

150 hours: Strike, spare, or split?

150-Hour Preparation Improves CPA Exam Performance

By William J. Read, K. Raghunandan, and Clifford Brown

Statistical Evidence Shows Value of Additional Education Requirement

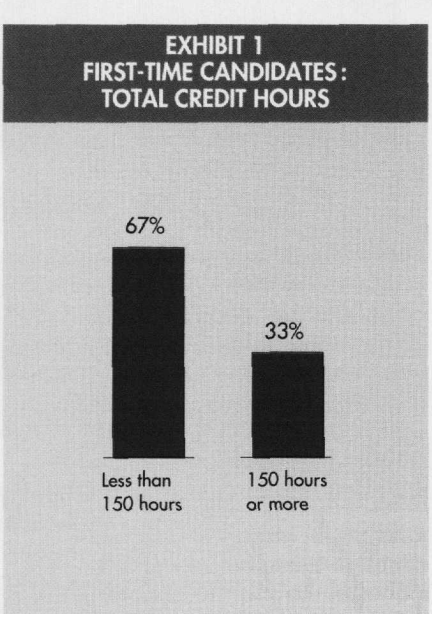
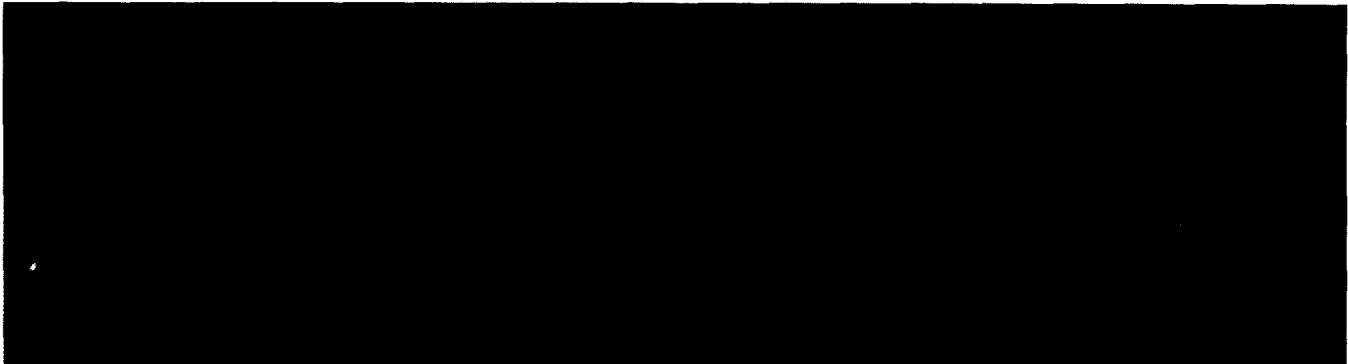
The 150-hour education requirement for CPA licensure has generated enormous debate within the profession. Few recall that the vote to change the AICPA bylaws to require 150 hours of college education for membership as of July 1, 2000, was overwhelmingly favorable. Now, some believe that an increased education requirement deters some students from entering accounting programs—and they point to the decline in accounting program enrollments as proof. Others believe that 150 hours are necessary for CPAs to keep abreast of not only the developments in accounting, auditing, and tax but also the increased sophistication in business relationships and the complexity of transactions. This article analyzes the passage rates from three years of the CPA exam and finds that candidates with a 150-hour background show higher performance.

In 1988, the AICPA membership approved a bylaw revision to require 150 semester hours of college education for membership. Although the 150-hour rule has met resistance, 48 of 54 licensing jurisdictions have passed legislation requiring the higher education standard (many became effective on July 1, 2000, while some will not become effective until 2009). In addition, the third edition Uniform Accountancy Act (UAA) requires 150 semester hours in a baccalaureate or advanced degree that includes an accounting concentration (see the interview with NASBA President David Costello on page 24 for his comments on the UAA).

The 150-hour requirement is one factor among many that may affect performance on the CPA exam. Others include the extent of coursework in accounting-related subjects and a candidate's quantitative skills. Because experience of the 150-hour requirement is limited to the few states that were among the first to implement the rule, questions remain about the rule's effect on CPA exam performance:

- Do candidates meeting the 150-hour rule have a greater chance of passing the CPA exam on their first attempt?
- Is completion of 150 hours of study, as part of a broad-based educational program, a better predictor of success on the CPA exam than extensive coursework in accounting?
- Can candidates with strong quantitative skills or problem-solving ability reasonably expect to enhance their CPA exam performance by meeting the 150-hour requirement?

The National Association of State Boards of Accountancy (NASBA) collected extensive information about first-time CPA exam candidates during the years 1996–1998, which provides insights into the 150-hour rule's effects on CPA exam performance.



Candidate Profile

At the national level, nearly 116,000 candidates took the CPA exam for the first time during the three-year period 1996-1998. *Exhibit 1* shows that 33% of first-time candidates possessed more than 150 hours of college credit, whereas 67% had less than 150 hours. About 27% of those candidates not satisfying the 150-hour rule reported credit hours significantly in excess of the threshold (120-126) generally identified with the baccalaureate degree. Collectively, this information suggests that first-time candidates are embracing the new educational requirements and that accountants would generally benefit from additional coursework.

Some professionals have expressed concern that the increased education standard will result in a shortage of quality students choosing to pursue an accounting career. However, a 1998

AICPA survey of accounting program administrators found that a significant majority believed that the 150-hour rule would either have no effect on, or would increase enrollment in, their school's accounting degree program.

Passing Rates

Exhibit 2 indicates that only 13% of the candidates with less than 150 semester hours passed the CPA exam on their first attempt. In contrast, first-time candidates with a minimum of 150 hours had a significantly better chance of passing the exam than their counterparts: 21% passed the CPA exam on their first attempt.

Additional analysis indicated that first-time candidates meeting the higher education standard were also more likely to earn conditional credit for part of the CPA exam than first-time candidates that had not accumulated a minimum of 150 hours.

Fifth-Year Flexibility

As implementation of the 150-hour rule proceeds, academic institutions, CPA firms, and others have become increasingly involved in the debate over the structure of the fifth year of study. Some favor students taking more accounting-related courses while others believe the additional coursework should be in information systems, technology, and general business knowledge. Still others support a fifth year that focuses on development and enhancement of students' communication, analytical, and critical thinking skills. It has been generally understood that the intent of the sponsors of the 150-hour requirement was to broaden the education of accounting students, not to narrow it with more accounting coursework.

The UAA model statute allows students considerable flexibility in shaping the course content of their fifth year. The UAA does not even stipulate that an advanced degree must be earned; a 150-semester hour baccalaureate is acceptable. For their part, most jurisdictions have licensing requirements that follow the UAA's lead and grant students considerable freedom in deciding how to earn the 30 additional semester hours. Only a handful of states have broken rank and required a master's degree as part of their 150-hour rule.

Sharpening the Focus

The NASBA data sheds light on the question of whether completion of a 150-hour requirement, as part of a broad-based education program, is a better predictor of performance on the CPA exam than extensive coursework in accounting. Insight into this matter

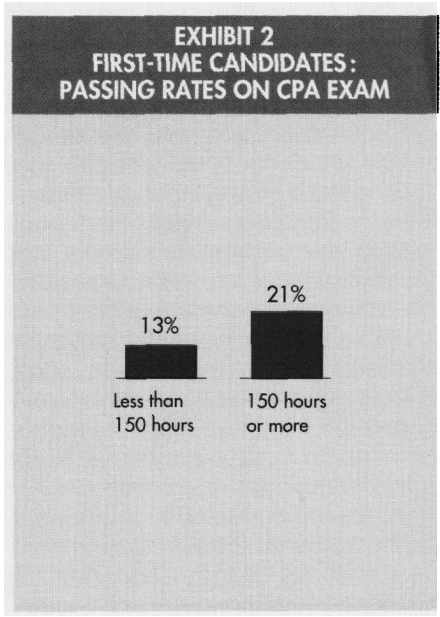
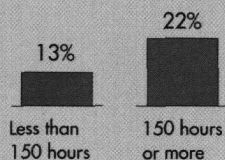




EXHIBIT 3
FIRST-TIME CANDIDATES WITH MORE
THAN 30 HOURS IN ACCOUNTING:
PASSING RATES ON CPA EXAM



may be useful to accounting students planning their program of study as well as accounting educators considering revisions in their accounting curricula.

Exhibit 3 displays CPA exam performance results for those first-time candidates that reported more than 30 semester hours in accounting-related courses, broken down by whether they also reported 150 hours of study. Candidates with more than 30 semester hours in the accounting area that met the 150-hour education level significantly outperformed their counterparts, passing the exam at a rate of 22%, as compared to 13% for those that did not have 150 hours. The results shown in *Exhibit 3* provide strong support for establishing and promoting the 150-hour rule.

Quantitative Skills

Some believe that a candidate's quantitative skills are an essential predictor of success on the CPA exam.

They reason that the problem-solving aspects of accounting are better suited to those with strong analytical and math skills. What is unclear, however, is whether candidates with strong quantitative skills can reasonably expect to significantly improve their performance on the CPA exam by meeting the 150-hour educational requirements.

To obtain some insight into this issue, first-time candidates were classified initially according to their problem-solving skills, as measured by their quantitative scores on the Scholastic Aptitude Test (SAT). SAT-Q scores range from 200 to 800, with a score of 600 or more generally regarded as reflecting very high quantitative ability.

Exhibit 4 shows CPA exam results for first-time candidates with SAT-Q scores of 600 or better, broken down by whether they met the 150-hour

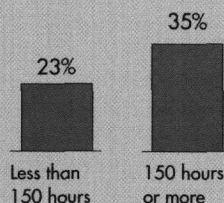
standard. The data indicates that first-time candidates meeting the 150-hour requirement significantly outperformed their counterparts on the CPA exam, 35% to 23%. These results suggest that candidates possessing strong quantitative skills can increase their chances for success on the CPA exam even further if they also meet the 150-hour requirement.

A Look Ahead

The NASBA statistics back up the assertion that completion of the 150-hour requirement is a key predictor of success on the CPA exam. The increased hours of study, as part of a broad-based academic program, could become an even more significant gauge for success if the Board of Examiners, as has been proposed, revises the content of the exam to include general business knowledge, technology, globalization, and higher cognitive skills.

Passing the CPA exam is a requisite step in establishing minimum competency necessary to practice public accounting. The new 150-hour requirement for licensure will not only give students a significantly better chance to pass the CPA exam but will also provide them with the fundamentals necessary to practice competently in the 21st century. □

EXHIBIT 4
FIRST-TIME CANDIDATES WITH
HIGH SAT-Q SCORE:
PASSING RATES ON CPA EXAM



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