

# **DRAFT**

**Education and Licensure Requirements for Certified Public Accountants: *A Discussion Regarding Degreed Candidates Sitting for the Uniform CPA Examination with a Minimum of 120 Credit Hours (120-Hour Candidate) and Becoming Eligible for Licensure with a Minimum of 150 Credit Hours (150-Hour Candidate)***

***(120/150 Discussion)***

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## *Foreword*

This paper considers the issues surrounding the educational requirements for candidates to sit for the Uniform CPA examination. Forty-eight boards of accountancy require candidates to earn 150 hours of education for licensure (five of which permit a path for licensure with less than 150 hours under certain circumstances). Typically, boards have required candidates to complete their educational requirement prior to sitting for the examination. In the past few years, some boards have revised their educational requirement model to allow candidates to sit at less than 150 hours of education, i.e., 120 hours, with the condition that they continue their educational requirement and become licensed when they have received 150 hours. Other boards are considering this 120/150 model. Therefore, after years of debating the need for requiring 150-hours; a new debate has begun. Should candidates be permitted to sit for the exam with a minimum of 120 hours? What are the benefits; what are the negatives as relates to the public interest? NASBA's purpose for delving into this is to provide boards of accountancy with a comprehensive look at the issue. Boards of accountancy are stewards of the public interest, and many times a debate can be distilled to that of public protection. Providing an empirical measurement of the effects of an educational requirement vis à vis the public protection is a continuing challenge. What is practicable is to take this issue and research it from many angles to provide a solid understanding of its implications. Hence, the word "discussion" in the title.

For many reasons, NASBA has supported the 150-hour requirement for licensure. Our support of that requirement is not in question. However, we must seek to know, based on available evidentiary documentation, if testing for the CPA exam at less than 150 hours harms the public or, more positively, is beneficial to the public. Our purpose, as always, is to enhance the effectiveness of state boards of accountancy. We hope that this paper provides insights which achieve that purpose.

David A. Costello, CPA, President & CEO, NASBA

## I. Introduction

Adoption of the 150-hour requirement was not done in haste. The quest for the 150-hour education requirement goes back to the time when NASBA was called the Association of CPA Examiners and the American Institute of Accountants (AIA) was still not a part of the AICPA. The requirement was brought about by many factors, including: the expansion of client services, the growing application of information technology (electronic data processing), the increase in accounting pronouncements, the recognition of the value of formal education over informal experience, and the desire for the recognition of accounting as a profession at least as demanding as law, engineering and architecture.

Concurrently, as a result of considerable changes in the complexity of the profession through the years, the examination requirement evolved from a baccalaureate degree to a baccalaureate degree and a total of 150 semester hours. Although the 150-hour requirement is solidly in place, as almost all states have enacted legislation to put it into law, state boards of accountancy are revising their statutes to allow candidates to sit for the examination upon completion of approximately 120 hours or when they are close to the completion of their educational requirement. These boards continue to require 150 hours for licensure but have justified allowing candidates to be examined prior to the completion of their educational requirements.

The purpose of this paper is to explore and research this topic and address some of the many issues which surround it. First, we look at the history of the 150 hour requirement to understand its genesis; then we review and provide an analysis of the current educational requirements; based on survey responses provided by boards of accountancy we provide a review of the 120 hour to sit/150 hour to license model including benefits to allowing candidates to sit at 120 hours; based on statistics gleaned from the National Candidate Database, we provide a short analysis of passing rates on the CPA Examination in the states that allow candidates to sit at 120 and license at 150; and finally, we provide a short summary.

NASBA has undertaken this project as a service to its constituent members, the 55 State Boards of Accountancy. Boards of accountancy are the sole stewards of the CPA license. Inherent in boards' existence is to provide the appropriate entry requirements into the profession in order to ensure public protection. Boards must not only consider the most appropriate educational prerequisites in the protection of the public, but the effects of entry requirements on academia, accounting firms, and CPA candidates, who bear the responsibility of the future of the profession.

This issue is currently relevant because 19 state boards (AK, AZ, CT, FL, GA, HI, ID, IA, KY, MA, ME, MI, MN, NC, NJ, PA, RI, SC, VA) now allow candidates to sit for the examination at 120 hours while requiring 150 hours for licensure. Moreover, an additional ten state boards allow candidates to sit for the exam with either less than 150 hours (CNMI, GU, MT, NM, OH) or allow candidates to sit before they have completed their 150 hours with varying time limits in which candidates must complete their educational requirements or provide proof of completion (MO, ND, SD, TN, WA). This educational model raises many questions for state boards and other stakeholders:

- Does the 120/150 model ensure that boards are maintaining their public protection responsibility?
- Does this model increase the number of candidates entering the profession?
- Does this lesser educational requirement for sitting for the examination provide greater opportunities for women and minorities?
- Does this model assist candidates with the costs associated with becoming a CPA?
- Is the number of candidates entering the profession a public protection issue for boards?

This paper provides research, some statistical data and anecdotal information to make available a starting point for a serious look at the educational requirements necessary for sitting for the Uniform CPA Examination.

## II. History of the 150-Hour Requirement

Throughout the 1950s state boards heard speakers at their annual meetings describe the need for improving accounting education. The Carnegie Foundation, with additional funding from 36 states, created the Commission on Standards and Experience for Certified Public Accountants that produced a report in August 1956 favoring the requirement of a graduate degree for accountants. At the time, this was a fairly drastic recommendation as only three states, Florida, New Jersey and New York, required CPA candidates to have graduated from college; while in Mississippi, the only educational requirement was completing a study of accounting-related topics, which could be done through a correspondence course.

The Commission's findings underscored "the trend in most professions has been to qualify, first, through experience only, later through a combination of experience and formal educational training, and eventually through formal education alone." This path is illustrated in Glenn Van Wyke's book *The Struggle for Status: A History of Accounting Education*<sup>1</sup>, which tracks the profession's evolution from the 1880s to the 1990s. In the last half century, Dr. Van Wyke says accounting education went through: (1) the apprenticeship stage, (2) the proprietary school stage, (3) the university stage, (4) the pre-professional stage, and (5) the post graduate stage.

"Our problem then becomes one that is familiar to all accountants and particularly to cost accountants. How great a cost in terms of time and effort can a young man [or woman] afford to spend in formal education and how much should be left to be obtained through self-education and experience? Once this is decided, the next important question to be resolved is this – which parts of the desired level of general and technical education can best and most efficiently be handled formally and which parts are more efficiently left to self-education or to experience and on-the-job training?" asked William W. Wertz,<sup>2</sup> not in 2008, but in a paper he delivered in August 1960. He was a partner of Touche, Ross, Bailey & Smart, which was melded into the firm now known as Deloitte, but his questions linger on.

In 1979, Florida became the first state board to adopt the 150-hour requirement to sit for the CPA examination, with an implementation date of August 1, 1983. Florida proudly pointed to its higher pass rate once the 150-hour requirement was in place. Douglas A. Snowball, Associate Dean of the University of Florida's Fisher School of Accounting, noted before 1983, the pass-rate for Florida's first-time candidates was around 14 percent. But, "Since 1983, the passing rate has not been below 32 percent, and the State

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<sup>1</sup> Van Wyke, Glenn – *The Struggle for Status: A History of Accounting Education*, Garland Publishing, Inc., 1994.

<sup>2</sup> Wertz, William W. – "Accounting Education and the Ford and Carnegie Reports," paper presented at the annual meeting of the American Accounting Association at the Ohio State University on August 30, 1960, published in *The Accounting Review*, Vol. 36, No. 2 (April, 1961).

has been recognized every year as an honor State.<sup>3</sup> In 2006 (the most recent year for which statistics have been published), Florida had a 39.32 percent rate for first-time candidates passing all parts taken.

Henry R. Anderson, of the University of Central Florida, wrote that the Florida Institute of CPAs had set the following objectives for the requirement:

1. To provide an academic background that will support the knowledge expansion of the profession over a person's career span.
2. To broaden the person's knowledge in areas of study that is peripheral to the accounting discipline.
3. To increase the accounting expertise of the individual.
4. To increase the overall standards of entry into the accounting profession.
5. To increase levels of personal integrity and professional ethics.
6. To increase commitment to the profession by those preparing for entry.
7. To enhance the communications and interpersonal skills of new professionals.
8. To increase the success rate on the CPA Examination.
9. To provide an educational background that is comparable to that of clients who have increasingly higher and more sophisticated ideas and levels of competence.
10. To attract the best and brightest students into the profession.<sup>4</sup>

A 1982 poll which drew responses from 82 percent of the Florida Institute of CPAs' members found 68.1 percent in favor of CPA candidates having a baccalaureate plus at least 30 hours of education to sit for the Uniform CPA Examination.<sup>5</sup>

By October 1984, Belverd E. Needles, Jr., then director of DePaul University's School of Accountancy, wrote in the Federation of Schools of Accountancy's newsletter that the

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<sup>3</sup> Snowball, Douglas A., "When the 150 Takes Effect," *New Accountant*, September 1990.

<sup>4</sup> As reported by Hensler, Emil J., Jr., "Implementing the 150 Hour Accounting Requirement," *Mid-Atlantic Journal of Business*, January 1, 1990. Quoting Anderson, Henry R., "The 150-Hour Requirement: Florida's Experience," *The CPA Journal*, July 1988.

<sup>5</sup> *NASBA State Board Report*, January 1985

undergraduate accounting curriculum was about to “burst” because of pressure coming from five sources<sup>6</sup>:

1. Students are expected to be more broadly educated in general as well as in the tool areas of management.
2. The enormous increase in the amount of authoritative accounting literature that students must learn.
3. The American Assembly of Collegiate Schools of Business’ revised sequence of accounting courses, which forced students to take more accounting courses in their junior year.
4. The CPA examination has changed from an examination on which knowledge of actual practice situations played an important role in passing the examination to an examination that is much more textbook-oriented and to one based primarily on one’s knowledge of authoritative literature in auditing, accounting, and taxation.
5. The increasing presence of the computer in business and society.

While academicians saw the need for expanding the length of their programs, whether or not that should be legislated into a requirement for CPAs was another matter. For example, the Executive Committee of the American Accounting Association supported “the view that the desirable education can seldom be obtained in four years of university study,” and they also noted that 150 hours was a reasonable expectation, but they stopped short of recommending any one path of education.

The Commission on Professional Accounting Education argued in favor of legislating the 150-hour requirement. Their July 1983 report stated: “The sole purpose of a legislated education requirement is to add to the degree of assurance of competent services provided to the public. If the education of CPAs is left to a free market solution, the public cannot be assured that the production of auditing services will be adequate.”<sup>7</sup>

About the same time, a study on “Involvement in Learning: Realizing the Potential of American Higher Education,” by the Study Group on Conditions of Excellence in American Higher Education, concluded: “Students are not likely to accumulate in four years both the generalized and special knowledge necessary for first-rate performance as professionals. This fact has long been acknowledged in baccalaureate degrees in architecture (most require five-year or six-year programs), and in many undergraduate programs in engineering (which offer five-year options).”

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<sup>6</sup> *NASBA State Board Report*, January 1983

<sup>7</sup> *NASBA, State Board Report*, “AAA Supports 150-Hour Education Without Legislative Mandate,” March 1985.



The AICPA took a significant step in 1988 when its members passed the “Plan to Restructure Professional Standards,” which included updating their Bylaws to require that new members after 2000 would need to have completed 150 hours of college education. The plan was supported by 83 percent of the approximately 200,000 AICPA members who voted. Dr. Rick Elam joined the AICPA’s staff in 1989 as its Vice President – Education, and became a leading spokesman for the profession’s move to the 150 hour requirement. When he was asked in 1992 for the single most compelling reason for adopting the 150 hour requirement<sup>8</sup>, he responded: “The only reason for licensing and regulating certified public accountants is to protect the public from incompetent individuals who might attempt to sell auditing services to the public. CPAs are regulated throughout the industrialized world because no economy can operate without properly-prepared financial information that is independently attested to by outside auditors. The complex business environment of the future necessitates CPAs with at least 150 semester hours of college education.”

While members of the profession, educators and regulators were coming to the conclusion that more than a baccalaureate was called for, exactly what that education should contain was not agreed upon.

Richard J. Goode, NASBA Vice Chair, wrote in 1990: “The AICPA and NASBA are developing model rules to implement the 150-hour education provision that call for a broad-based accounting education, including communication, writing and other skills, and less of a focus on additional accounting hours. These rules will enable ‘non-traditional’ accounting students to enter the profession. For example, a student with a liberal arts undergraduate degree who obtains an MBA with an accounting concentration would be able to meet the requirements.

“The danger is that states will stick with the tried and true. Some states that adopted 150-hour laws have used the additional hours of education to significantly expand the number of accounting hours students must take. If states continue to adopt vastly different education requirements, the result will be restrictions on interstate mobility of young CPAs entering the profession. This would act to further discourage student interest in becoming accountants,” Mr. Goode predicted.

Nathan A. Garrett (who would become NASBA’s Chair) in a 1990 interview<sup>9</sup> expressed concern that the “implementation of the 150 requirement will create a barrier for the economically disadvantaged.” Consequently, Mr. Garrett urged legislation that would permit four-year graduates to sit for the Uniform CPA Examination but would withhold

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<sup>8</sup> *New Accountant*, “In Support of 150 Hours: An Interview with Rick Elam,” September 1992.

<sup>9</sup> *New Accountant*, February 1990.

their license until the 150 education requirement was completed, in this way allowing for part-time education while the candidate was employed.

Accountants in industry were also among those encouraging flexibility in the 150-hour requirement. Accountants could begin work in the corporate sector, study part-time and take the CPA examination well after they receive their baccalaureate. Steven Berlin, who was a member of the Accounting Education Change Commission as well as Chief Financial Officer of CITGO Petroleum Corporation, commented: “We must provide for flexibility in obtaining the 150 hours. Various models can be developed and should be encouraged. CITGO Petroleum Corporation, like many corporations, provides tuition assistance to employees taking company relevant courses. Bachelor’s degree graduates hired directly out of school who pursue the additional 30 hours, most likely at our expense on a part-time basis, should not be viewed as second class accountants. A strong liberal arts major should be able to obtain the technical accounting needed to pass the CPA exam in 30 hours of additional course work that may not lead to an additional degree. It is important to remember that the 150-hour requirement is not a master’s degree requirement; only an hour requirement.”<sup>10</sup>

Mr. Berlin strongly discouraged a model for the 150 that “provides for a bachelor’s degree in accounting and then a master’s degree also in accounting. This may have some value to students who know they want to be permanently technically oriented, perhaps spending their careers as tax researchers. However, if that graduate has goals in the corporate area outside of tax and technical audit staffs, he is wasting valuable education hours.”

The 150-hour requirement was interpreted differently to different people: To some it was a way to have better rounded entry-level CPAs, while to others it was a way to guarantee more technically trained entry-level CPAs. All recognized the need for CPAs to engage in career-long learning, but exactly what was needed to be learned before entry into the profession was not clearly defined.

Entry-level requirements into the accounting profession, i.e., minimum competence, were not fully addressed in the literature which supported the 150-hour educational requirement. This seems a bit incongruous, because the minimum competence standard -- not the quest for the best and the brightest—is the public mandate of state boards’.

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<sup>10</sup> Berlin, Steve, “Opportunities Now,” *New Accountant*, September 1990.

### **III. Accounting Education Requirements and the Uniform Accountancy Act (UAA)**

The Uniform Accountancy Act (UAA) is a model piece of legislation created for state boards as a tool that assists them in developing legislation. The UAA could be adopted totally in place of existing state laws, in part, or with appropriate amendments, be added to existing laws. Because the differing requirements for CPA licensure among the state boards creates artificial barriers to interstate practice and mobility, the UAA is an effective tool in eliminating these hurdles through the standard of “substantial equivalency.” Substantial equivalency is a determination that the education, examination and experience requirements contained in the statutes and administrative rules of any state or jurisdiction are comparable to, or exceed, those requirements contained in the UAA.

Section 5 of the UAA, “Qualifications for a Certificate as a Certified Public Accountant” describes a set of model requirements which includes a 150-hour educational requirement and the passing of the Uniform CPA Examination. Currently, 48 states are substantially equivalent to the UAA and require 150 hours for licensure; however some of these 48 boards provide other tracks for licensure. The UAA does not address the 120/150 issue, nor does it address the myriad other requirements promulgated by boards that define the 150-hour educational requirement. These differences range significantly among course requirements. Some boards list specific numbers of accounting and/or auditing semester hours; some boards go a step further and require specific courses at specific levels; and other boards trend towards a broad-based liberal arts/humanities course requirement once the 120 hours of undergraduate accounting work has been completed. Hence, although only seven boards are “non-UAA,” in reality, because each board has a unique definition of the 150-hour educational rule, the 48 boards that require 150 hours are not at all uniform and as previously mentioned, provide different paths to licensure.

A research paper entitled “Is the Uniform Certified Public Accounting Exam Uniform?” by Richard D. Griffin, Ph.D., CMA, B. Wynne Griffin, CPA and Robert L. Putnam, Ph.D., CPA, compares and contrasts the boards’ many differences in minimum education requirements, accounting requirements, semester hours needed for licensure, business course requirements, and minimum education to sit. Just a quick review of the tables presented in the paper immediately provide an understanding that the educational requirements among states are vastly different and the 150-hour educational requirement can be a completely different course of study between states.

(The aforementioned research paper may also be found on NASBA’s Web site at [www.nasba.org](http://www.nasba.org) under the News tab.)

#### **IV. The 120 Hour to Sit/150 Hour to License Educational Model**

There are now 48 boards of accountancy which require candidates to earn 150 hours of education for licensure (five of which permit a path for licensure with less than 150 hours under certain circumstances). Twenty-nine of these states permit a candidate to sit for the CPA exam before they have completed all 150 hours (with variations on the specific requirement).

When a majority of the states were changing legislation to include 150 hours of education to sit for the exam and be licensed, a few states, e.g., North Carolina, Arizona and Iowa, amended their rules to include the additional education for licensure but never passed legislation that required 150 hours of education to sit for the exam. The most recent inclination, however, is to change the legislation that requires 150 hours of education to sit for the exam, back to 120 hours, but keep the increased education for licensure.

There are, of course, still many states that require 150 hours to sit for the exam as well as be licensed. Although they have not amended their rules as of May 2008, a number of these states are currently debating the educational requirement to sit for the exam. It is expected that some of these states will amend their rules to allow CPA candidates to sit for the exam at less than 150 hours of education.

It is important to note, however, that despite what level of education is required to take the exam or be licensed, specific course coverage is likely to continue to be included in each state's requirement. Additionally, the rules regarding professional experience are also very diverse. Coupled with the various education requirements, this makes numerous combinations of requirements with very few consistencies between states. As a result, virtually every state has unique requirements to be a licensed CPA.

Speaking with public accountancy board members in states which retained the 120 hours to sit for the exam, while increasing the education requirement for licensure, revealed consistent rationale among the states. These boards did not want to exclude candidates from sitting for the exam due to the time and monetary factors involved with the increased education. Further, these boards believed that the examination content does not justify a requirement of 150 hours for passing. The recollection of these board members does not include any factions within these states that opposed retaining the lesser education requirement to sit for the exam.

A larger population of states had implemented a 150-hour requirement to sit for the examination and then repealed it, while maintaining the educational requirement for licensure. It is important to note that in discussions with various state board members, all indicated that there were no opposition groups to this change. A Georgia board member indicated that both empirical evidence and anecdotal evidence from accounting firms gave no indication that the increased education had improved candidates' exam performance. For those states that currently require a 120-hour education requirement to sit for the exam, board members who responded to the question, believed that the exam was in fact focused on material in undergraduate accounting programs. Candidates are as likely to pass the exam coming out of an undergraduate accounting program as a graduate accounting program. By far, however, state boards that switched to 120 hours most commonly cited the rule changes was to decrease the loss of candidates taking the exam. Almost universally, of the state boards that responded to the question, exam candidates

decreased significantly with the 150 hour requirement, even though the number of accounting majors was increasing. Therefore, an unacceptable number of accounting graduates were not taking the exam or being licensed. In order to entice people into the profession, some states switched to 120 hours to sit for the exam. Border states began losing even more candidates as their accounting majors took the exam in the reduced requirement state<sup>11</sup>. As a result, many border states began changing their requirements to allow candidates to sit at 120 hours, which spread the trend in pockets of the country.

Although most states did not have transcripts of board or legislative hearings on this issue, some states did have data. Like many states, the supply and demand curve was preventing firms from insisting all new hires have 150 hours of education. In 2004, of the 19,700 new hires in Massachusetts accounting firms, 70 percent, or 13,790, held only a bachelor's degree. In 2004, the number of successful candidates in Massachusetts was approximately 200, down from an average of 500 per year in the previous three years. The reduced education requirement in Massachusetts was effective as of January 1, 2007. In 2007, the number of successful candidates rose to over 600.

Connecticut also cited some evidence of reduced numbers of successful candidates. The Connecticut Society of CPAs estimates that the average number of candidates successfully completing the exam dropped from more than 200 in early 2000 to approximately 100 in 2004 and 2005. In a survey to state boards, of those that responded, 58 percent indicated an adverse affect on the number of exam candidates with the 150 hour requirement. Furthermore, 78 percent of respondents believed the reduction will affect the public interest. North Carolina, a state that did not increase the education requirement to sit for the exam, never saw a decrease in either exam candidates or successful completions.

Many states that changed requirements indicated that the best time for a candidate to take the exam is between their undergraduate degree and their first busy season. This will make the profession more attractive to them as they have the requisite body of knowledge to be successful but have not yet become immersed in the demands of a career in public accounting. The AICPA also confirms the exam is viewed as an entrance exam, "The Uniform CPA Examination is a licensure examination, the purpose of which is to admit individuals into the profession only after they have demonstrated entry-level knowledge and skills necessary to protect the public interest in a rapidly changing business and financial environment."<sup>12</sup> Because the exam does not focus on any specialties, candidates will be most familiar with the exam topics at this point in time. When they begin their careers, or are in graduate school, they may begin to focus on specific areas of expertise and become farther removed from the general knowledge required on the exam.

In discussions with state boards that have reduced the education required to sit for the exam, we are not aware of any opposition groups that came forward during public discussions. However, there was one potential concern that has been voiced<sup>13</sup>. Since the

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<sup>11</sup> Anecdotally, many of these students completed their education and got licensed in their original states; they were just interested in taking the exam earlier.

<sup>12</sup> AICPA. 2008. Proposed Content and Skill Specifications for the Uniform CPA Examination. Exposure Draft, p. 1.

<sup>13</sup> One other concern arose in discussion with various stakeholder groups, although it is not directly related to sitting for the exam at 120 hours. When the 150 hours of education was required in many states, they dropped or

exam is a requirement for entrance into the profession, it is assumed that a candidate be current in professional knowledge when being licensed. Therefore, when candidates pass the exam, and then get their experience requirement (if necessary), they will be up-to-date in the profession when applying for licensure. If a candidate is allowed to sit for the exam then get their last 30 credit hours of education required for licensure without a time limit, there is no assurance of currency. For instance, candidates could pass the exam and then complete their education requirement many years later. To address this issue, Massachusetts incorporated a time requirement between passing the exam and being licensed to ensure that entry-level CPAs are current when entering the profession. Alternatively, Iowa requires that license applications that have more than three years between completion of the exam and licensure complete at least 120 hours of continuing professional education. Lastly, one of the concerns with the computer based exam is that candidates procrastinate taking the exam. If there is no time requirement to complete the additional education, they will simply be trading one procrastination (taking the exam) with another (completing their education).

Although many states that have reduced the education requirement to sit for the exam have reported a surge in exam takers, for many of these states the rule changes have been relatively recent. Therefore, due to the lack of data, it is difficult to determine if the number increases will be sustained in the long-term. Additionally, it is difficult to determine to what extent the numbers are influenced by confounding factors.

If the number of CPA candidates begins to decrease there is a potential threat to the ability of boards to protect the public interest. The number of CPA candidates is one of the most important concerns of the profession today. A reduced number of candidates entering the profession, not only limits the amount of work that can be accomplished, but does not promote a healthy competitive environment.

Discussions with CPA candidates and partners and directors of public accounting firms provided many consistent themes. Their analyses of the benefits of the 120 hour requirement included the following:

- The exam is academic and geared towards undergraduate textbook material.
- Candidates have more time at beginning of their career or before their start date to study for the exam.
- Graduate education is much more valuable when some work experience has occurred first; if the exam is taken while work experience is acquired, graduate education will be much more meaningful.
- This scenario offers more flexibility : candidates can arrange work, education and sitting for the exam into what works best for their particular circumstances.
- Undergraduate students feel encouraged and ready to sit for the exam soon after completing relevant course work.
- Is consistent with state legislation mandates of entry level requirements attracting candidates with minimal competence criteria and not catering only to the “best and brightest.”

Although there is overarching support among these stakeholders for the reduced education requirements to sit for the exam, these same stakeholders had some concerns:

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lowered the experience requirement. Some people viewed licensing of individuals without experience to be a disservice to the profession.

- There is an increased expectation by the accounting community to pass the exam immediately after the undergraduate degree is completed.
- There is a level of frustration that the rules keep changing and students are being caught between rule changes.
- Work experience does help with exam content in some instances.

Of the states that have changed their education requirements, the positives of switching the rules have overwhelmingly outweighed the negatives. As a whole, stakeholders in these states have supported the change, even though there were some disadvantages noted.

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## **V. Review of Passing Rates in States with 120-hour Candidates**

We studied national data from 1996 through 2006 at the national level and for the 16 states that had switched to 120/150 regulations by 2006: AZ, CA, GA, ID, IL, ME, MD, MI, NE, NM, ND, VI, WY, KY, MA, SC. It is important to note that during this time period the format of the exam switched from a paper based test (PBT) to a computer based test (CBT) as of April 2004. The CBT passing rates are reported on an annual basis and the PBT passing rates were reported semiannually (May and November). Before analysis can be completed on the effect of the 150 hours of education requirement it is important to know the effect of the format on the exam passing rates. On a national level, the passing rate for the PBT (all sections) is 30.67 and the CBT is 41.76. The significant difference holds when analyzed by exam section. The rates were similarly analyzed at the state level and CBT passing rates were consistently and significantly higher in each state for all sections as well as by exam section. Therefore, the following analysis controls for the different formats of the exam.

State passing rates were analyzed by section and the number of hours of education required to sit, while controlling for format of the exam, state, and year. Results show that state passing rates during time periods when 150 hours of education were required to sit for examinations are not higher than those achieved by candidates sitting for examinations in states that permit a minimum of 120 hours. As a matter of fact, for all sections, the time periods with 150 hours of education required had a lower passing rate, which was statistically significant on the audit and financial sections. As mentioned previously, the CBT format results in significantly higher scores. State also has an impact on scores in all four sections, meaning some states score higher than others. Lastly, year is also significant in the audit and business sections, meaning those scores have been increasing slightly over time.



## **VI. Summary**

Any aspect of accounting education and the Uniform CPA Examination inspires a great deal of discussion and debate by academia, the profession and boards of accountancy. So it is with the 120 to sit/150 to license issue. This paper does not debate the 150-hour requirement for licensure. The deliberation is simply whether sitting for and passing an examination at a minimum of 120 hours and subsequently fulfilling the 150-hour education track is harmful in any way to the public, which is the only legislative interest. We have attempted to present factually and objectively the information relative to the subject; and offer this summary devoid of the emotions and opinions generally offered as support for either position. We have found no evidence of detriment to the public interest in those states allowing candidates to sit for the CPA examination at less than 150 hours of education and later fulfilling the 150 hours. We invite you to offer empirical evidence in support of or in opposition to our conclusion. We will continue to monitor the situation closely.

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