginning, the AICPA conducted research into specific issues by appointing separate committees to find an "answer" to each practice problem that emerged. The Committee on Accounting Procedure, as the name implies, dealt primarily with questions concerning appropriate accounting treatment of specific items. However, in relation to this problem by problem ap-

proach, George May [1958] encouraged the AICPA to "issue a statement on the subject of the distinction between principles and the methods of implementing them."

The Accounting Principles Board (APB), successor to the Committee on Accounting Procedure, also issued a series of opinions on various subjects. A majority of these pronouncements dealt with specific questions of accounting treatment rather than discussing general questions of accounting theory.

At the time the APB was created, an Accounting Research Division was organized with its purpose being to reduce to writing (without regard to practice) what were considered generally accepted accounting principles. Both the APB and the Director of Accounting Research actively promoted research in an effort to establish a broad framework of accounting postulates and principles. **Accounting Research Study No. 1**, "The Basic Postulates of Accounting," and **Accounting Research Study No. 3**, "A Tentative Set of Broad Accounting Principles for Business Enterprises," were issued. After consideration, these studies were rejected by the APB because they were felt to be too different from the accounting principles which were in use at the time.

With the rejection of the above studies, the opinions issued by the APB continued to deal primarily with specific problems of presentation or calculation. Even with the rejection, the need to establish a general framework of theory was still recognized within the profession and continued to be discussed in the literature. For example, the American Accounting Association published **A Statement of Basic Accounting Theory** in which theory was described as a "coherent set of concepts explaining and guiding the accountant's action in identifying, measuring, and communicating economic information" [1966, p. 2]. And according to Robert R. Sterling, "the theory of accounting ought to be concerned with accounting phenomena, not practicing accountants, in the same way that theories of physics are concerned with physical phenomena, not practicing physicists" [1970, p. 450].

The Financial Accounting Standards Board (FASB) has been com-

mitted to the development of a theoretical framework since its inception in 1973. The FASB has explained its Concepts Statements as follows:

This statement of Financial Accounting Concepts is one of a series of publications in the Board's reporting. Statements in the series are intended to set forth objectives and fundamentals that will be the basis for development of financial accounting and reporting standards. The objectives identify the goals and purposes of financial reporting. The fundamentals are the underlying concepts of financial accounting — events, and circumstances to be accounted for, their recognition and measurement, and the means of summarizing and communicating them to interested parties. Concepts of that type are fundamental in the sense that other concepts flow from them and repeated reference to them will be necessary in establishing, interpreting, and applying accounting and reporting standards [SFAC No. 2].

The FASB considers the theoretical framework of accounting to consist of the objectives and fundamental concepts of financial accounting and reporting, separate from the procedural aspects of standards. The former, objectives and concepts, underly and give theoretical direction to the latter, standards and practices.

A consensus exists in accounting literature for separating elements of theory, which are referred to as fundamental and general, from the elements of practice, which are referred to as specific and deal with questions of presentation and measurement.

CPA Exam Questions — Criteria

In establishing the criteria by which the CPA Exam questions were evaluated, all of the foregoing information was considered. The differentiation between accounting theory and accounting practice was used to make a distinction between what constituted a theory question as opposed to a practice question. Thus, theory questions would do one or more of the following:

1. Deal with the why of measurement, recognition, and reporting as opposed to the how and when
2. Include specific references to

the concepts, postulates or principles

Practice questions would do one or more of the following:

1. Require that mathematical calculations be performed in order to answer the question
2. Ask how or when a specific amount is calculated (ex: earnings per share, depreciation, interest, etc.)
3. Ask how or when a specific item should be recognized or recorded in the accounts (ex: date of recognition, what type of account, which account is debited or credited, etc.)
4. Ask how or when specific financial statements are prepared (ex: handling inventory change on the statement of changes in financial position, etc.)
5. Ask how or when specific items are presented in the financial statements (ex: contingencies, changes in accounting estimates and principles, prior period adjustments, etc.)
6. Ask how or when specific disclosures are made in conjunction with the financial statements (ex: loss contingencies, etc.)

Review, Classification, and Results

Based upon the criteria established, all multiple choice theory

The results of the research indicate that the theory exam is not, in fact, an examination of Accounting Theory, but rather an extension of the practice exam.

exam questions were evaluated and classified as either a theory question or practice question. (The essay questions on the theory portion of the exam were not considered within the scope of this research.) A total of 660 questions were evaluated from the 11 exams, starting with the May 1980 exam and including the May 1985 exam. From the 660 questions, 600 were classified as practice-type questions and only 60 (or 9 percent) were classified as theory questions. Table 1 presents a summary of each exam with a percentage breakdown by question type.

Conclusions

In the past five years, has the profession truly required an understanding of accounting theory by those persons entering the profession? Based on this research, the answer to this question is NO! The results of the research indicate that the theory exam is not, in fact, an examination of Accounting Theory, but rather an

TABLE 1
Summary of Numerical Findings

Exam Date	Practice		Theory	
	Questions	Percent	Questions	Percent
May 1980	53	88	7	12
Nov. 1980	53	88	7	12
May 1981	55	92	5	8
Nov. 1981	55	92	5	8
May 1982	53	88	7	12
Nov. 1982	57	95	3	5
May 1983	54	90	6	10
Nov. 1983	55	92	5	8
May 1984	56	93	4	7
Nov. 1984	53	88	7	12
May 1985	56	93	4	7
Totals	600	91	60	9

extension of the practice exam. If the proposed change of combining the Accounting Practice and Accounting Theory sections of the Uniform CPA Examination takes place, one problem will have been solved — the duplication of the Accounting Practice and Accounting Theory sections of the exam.

There is the other problem of the possibility that theory will be even more ignored in the future than in the past. The total elimination of theory questions is a distinct possibility since the "Proposed Changes" plainly state that the primary purpose of the examination is to test a candidate's technical competence [AICPA, 1987].

Assuming these conclusions are true (or even partially true), what implications do they have for the accounting profession in general? They imply that the practicing segment of the profession may be without a theoretical base. It means theory, as described in this paper, is almost nonexistent where it matters the most — in the practice of the discipline itself.

In 1918, Middletech called for a theoretical development within the profession to handle the "serious and devastating" problems in accounting caused by inflation [Middletech, 1918]. Today, more than 65 years later, the same issue remains unresolved. In a professional environment as complex and dynamic as accounting, it seems only reasonable that another 65 years should not pass while long-term solutions to the serious issues confronting the profession are ignored. How else can such issues be resolved except with the help of theoretical guidance?

The total elimination of theory questions is a distinct possibility since the "Proposed Changes" plainly state that the primary purpose of the examination is to test a candidate's technical competence.

Recommendations

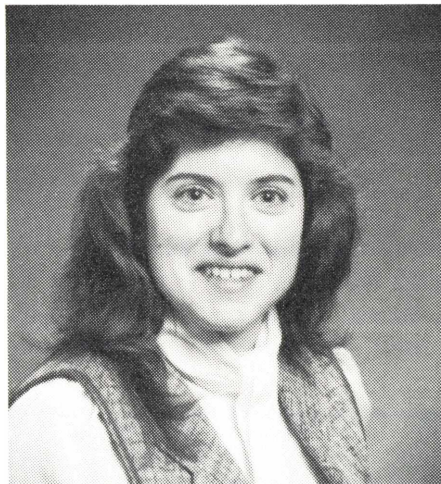
Accounting theory needs to become a more integral part of the profession. This can begin within the educational system, the great force for change in society. The gulf between academicians and practitioners must be bridged. It is recommended that the educational curriculum in universities be modified so that undergraduates have a more intense exposure to accounting theory; students of accounting must receive a more thorough exposure to theoretical principles, principles that will then be carried with them into professional practice.

It is recommended that the Accounting Theory section of the Uniform CPA Examination be continued and, at the same time, that the duplication between the Practice and Theory sections be eliminated. The Accounting Theory section should

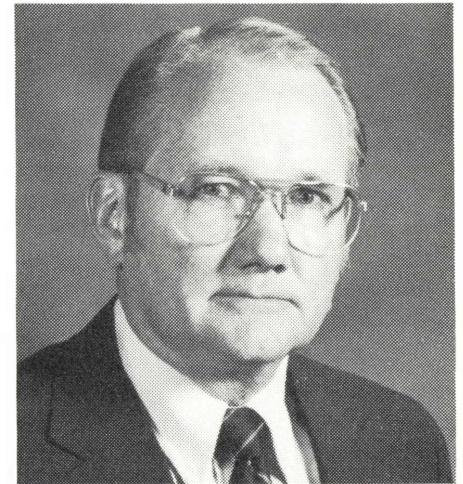
focus entirely on theory so that CPA candidates will, in turn, focus on theory. Ω

REFERENCES

- American Accounting Association, *A Statement of Basic Accounting Theory* (1966), p. 2.
- American Institute of Certified Public Accountants, Exposure Draft, *Proposed Changes in the Uniform CPA Examination* (1987), pp. 1, 8 and 19.
- Financial Accounting Standards Board, *Statement of Financial Accounting Concepts No. 2, "Qualitative Characteristics of Accounting Information"* (1980), p. i.
- May, George O., "Generally Accepted Principles of Accounting," *The Journal of Accountancy* (January 1958), p. 27.
- Middletech, Livingston, Jr. "Should Accounts Reflect the Changing Value of the Dollar," *Accounting Principles* (February 1918), pp. 114-20.
- Sterling, Robert R., "On Theory Construction and Verification," *The Accounting Review* (July 1970), p. 450.



Debra A. Bullis, CPA, is presently working toward a Ph.D. degree at the University of Texas-Austin. She received her B.A. degree from Eastern Montana College. Her practical experience includes being a partner in a local CPA firm.



William C. Kilpatrick, CPA, CMA, Ph.D., is professor of accounting at Colorado State University. He received his Ph.D. from the University of Illinois-Champaign-Urbana.