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150 Semester Hours: The Train Has Not Left The Station

By Roland Madison and Norman Meonske

Congressional criticism from Congressmen Dingell and Wyden regarding the quality of accounting practice stimulated an effort by the AICPA in the mid-1980s to restructure the accounting profession in the name of "self-regulation" as a means to improve the quality of the profession. The AICPA response was to require mandatory peer review, continuing professional education, and 150-semester hours of college education to sit for the CPA exam by the year 2,000 as part of its six point 1987 plan to Restructure the Profession (Anderson Committee, 1987). Few professional accountants or educators, including the authors, would argue against taking steps to improve the profession. While several parts of the Plan to Restructure certainly have merit, it has become apparent to the authors that the long-standing proponents of mandatory graduate education saw an immediate opportunity to extend the education of all accountants to sit for the CPA exam without providing any assurance that entry-level accountants will be better educated. The proponents included a coalition of selected members of the Federated Schools of Accountancy, the American Accounting Association (AAA), and the AICPA. These support the efforts of the State CPA societies to champion the enactment of state laws requiring CPA-track accountants to have the 150-semester hours of college education. Even though the AICPA-appointed Commission on Professional Accounting Education acknowledged that "as the commission collected evidence, the scarcity of relevant information became readily apparent" and the "lack of unified commitment to implement a postbaccalaureate requirement among the interested groups in the profession is generally acknowledged (*Implementation of a Postbaccalaureate Education Requirement for the CPA Profession, 1983*), a decision was still made to support mandatory postbaccalaureate education.

Today, many critical questions remain unanswered regarding the need and urgency to extend the education requirement without necessarily improving the quality of those desiring to enter the accounting profession. Many AICPA members who voted for the 150-semester hour requirement as a condition for new AICPA membership by the year 2,000 were not well informed on the implementation problems and education issue. For example, after careful study, the Pennsylvania Institute of CPAs Council

on May 10, 1990, passed a motion not to implement the AICPA 150-semester hour requirement in Pennsylvania even though the membership overwhelmingly voted in favor of the requirement for AICPA membership. Earlier, the concept was rejected in New York and other states. The purpose of this article is to discuss the vast implementation problems associated with requiring 150-semester hours as a prerequisite to sit for the CPA exam, the burden placed on women, and to dispel the myth that it is too late to prevent the passage or reversal of state laws requiring more education as a matter of law.

Many members of the profession are not aware that local and regional CPA firms, industry, and government agencies will be forced to compete in a shrinking and more expensive market for entry-level accounts; minorities and economically disadvantaged will be adversely affected, and those without additional education beyond the bachelor's level will be reduced to the status of paraprofessionals. Women, who now comprise one-half of all new hires into public accounting, will face a burden of needing to complete five years of college.

While the authors support appropriate education, we do not believe that broad-based support among informed accountants and educators exists for the enactment of state laws to require the additional education. Audiences of professional CPAs informally polled in Chicago, New York, Cleveland, Columbus, Cincinnati, Toledo, Indianapolis and Washington, D.C., did not support the concept once they learned how the 150-semester hour rule would work. Although the AICPA announced an 83% favorable membership vote to approve the six points to improve the profession, legal action is pending against the AICPA regarding the ballooning process. A five-member Appellate Court of the New York Supreme Court ruled unanimously against the AICPA when it refused to dismiss the case. The judges ruled that a basis for a case exists. A final favorable court ruling for the plaintiffs could add to the presumable huge legal cost incurred by the AICPA.

Restricting Entry for Women

Discussions with the two audiences comprised largely of AWSCPA and ASWA members provided verbal evidence that many would be adversely affected by the legislation at a time when the professional opportunities for entry and

advancement appeared to be improving for women. They spoke from a diverse background of personal experiences. Many women and nontraditional female students require an extended time to earn the bachelor's degree. If they were required to spend a "fifth" year in college, this additional education could require much more than a year and restrict them from an opportunity to earn CPA certificate. Many married women spoke of the additional burden of going to college at the same time many have to work and maintain a home. Single parents will face an even greater obstacle in ever reaching professional status as a CPA. These conclusions are validated by figures published in *The Ohio CPA Journal* (April, 1991) that showed only 40% of the accounting graduates with master's degrees were women. For the Master's of Taxation, approximately 30% of the Ohio graduates are female. At the bachelor's level, male graduates slightly outnumber females.

Women fill one-half of the entry level positions in the public accounting profession (AICPA 1990). The 150-hour law will potentially prevent women from joining the accounting staff as full-fledged professional unless they have earned 150 hours of college credit. These students will be chasing declining financial aid since universities do not have enough resources or graduate assistantships to support most persons for a fifth year of college. To make matters worse, accounting firms have not been willing to pay a sufficient salary differential to compensate for all of the education costs of a fifth year, nor have they aggressively recruited master's students for their audit staff. Accounting firms traditionally provide only a modest number of internships for both bachelor and graduate students. If today's practice criterion is used, most women will not be able to advance to senior accountant until they have passed the CPA exam. The only work place alternative may be that as a paraprofessional if the person holds only a bachelor's degree. The problem could become critical for many women because few public accounting firms provide reimbursement for graduate school. Many accounting firms are reluctant to give their entry-level staff time off during busy season to pursue additional education beyond the bachelor's degree.

Furthermore, those individuals accepting positions in rural locations without nearby graduate schools will experience difficulty in completing the fifth year.

Smaller Firm Squeeze

Approximately 33% of the bachelor graduates and 22% of the five-year graduates going into public accounting are hired by small firms with two to nine CPAs. These firms pay approximately 35% lower starting salaries than the firms with more than 100 professional accountants. The 150-hour law is already being viewed by students as an obstacle to entering the profession, rather than as "raising the standards" to attract qualified students. Convincing students to major in accounting for five years without a noticeable marketplace reward will be a difficult sell. Many accounting students, including the "best and brightest" will continue to switch to finance, computers, and other business related fields. The educational shifts have already occurred in Florida where the law has been in place since 1984. Similarly, many colleges will be reluctant to offer a 150-hour master's degree and risk loss of accreditation (normally 156-165 hours are required). Clearly, if the 150-semester hour requirement becomes law in all states and is not rescinded, the smaller firms will be the least capable to compete for a much smaller supply of accounting graduates without incurring substantial increases in salary levels for all members of their staff.

Many believe that the 150-semester hour law will result in false education expectations because the curriculum-neutral requirements will not provide entry-level staff with additional technical skills to be used in public accounting. The smaller firms will be forced to increase their billing rates, hire fewer qualified staff and turn to paraprofessionals. In the long run they will potentially face difficulty in serving their larger clients and in developing career staff with the ability to move up to the partner level.

The Hidden Education Expectation Gap Bomb

The AICPA is calling for more general education a broader education but is leaving it completely open as to what the additional education to enter the profession should be. The AICPA/NASBA model law allows the

CPA candidates to get any education they want – credit for basket weaving, dissecting frog, and even Jane Fonda workouts will satisfy the additional education requirements. *Nothing is excluded.* As late as June 28, 1991, in a taped speech at the national convention of the National Association of Black Accountants, Rick Elam, AICPA Vice President – Education, stated that students should receive college credit, in unspecific general education rather than technical accounting subjects. He stated that the reason for requiring more general education, rather than specific business and accounting courses, is because the AICPA does not know what certified public accountants who will be practicing in the year 2,000, or beyond, will need to know. We submit that if the leaders of the profession and educators do not know what students need for the future, how is a twenty-year-old college student who is generally interested in getting out of college as soon as possible with a high grade point average going to make the right decision on what courses to take?

Many educator are becoming concerned that the AICPA, without conducting a credible impact study, wants to restructure the education curriculums without broad participation from all educators. Anyone who has been around college students will vouch that, with few exceptions, students will frequently opt for easier courses that offer the higher grades with less work in order to have the necessary high grade point to get a job in public accounting. All accounting educator, not only those from the Federated Schools of Accountancy, must make the hard decisions and establish high education standards in cooperation with the practice community that serve the entire accounting profession. What started as a Beamer Committee recommendation to require a master's degree with a concentration in accounting has evolved during the last thirty years into nothing more than a higher education hurdle that provides no promise that the graduates entering the accounting profession in the year 2,000 will be any better prepared to work as public accountants than today's graduates.

Although the Soviet Union recently startled the world by recognizing the role of the marketplace in the allocation of economic resources, the 150-semester hour law proposes to

completely replace the capital market with laws made by the state. AICPA data reflecting the choice of the market place reveals that hiring of bachelor's degree entry-level staff have outnumbered advanced degrees by a nine to one margin every year for the last fifteen years. From 1972 to 1988 the number of bachelor's graduates hired into public accounting increased by 245% while the master's graduates increased by only 2%. In fact, the AICPA reports that 14% of all graduates hired into public accounting hold non-accounting degrees. NASBA statistics show a declining trend of first time candidates with advanced degrees sitting for the CPA exam. In November, 1975, 15.6% of the first time candidates held an advanced degree, as compared to only 9.5% for the May, 1989, exam.

May public accounting recruiters believe that even the \$500 to \$1,500 incremental starting salary offered to advanced degree holders who join the audit staff is not justified. Their perceptions are supported by a landmark study of the Florida 150-hour law that evaluated the impact on public accounting practice after four years of experience. The results published in the March, 1989, issue of the *Accounting Horizons* revealed that few of the benefits the proponents hoped for have materialized. Furthermore, CPAs in Florida did not even achieve the egotistic wish of raising accountancy to the professional status of that enjoyed by the legal or medical professions.

Addressing the Performance Issue

The real test of requiring additional education is to determine if the incremental benefits realized exceed the additional costs. If students, colleges, and society must bear the substantial education cost to obtain a professional credential, then there must be assurance that the hoped-for benefits will emerge. It is one thing to merely state that additional benefits will occur; and it is yet another to prove that these hoped-for benefits will in fact materialize. The burden of proof rests with the advocates. The time for glib promises, rhetoric, AICPA and state society managed propaganda, and selective statistical reporting containing half truths has passed. As the year 2,000 approaches, more educators and accountants will

closely examine the evidence and issues.

One of the most credible research studies focusing on the relationship of on-the-job performance and level of education was conducted in 1988 by the President's Council on Integrity and Efficiency. One of their major conclusions was that "job performance at the entry level was not different for auditors with graduate degrees as opposed to those with only undergraduate degrees." The current certification process appeared to be working because auditors with the CPA credentials received higher job performance ratings than the uncertified auditor. William H. Reed, Director of the Defense Contract Audit Agency, in a letter to the Chairman of the AICPA Board of Directors, suggested the AICPA reconsider the 150-hour requirement and recommended that the AICPA "focus on improving the four-year curricula and education beyond the entry level." Reed also said:

"Students should not be discouraged from studying accounting by having an additional year added to the degree requirements. By assuring that they get a good four-year college education, including accounting study sufficient to pass a comprehensive examination and perform entry-level tasks, employers can build upon that base with specialized training and other continuing education."

According to Professor Nathan Garrett, a Yale graduate who is a member of the Accounting Education Change Commission and member of North Carolina Board of CPA Examiners, "the additional hours will be mostly in non-accounting courses." He expressed concern that the "implementation of the 150 hour requirement will create a barrier for the economically disadvantaged." He suggests that four-year graduates should be permitted to sit for the Uniform CPA Exam, but their license should be withheld until an extended education requirement is met. Hawaii, which also has the 150-hour requirement, permits the substitution of one month of experience for each semester hour of college credit (beyond the bachelor degree) as a alternative for one who attempts to obtain the CPA certificate.

The Train Has Not Left the Station

Advocates of the 150-semester hour requirement would like everyone to believe that legislative action to adopt an extended education requirement to enter the profession is a done deal that the "train has left the station." Nothing could be further from the truth. A careful strategy has been used to get the legislation adopted in southern states where the Federated of Schools of Accountancy have an influential presence. Florida fought an eight-year battle and perhaps spent nearly a million dollars to get the legislation passed in a coastal state that has a history of wanting to restrict the CPA license. A limited amount of opposition was able to stop the legislation in other states such as New York, Minnesota, Colorado, Missouri, Pennsylvania, and Indiana. Additional legislative initiatives to reverse the 150-semester hour legislation before the year 2,000 may occur when some of the sunset reviews occur in the seventeen states that have passed the legislation to date. There is nothing special about the year 2,000.

Everyone has a responsibility to become aware of the status of the 150-semester hour legislation in their respective states and make their views known to members of the legislature. The authors agree with a growing number of accounting professionals that the rush to pass state laws requiring a fifth year of college should be halted until the alternatives have been objectively evaluated by a broad base of accountants from the entire academic community, local and national accounting firms, government and industry. Additionally, we believe that the 150-hour legislation should be placed on hold until at least two-thirds of the new hires sought by accounting firms hold advanced degrees; until then, the marketplace should be permitted to work and the artificial barriers to enter the profession should be removed. Accountants should become well informed on the issues. Readers who need additional information are invited to contact the authors.

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