

FSA POSITION PAPER

150-HOUR EDUCATIONAL REQUIREMENT

INTRODUCTION

The practice of the profession of public accounting is regulated by law because of its significance to society. Important economic decisions are made, based upon reports prepared by Certified Public Accountants (CPAs). Vast sums are at stake and outcomes depend on the confidence that people have in the CPA who prepared the reports upon which the reliance is based. This includes meeting the qualifications to enter the profession.

Currently there are 54 jurisdictions (states, the District of Columbia, and territories) that license CPAs and each has its own unique law. These laws typically use three screens to determine those who are qualified to enter the profession; (1) examination, (2) education, and (3) experience.

Over a period of many years, the profession has adopted uniform examinations so that all candidates, regardless of jurisdiction, are subjected to a common test. Unfortunately, there is little uniformity among jurisdictions with regard to either education or experience. Recently, however, there appears to be a trend in state laws toward reducing the emphasis on education. Several model accounting bills have appeared that represent an attempt to move toward greater uniformity in regard to all requirements. Greater uniformity is important because the public has a common expectation of the work of all CPAs and because their opinions are often distributed beyond state lines.

Recognizing—even two decades ago—this need for common entry requirements, the American Institute of Certified Public Accountants (AICPA) commissioned a committee to study and propose a set of common education and experience requirements. That committee issued a report (the "Beamer Report") in 1969, which made 10 recommendations. One of those recommendations stated that "...at least five years of college study are needed to obtain the common body of knowledge for CPAs and should be the educational requirement." That same year, the governing Council of the AICPA formally adopted the Beamer Committee recommendations as policy. That policy was reaffirmed by the AICPA Council and the AICPA Board in 1978, and again in 1983.

The recognized need for uniformity in CPA laws is further evidenced by the development of several model accountancy bills including one by the AICPA and one by the National Association of State Boards of Accountancy (NASBA). A Joint Model Public Accountancy Bill has recently been approved by the governing Boards of both organizations. Each of the three model bills contains a 150-hour educational requirement. The 1984 Model Bill (the joint bill) calls for "a baccalaureate degree or its equivalent conferred by a college or university acceptable to the [state] Board and not less than 30 semester hours of additional study, the total educational program to include an accounting concentration or equivalent as determined by the [state] Board by rule to be appropriate."

In 1982, a Commission on Accounting Education was formed with two members nominated from each of four accounting organizations (the American Institute of Certified Public Accountants, the American Accounting Association, the Federation of Schools of Accountancy, and the National Association of State Boards of Accountancy). That body concluded there is "...a compelling need to move forward with the implementation of a post-baccalaureate education requirement." The AICPA, NASBA, and a number of state societies have endorsed the Commission's report and urged the profession to work for a legislative solution.

The Federation of Schools of Accountancy (FSA), a group of accounting programs that seeks to preserve the integrity of education for the accounting profession and to improve its quality, also endorses the increased education requirement as proposed in the Joint Model Public Accountancy Bill. The Federation supports the Commission on Accounting Education in its plea to move forward with implementation, as well.

In proposing 30 semester hours of post-baccalaureate education, the advocates do not intend that the additional hours of study be confined to accounting or result in a degree. Rather, the educational package should provide additional requisites for the broad-based education needed by today's practitioners. Development of these programs must recognize that:

1. The knowledge required for effective public practice of accounting has increased significantly in recent years.

2. The public expectation for performance and, therefore, the breadth of knowledge needed by the CPA profession are both expected to increase at an accelerated pace.

3. Changes which are equally dramatic are taking place in the structure and environment of accounting practice as well as in the external environment.

4. The profession is attracting relatively fewer post-baccalaureate students even though all aspects of the CPA profession—public accounting, private industry, government, and educational institutions themselves—are demanding better-qualified personnel.

Member schools of the Federation of Schools of Accountancy have undertaken a dialogue with the accounting profession through which they hope to develop appropriate model academic programs to better provide an adequate entry into the CPA profession for tomorrow's candidates.

CONSIDERATION

Progress toward implementation of the 150-hour educational requirement has been slow for many reasons, including the determination of those items discussed below.

Costs

Whenever the proposal of the 150-hour educational requirement for CPAs is put forward, there are usually four potential costs that are cited for consideration. These are the cost to society, the cost to the profession, the cost to institutional higher education, and the cost to students. Advocates agree that there will be added costs if the requirement is enacted, but they hasten to point out that these costs must be weighted against the benefits expected to be gained by the added investment before a fair evaluation can be made. They regard the cost as an investment that will, over time, generate a health return to society.

The Cost to Society. The Cost to society is usually described as "the added personnel cost to firms—for hiring students with an additional year of education—being reflected in fees to clients." At the extreme, it is suggested that these higher fees may force

some marginal companies, ones that could benefit most from the services of a CPA, to turn to some other source for assistance. It is suggested that, by so doing, the profession that has committed itself to serve society may very well be pricing itself beyond the means of those who could most benefit from its expertise.

There are, however, some factors that may offset these concerns. For example, the move toward hiring new CPAs with five years of education is not going to happen all at once. Moreover, it will affect only the new people going to work for firms. Thus, the impact will be gradual and spread over a period of years. In addition, it is anticipated that certain economies and other benefits will be achieved by hiring professionals who have an added year of maturity and have another year of education to offer. It is therefore expected that these more knowledgeable staff persons will be able to work more efficiently and with less supervision. Also, they should be more perceptive and have better analytical skills.

These new entrants should be better prepared to assume the more demanding responsibilities being placed on accounting professionals today. General efficiencies in both time and staff size are expected to be achieved. The increased use of the computer (with less emphasis on detailed pencil work) should complement this change. The possible use of paraprofessionals may also offset any higher costs of these more experienced staff persons. Through the combination of these changes, society could actually benefit by incurring lower overall costs for their audit services while at the same time gaining a better quality of service.

The Cost to the Profession. The concern with regard to the profession is related to the cost-to-society issue previously discussed—i.e., possible higher personnel costs. It is argued that, if higher personnel costs lead to higher fees and fewer clients, the profession will slip into decline. Fewer staff persons will be hired, the argument goes, because of the higher costs. The profession will then fail to attract the outstanding prospects that it needs to fulfill its commitment to society. Businesses will then seek other sources for services beyond the legally required audit, and the attractiveness of the opportunities within the profession will diminish.

A positive response to this gloomy forecast has already been provided, in part, by

the scenario described earlier with regard to the concerns for the costs to society. The improved service anticipated from the staff persons with the additional year of education may not only decrease cost but also, by providing better service, attract more business. In turn, this may very well entice even better recruits to the profession. Furthermore, the added year of education might very well not only enhance the capacities of the new staff hires to the point to which they can recognize new opportunities for service to clients but also equip them with the skills to render such new services. Thus, any tendency to smaller staffs because of greater efficiency may very well be offset by increased demand for an expanded scope of services and improved utilization of personnel.

The Cost to Institutional of Higher Education. The cost referred to here usually includes the development of sufficient, new capacity to accommodate the additional number of students remaining in school for the added year. This could include facilities as well as personnel, both faculty and administrative. There is concern about not only the added amount of resources required but also whether such resources will be available in time.

Expansion at too rapid a pace could cause at least a temporary weakening of the quality of education due to larger class sizes and a shortage of experienced or trained faculty. There is already a demand for accounting education beyond what can be readily supplied. The unmet demand for Ph.D.'s in the accounting classroom remains. In addition to the cost of expanding existing graduate programs to meet the added demand, there is bound to be increased pressure for new programs to add the extra year. The costs anticipated here are thus both qualitative and quantitative in nature.

Again, the impression conveyed by concerns about these costs is that this program of an added year will be brand new, starting from scratch. This is simply not the case. There are already many graduate programs in place which can provide the additional education with little or no expansion required. Many students go on for that extra year as part of a master's program and their number is growing as the wisdom of a fifth year of education becomes more and more evident. Similarly, many students are taking elective beyond the bachelor's requirements to help them enter the marketplace. This

means that capacity already exists to satisfy much of the expected increased demands. On the opposite side, many students may decide to go into areas related to accounting that have yet to recognize the value of the fifth year. Thus, the incremental demand for resources may not be as great as initially anticipated. In addition, anticipation of the growth of demand is already bringing into being new five-year programs as well as expanding existing ones.

The Cost to Students. The costs of a college education continue to rise. To add another year to the accounting curriculum may very well put it out of the reach of many. Without added financial aid, students capable of success in a five-year educational program may not be able to complete it, after all-for lack of funds. This problem is often thought to affect, disproportionately, minority students.

Again, the number of students who will need financial aid is not clear. Many of the students who will seek to go on for the extra year will manage it themselves, as many do now. For those who wish to go on and are capable of doing so, except for the added cost, additional means will have to be found. It is expected that firms seeking to hire personnel with the fifth year of education will find ways of providing financial assistance either directly, through new programs of professional bodies, or by work/study programs or internships. Furthermore, other new programs to expand student grant and loan funds should arise to meet whatever need might develop. It is further expected that this challenge, like the others, can be met once the need is clearly demonstrated.

The Cost of Legislation. Although not directly cited as a cost per se, but still a concern that is believed to have a cost attached, is the idea of legislating the requirement of a fifth year as opposed to having the market bring it into being. The belief here is that legislation may create the requirement before the conditions that may justify it economically have become fully apparent. Certain assumptions are inherent in the response given to the cost concerns expressed above. It is thought by some that legislating the fifth year may bring it into existence before the conditions are present for the benefits to be realized.

The counter argument to this concern is that the market need may not be recognized in time to take full advantage of the bene-

fits. For many of the reasons cited elsewhere in this document, the market mechanism may not be sufficiently powerful to respond promptly to societal needs. There are too many past examples of the ineffectiveness of the market to bring about societal change in a timely fashion. There is some justification for the belief that the market is failing to respond as quickly as it might in this case, as well.

Benefits

The Benefit to Society. Minimum educational requirements are established to protect the public against substandard performance. If these laws are to be effective, the requirements must be set sufficiently high to assure that persons holding themselves out as professionals have, indeed completed the required minimum. A number of studies have been made to determine what this minimum should be. All have come to the same basic conclusion: at least 5 years of education are required to adequately prepare a student to enter the profession. Laws which establish a lower level allow persons without the proper educational background to become certified and pose the danger of substandard performance. This poses a serious risk to both the profession and society—a risk neither should have to bear.

Some have argued that there should be no educational requirements and that entry into the profession should be based solely on an individual's score on the CPA examination. That is expecting too much from an examination. There are many more attributes that a CPA must possess than can be measured by an objective examination. For example, the profession expects a facility in written and oral communications, the ability to think and to analyze complex problems, creativity, social and behavioral skills, commitment to the profession, etc. In recent years the CPA examination has moved away from testing anything in depth and also moved from the essay and worksheet types of solutions to requiring specific answers to objective questions. Graduate education offers many more opportunities to develop these additional skills. The public must have the assurance that the CPA is a "well-rounded" citizen, capable of meeting all the high demands of today's (and tomorrow's) business world.

Nevertheless, many states have given up the experience requirement as a condition for receiving the CPA designation. There are many virtues to an experience require-

ment and such a requirement does indeed provide the opportunity to observe and nurture some of the needed attributes. The elimination of an experience requirement contributes to a less effective system of measuring who is qualified to enter the profession today. The 150-semester-hour educational requirement would provide an opportunity to cultivate and measure more of those attributes once simply left to be gained through experience.

The Benefits to the Profession. The accounting profession has traditionally attracted the best of the graduating accounting majors. Moreover, the accounting program has traditionally attracted many of the best students into the college of Business. Several changes have taken place in recent years which would indicate that the accounting profession may have increasing difficulty attracting top students into the profession in the future. First of all, accounting is facing increased competition for the better students within the College of Business from other majors, particularly finance, quantitative methods, and information systems.

Probably more important is the trend for top students to make an early career choice for graduate training. Students in high school are now counseled to take course that will enhance their chances of getting into a good graduate school. Many (if not most) of these top students enter college already planning to attend graduate school. As they look at career paths they consider only those that require graduate education. In their minds (as well as the minds of higher school counselors), the hallmark of a profession is whether it requires graduate training. If the accounting profession is to succeed in continuing to attract top students in the future, it should recognize its responsibilities to the students and move toward the adoption of a required graduate degree as demanded by a profession.

The increased liability of the profession can also be cited as a strong reason to support the increased educational requirement. It is not reasonable to argue that education alone will solve the quality control problem or that it will eliminate substandard practice. Neither is it logical to argue that all of the liability problems are the result of substandard practice. The FSA takes the position that increased education will serve to move us in the direction of better quality work and a higher standard of performance. It will be especially effective at the lower

end of the scale—i.e., to eliminate the worst performers. Much of the attention of the professional organizations has been to reduce or eliminate the liability of accountants. While these efforts should continue, it is the social responsibility of the profession to concentrate as well on how the profession can do a more effective job of meeting the public's expectations. As this is done the CPA's exposure should be reduced. Increased the educational requirement is a socially desirable way to solve the liability problem facing the accounting profession.

A cooperative approach to the development of 150-hour programs, by both the firms and the colleges and universities providing it, should benefit both. The firms would gain from reduced training time and costs devoted to basic issues while schools would have added time to fashion a more comprehensive educational experience for students.

The Benefit to Institutions of Higher Education. Schools will benefit by being able to attract better students into their graduate programs. Presently a competitive situation exists between the schools and potential employers in that both are seeking the top senior students. Recruiters, pressed to satisfy short-term staffing needs, may counsel the best students not to go on to graduate schools. These students, often lured by the prospect of immediate attractive salaries, forego an educational opportunity that would be in their long-run best interest. Legislating the 5-year requirement would eliminate this competition, at least between the firms and the educational institutions, and promote better relations between academicians and practitioners.

Possibly the greatest benefit to schools will be to encourage faculty to try new approaches to accounting education because it will relieve the pressure to crowd an ever-expanding common body of knowledge into a smaller time frame. This time-pressure has forced educators to focus on traditional courses and educational methods. With more time in the curriculum, faculties would be encouraged to explore new subjects as well as new methods. The expanded time frame should also provide for a better sequencing of courses and a better opportunity for integrating developments (such as the computer and communication skills) into existing courses.

Future practitioners must be free of a preoccupation with numbers and short-term results. They must be able to do more than

collect and organize data. They will need to be skilled in analyzing business situations and producing useful recommendations. It will take time to develop all these abilities in the classroom.

The wording of the Model Bill which states "30 semester hours of education beyond the bachelor's degree" is important in that it allows all schools now educating accountants to fit in to the new educational program, if they choose to do so. The law purposely does not specify degrees, only hours. A candidate may elect to take the necessary hours at a 4-year school, go on to a professional school, elect an MBA, or follow a number of other options, as long as the requirements of the profession are met.

The Benefits to Students. Possibly the greatest benefit of the increased educational requirement is that it is designed to prepare the potential CPA for a lifetime of successful development rather than for just an entry-level position. The 150-semester-hour educational requirement has been supported only after careful study of what a person entering the profession will need to know to practice successfully in tomorrow's complex business environment. It follows, then, that the academic community is not doing all that it could when it provides today's student with something less than the minimum education that will be needed to reach his or her potential.

The purpose of the educational experience should not be to prepare the student for just an examination either. It is, nevertheless, one of the hurdles that must be overcome before the candidate can enter the profession.

Examination-performance statistics compiled by the National Association of State Boards of Accountancy show that master's candidates perform significantly better on the Uniform CPA Examination than do bachelor's candidates. Some states already recognize this advantage by requiring less experience for master's degree holders. The extra education can also reduce examination preparation time and cost as well.

One alternative to the full 150-semester-hour requirement is to increase, to some extent, the number of hours required to get a bachelor's degree. That is precisely what some schools (and students) have done. Increased emphasis on liberal arts, the changing business environment, and the explosion in the common body of accounting and business knowledge-all have resulted in increased course requirements. These con-

ditions have combined to raise the effective requirement for a bachelor's degree well beyond the traditional 120-semester hour requirement. This seems like an unfair approach from the student's standpoint since he/she is taking substantially more credit hours than was typical 20 years ago, and yet he/she will receive the same degree as at that time. In many instances, the student even does much of the work necessary for a master's degree but has nothing extra to show for the effort.

Master's graduates command higher starting salaries than do bachelor's graduates. In addition, masters' graduates often find that their early assignments are more challenging than those of bachelor's graduates. This is particularly true in the tax and management services areas. Since professional master's programs are still in the infancy at many schools, it is too early to have reliable data on relative performance in terms of retention, promotion, advancement to partner, and related data. There is every reason to hypothesize, however, that all of these statistics will be more favorable for the master's graduate.

IMPORTANT QUESTIONS AND ANSWERS

The Nature of Additional Education

1. How much emphasis will the additional 30 hours place on technical accounting subjects, as opposed to other subjects?

The Model Bill specifies: "30 semester hours of additional study, the total educational program to include an accounting concentration or equivalent as determined by the Board by rule to be appropriate." The Bill does not, therefore, require, or contemplate that all 30 hours will be in accounting.

The FSA believes the law, and the regulations adopted by state accountancy boards should be broadly worded. Academic institutions and their business and accounting educators should have the flexibility to develop curricula for the additional 30 hours and to pursue different educational philosophies. The marketplace will ultimately test the variety of approaches. The FSA believes that the following should be emphasized:

a. **Communication Skills**-i.e., proficiency in writing and speaking abilities.

b. **Analytical Skills**-i.e., the ability to question and analyze.

c. **Entrepreneurial Perspective**-i.e., the ability to understand the needs of the entrepreneur, to create new ideas and to

develop business strategies and innovative ways to handle opportunities and/or solve problems.

d. **Interpersonal Skills**-i.e., the ability to relate on a positive basis to others.

e. **Learning Skills**-i.e., the student should learn how to learn and prepare for a life-long learning experience.

2. Will a legal mandate for a 5-year requirement place unwarranted constraints on graduate education in accounting and business administration?

No. The legal mandate for undergraduate accounting education, which exists in most states has not constrained undergraduate accounting education and there is no reason to expect that a mandate would do so at the graduate level. The issue is not whether there should be a legal mandate, as nearly all states presently have an educational requirement. The important issue is the appropriate level at which the mandate should exist.

3. Will an increased education requirement actually make the accounting profession more responsive to the public's needs and interests?

Yes. The structure and environment of accounting practice are changing. Today, CPAs offer a broader range of services than ever before. The traditional demand for large numbers of entry-level staff to perform low-level tasks is rapidly diminishing. Public expectations concerning our roles, responsibilities, and the quality of work have risen significantly. Despite these changes, available data indicate that the educational level of CPA firm partners lags behind that of client business executives.

4. How will the continuing education requirements of CPA firms be affected by the employment of persons with the increased education level?

Most accounting firms provide their employees with extensive formal training programs throughout their careers. The nature of the material covered ranges from basic concepts to highly specialized subjects that are unique to the needs of a specific firm. To the extent that any of this material would be included in the additional 30 hours, firms would no longer need to include such subjects in their training program and could reallocate those hours to other types of additional training.

The Costs

5. Will small accounting firms be able to compete in the market for the graduates of 5-year program?

Small firms typically hire experienced CPAs and are less affected by entry-level salaries. Furthermore, if the requirement is mandated by law, the competitive position of small and large firms should not change since the requirement will affect all firms similarly.

The Effect on Business Administration Programs

6. Will colleges with only undergraduate accounting programs lose accounting enrollment?

Students will still need undergraduate education and will likely continue to get the undergraduate training at the same institution that they would without a 5-year requirement. Many will choose to obtain a bachelor's degree at a 4-year institution and couple this with a master's degree at some other institution. Also, many 4-year schools may choose to add a fifth year or courses equivalent thereto.

7. Will there be an adverse effect on existing MBA and undergraduate programs?

The additional education requirements will not preempt MBA programs by forcing them to conform to specific course requirements. It is intended that the MBA programs should exist as alternative education routes for CPA candidates. The content of the addition 30 hours should be left up to the schools. The additional educational requirements will not affect existing

bachelor's programs for students who do not seek CPA certificates.

The Effect on Current Practitioners

8. Will currently licensed CPAs be forced to return to school to get master's degrees?

No. The 5-year requirement applies only to persons entering the profession (new candidates) and does not apply to persons who already have the CPA certificate.

The Supply/Demand Effects

9. How can states address the problem of the temporarily reduced supply of accounting graduates that is created by the additional education requirements?

All states that have enacted the 150-semester-hour requirement have provided a phase-in period, typically five years, to help alleviate any transition problem. One state that is currently contemplating legislation is considering phasing in the additional hours so that 10 additional hours will be required in each of 3 successive years. Over time, the economics of supply and demand should eliminate the temporary problems of reduced supply.

10. Will the increased education requirements cause the better students to elect non-accounting careers?

An increased education requirement will improve the perceived standing of accounting as a profession, and, accordingly, should attract higher caliber students such

as those who may now be pursuing law, engineering, and medicine.

11. Will an increased education requirements constitute a barrier to minorities and the economically disadvantaged?

Education requirements have not created entry barriers in other professions that require graduate education. The profession does still need to more effectively attract minorities, but that problem would not be intensified by a 150-hour requirement.

CONCLUSION

This paper has addressed the proposed 150-hour educational requirement for entry into the CPA profession. We have given a brief background, discussed the expected costs and benefits, and attempted to provide answers to frequently asked questions. Our conclusion agrees with that of most others who have carefully studied the issue: students, the profession, and society would benefit from a 150-hour educational requirement. It should therefore be adopted in all states (and other jurisdictions) at the earliest possible date. We urge educators and practitioners alike to join together and actively work through their state societies and state boards of accountancy to enact a 5-year educational requirement in their respective states. Society, students, accounting firms, and universities will all benefit from early enactment of such laws.

FSA-----

In recognition of the increasing role of accounting in our society, the Federation of Schools of Accountancy is committed to pursuing the following objectives:

- Encourage and assist in the development of quality professional accounting programs extending through post-baccalaureate degrees within universities.
- Promote, monitor, and support the development of schools of accountancy.
- Provide a forum for the exchange of views among institutions interested in a professional accountancy program.
- Encourage and support a broad spectrum of accounting research activities at member schools.