

# Educational Requirements for Public Accounting

**By William W. Holder, CPA, DBA, E. John Larsen, CPA, DBA and Doyle Z. Williams, CPA, Ph.D.**

The belief that more than four years of formal education are essential to enter the public accounting profession was first set forth in 1958. Since 1969, the AICPA has supported a policy of requiring five years, or 150 semester hours, of collegiate work as a prerequisite for entry into the public accounting profession. This position was reaffirmed by AICPA in 1978 and again in 1983. Other bodies and committees that have endorsed a postbaccalaureate education requirement for CPAs include the National Association of State Boards of Accountancy, the Commission on Auditors' Responsibilities, the Federation of Schools of Accountancy, the New York State Society of CPAs, the Board of Directors of the California Society of CPAs, and the 1983-84 Committee on Professional Accounting Education of the AAA. In November 1984, the Executive Committee of the AAA recorded its support of a 150 semester-hour educational model, and in 1985 the Board of Directors of AICPA directed its special committee on the postbaccalaureate education requirement to encourage states to proceed with legislative enactment of such a requirement. A 150-hour requirement has been adopted in three states and is under consideration in others.

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**HEADNOTE:** *There is no doubt that significant educational requirements should be fulfilled for a person to qualify as a certified public accountant. The extent to which preparation for the profession is best done in the classroom or on the job has been a debate for almost as long as the profession has existed. The authors present a case for extension of classroom education, which has received approval in some jurisdictions.*

Perhaps the most extensive study of a postbaccalaureate requirement for Certified Public Accountants is found in the report of the AICPA's Commission on Professional Accounting Education, released in July 1983, entitled, *A Postbaccalaureate Education Requirement for the CPA Profession*. The Commission, composed of nine individuals representing both accounting practice and accounting education, conducted extensive research and concluded that additional education beyond a bachelor's degree is necessary to prepare new accounting practitioners adequately, protect users of accountants' services, and enhance the performance of the accounting profession generally.

That conclusion is not universally shared, however, and the issue is one of the most controversial currently facing the accounting profession. For example, the CPA firm Arthur Andersen & Co. strongly favors a post-baccalaureate educational requirement for entry-level professionals. In a recent letter, the managing partner and chief executive officer of that firm stated:

Our firm has long advocated a five-year accounting program to achieve entry level preparation for the accounting profession. This need for post-baccalaureate education is well documented. It has been confirmed by many studies sponsored by professional accounting organizations. These groups are representatives of practicing accountants, licensing bodies and accounting educators. The Commission's [on Professional Accounting Education] conclusions are the latest confirmation of previous findings, some of which were published over twenty years ago. The faculty expertise is in place and the call for change has been sounded by knowledgeable constituencies.

Taking an opposite view, the chairman of another large CPA firm writes:

I am not convinced that mandating an additional year of postbaccalaureate education is the right answer at this time. Therefore, absent further study, Cooper & Lybrand is opposed to any initiative on the part of the AICPA to make a 5-year educational requirement mandatory.

The purpose of this article is to analyze the conclusions of the Commission on Professional Accounting Education, examine some criticisms arising from those conclusions, suggest some arguments favoring the Commission's conclusions, and briefly describe the graduate portion of a curriculum designed to meet the goals of additional study. Changes in the educational requirements for licensing CPAs have significant implications for accounting practitioners, educators, and users of financial information. Consequently, each of those groups has a role to play in the deliberations now taking place.

### Commission's Conclusions

The Commission on Professional Accounting Education reached the following conclusions:

1. Due to significantly increased knowledge requirements and to a changing accounting profession and environment, a baccalaureate accounting program is no longer an adequate education for entry into the CPA profession. The result is a compelling need to move forward with the implementation of a post-baccalaureate education requirement.

2. Significant benefits will accrue to society, CPA firms, and individuals entering the accounting profession if a post-baccalaureate education is required.

3. Additional education costs and transitional problems associated with implementing a postbaccalaureate education requirement must be addressed in the implementation process. With careful planning, the effects of these problems may be minimized, thus assuring maximum net benefits.

4. Legislative intervention is appropriate and necessary to accomplish the timely establishment of a postbaccalaureate education as a prerequisite for entry into the CPA profession.

The Commission also offered several recommendations for implementing a postbaccalaureate education requirement for CPAs.

### The Basis for the Commission's Conclusions

The Commission, in reaching its conclusions, studied reports of groups that had previously addressed the issue of postbaccalaureate educational requirements. The Commission identified two major innovations that provide the fundamental justification for its recommendations:

- A dramatic expansion in the body of accounting knowledge.
- The changing structure and environment of accounting practice.

The Commission cited the dramatic increase in authoritative pronouncements issued in accounting and auditing in recent years. To those pronouncements may be added changes in income tax laws, the multitude of pronouncements of the SEC, changes in information processing technology, and additional regulations governing various industries. Developments in the supporting disciplines that have been incorporated in accounting practice likewise place increased demands on the knowledge base of CPAs.

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### *A 150-hour requirement has been adopted in three states . . .*

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The changing structure and environment of accounting practice also affects the education requirement of CPAs. The Commission cited, as examples of the changing environment of accounting practice, the public's rising expectation regarding the range and extent of responsibility that CPAs should assume, the increasing complexity of business activity, the rapid evolution of new business ideas, and increased societal demands for an acceptable code of corporate and professional conduct. An example of possible erosion of societal confidence in the accounting profession is found in a recent edition of *Newsweek*, (Dec. 3, 1984) which stated:

. . . The entire (accounting) profession is adrift in a sea of criticism. . . . If accountants continue to okay financial results that turn out to be fraudulent, investors soon will pay no more attention to the auditors' statement of approval than they do to the slick pictures in the annual report.

These environmental changes in accounting practice are leading to significant structural changes in CPA firms. The Commission noted as examples the following:

- The diminishing demand for a large quantity of people to perform many routine tasks involved in auditing.
- An increasing business demand for a variety of highly technical accounting services and greater audit efficiency.
- Increased reliance on selective testing in auditing, including sophisticated sampling techniques, with emphasis on evaluation of internal control.
- Increased use of computer-based techniques to test procedures and accounting records.

- An increasing range of assurance provided on financial statements and other information.
- Less reliance on on-the-job training.
- The need for increased specialization.
- A shifting of a significant portion of the audit work load from entry-level staff accountants to the middle staff ranks.

### Expected Benefits

The Commission cited several expected benefits from implementing a postbaccalaureate education requirement for CPAs. Among the benefits expected were the following:

- An increase in the competence levels of men and women entering the accounting profession. Improved analytical skills; communication abilities, computer literacy, and ethical perspective may contribute substantially and directly to the benefit of society.
- Improved quality of accounting students and a greater commitment to the accounting profession on the part of students.

- Reduced personnel turnover in CPA firms.
- Faster advancement of personnel in CPA firms.
- Better use of training resources by CPA firms.

The last three items cited may contribute to more efficient and cost-effective operations in the profession. Such a result seems an essential aspect of meeting new competitive demands while maintaining or improving the quality of service. Other potential benefits of increasing the education standard for entry into the accounting profession include:

- Raising the status of the profession to that of other professions that require graduate education.
- Raising the success rate of candidates taking the CPA Examination.
- Avoiding sacrifice of any of the college undergraduate curriculum that is devoted to the humanities and liberal arts.

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*... one of the most controversial ...  
facing the accounting profession.*

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As to the last point, a report released in October 1984 by the National Institute of Education, entitled "Involvement in Learning: Realizing the Potential of American Higher Education," recommends that:

All bachelor's degree recipients should have at least two full years of liberal education. In most professional fields, this will require extending undergraduate programs beyond the usual four years.

In elaborating on this recommendation, the report states:

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 of which require five or six-year programs) and in many undergraduate programs in engineering (which offer five-year options).

### Arguments Against the Commission's Conclusions

The conclusions of the Commission are supported by many accounting practitioners and academicians; however, there are also dissenters. Indeed, many knowledgeable and respected practicing CPAs and accounting educators have expressed substantial reservations about, and in many cases outright opposition to, the proposal for postbaccalaureate accounting education. The following paragraphs describe many of the criticisms and objections commonly voiced.

#### Role of the Market Place

Critics argue that, if a genuine need existed for the knowledge obtained through postbaccalaureate study for accountants, the market place for accountants would reward with increased salary levels and potential for advancement those who completed that study. Additionally, these critics cite the waning interest of many large CPA firms in hiring individuals having an MBA degree. These critics note that CPA firms predominantly hire university graduates who possess only baccalaureate degrees and that a preponderance of all new partners of CPA firms possess only a bachelor's degree.

#### A Barrier to Professional Entry

Critics state that the incremental costs of acquiring an additional 30 hours of accounting education will unduly restrict entry to the accounting profession. Some critics believe the practice of accounting should be open to anyone who passes the CPA Examination, regardless of educational background. Still others are concerned about the additional burden that may fall especially hard on minorities and the disadvantaged. Because the accounting profession is committed to equal opportunity and because a need exists to bring minorities into the mainstream of the profession, practitioners and academicians resist changes that serve to frustrate efforts for increased minority involvement. Some suggest that higher educational standards also will cause many of the most capable and highly motivated students to reject accounting as a major and thereby exacerbate the problems of staffing and professional competency.

#### Additional Accounting Education is Unnecessary

Many critics of the Commission's proposals note that the increasing number of professional standards promulgated by authoritative bodies do not necessarily call for additional education. They cite as examples the professions of medicine and law. Those professions have also seen a proliferation of the body of knowledge necessary to practice competently, but have not expanded the educational requirements to accommodate the increase in information. Many of those critics

assert that accounting education should become more conceptual and less oriented towards specific accounting and auditing standards and related rules. According to those critics, accounting students would be best served by acquiring superior analytical skills, becoming more receptive to change, and enhancing their judgment and decision-making abilities.

#### **Additional Educational Resources Are Not Justifiable**

Some critics assert that the increased costs of additional education to the states and others who support higher education cannot be sustained and justified. They point to an already inadequate supply of qualified faculty members in accounting and strained state and federal budgets. They suggest that any benefits accruing to society as a result of an expanded educational requirement for accountants would be overwhelmed by the increased cost to society of providing that education.

#### **Rebuttal to Arguments Against the Commission's Conclusions**

We believe that each of the arguments against the Commission's conclusions can be successfully rebutted:

- As to the role of the market place, there appears to be some indication that employers of postbaccalaureate accounting degree recipients are recognizing their worth by significant increases in starting salaries. It is true that the scarcity of hard data on the amount and extent of such increases precludes a definite finding in this area. However, we believe that it is invalid to point to CPA firms' decreasing interest in MBA degree holders as an indicator of overall indifference to postbaccalaureate degree holders. There is an obvious difference in the educational objectives of MBA programs and of professional accounting degrees. The Commission advocated a pluralistic approach to implementing a postbaccalaureate education requirement. That is, not only would graduates of typical MBA curricula be embraced by such a requirement, but graduates of professional accounting and tax programs would also be an integral part of the proposal. Indeed, the authors' experience is that public accounting firms are keenly interested in the graduates of the professional accounting programs with which we are familiar.

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*... increased societal demands for an acceptable code of corporate and professional conduct.*

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- As to the requirement being a barrier to professional entry, anyone long acquainted with audit failures and other shortcomings of public accounting practice does not accept ability to pass the CPA examination as an adequate measure, taken alone, of a candidate's ability to perform at a professional level in public accounting. Indeed, one of the principals

of the CPA firm involved in the audit of Equity Funding Corporation of America had just passed the CPA examination. No professional examination can serve as a completely fool-proof screening device to exclude incompetents; far better is the winnowing process that takes place in an extended, rigorous and relevant educational program.

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*... (some have suggested that) any benefits accruing to society ... would be overwhelmed by the increased cost ...*

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Other arguments in the "barrier to entry" area have been leveled at present baccalaureate programs in accounting and at the CPA examination itself. However, the entire philosophy underlying state licensing of practicing members is founded on protection of the public. Accordingly, lowering of standards for admission to a profession because of concern over "quotas" and the like should be considered very carefully and balanced with the need to protect the public from inadequate practitioners. The experience of other professions requiring graduate education for entrance does not support this criticism.

- Another contention is that, additional accounting education is unnecessary. Some members of the profession who entered it following four-year degrees contend that, despite the "standards overload" and other indicators of an explosively expanding body of accounting knowledge, additional education is not required for entry into the accounting profession. Such persons should reflect on the extent of the body of knowledge existing at the time of their accounting education:

- Those who completed their accounting education in 1959 had only *Accounting Research Bulletins* (nos. 43 to 51) to master.

- By 1973 graduates of accounting programs were responsible for the still-effective *Accounting Research Bulletins* and non-superseded *Accounting Principles Board Opinions* among the 31 that had been issued from 1961 to 1973.

- A December 1985 accounting graduate had to comprehend the remaining effective *Accounting Research Bulletins* and *Accounting Principles Board Opinions* as well as 86 *Statements of Financial Accounting Standards*!

The standards overload has not been confined only to financial accounting; the body of knowledge also has expanded significantly in recent years in income taxes (with nearly annual substantial revisions of the Internal Revenue Code), managerial accounting (including behavioral aspects), systems (especially computer technology), auditing (with increasingly sophisticated theories and applications of audit judgment and evidence-gathering) and business law.

Further, we believe that to compare undergraduate accounting programs with graduate programs in medicine and law is to compare apples with oranges. Medicine and law schools have merely to tighten their admissions requirements to assure the quality of students able to cope with an ex-

## EXHIBIT I

Comparison of Semester Credit Hours  
of a  
Typical Four-year Program with an Example  
of a  
Five-year Professional Program

	Typical Four-year Program <sup>1</sup>	An Example of a Five-year Program <sup>1</sup>
Nonbusiness Courses	60	60
Economics	6-9	6-9
Business Law	6	6
Business Policy	3	3-9
Finance	3	3-6
Marketing	3	3
Business Communication	3	3
Accounting Communication		3 <sup>2</sup>
Management	3	3-6
Computer Systems	3	9 <sup>3</sup>
Statistics	3-6	3-6
Principles of Accounting	6	6
Intermediate Financial Accounting	6	6
Income Taxes	3	6
Managerial/Cost Accounting	3	6
Advanced Financial Accounting	3	3
Auditing		3
Accounting Electives	3-6	3-6
Professional Responsibilities of Practicing Accountants		3 <sup>2</sup>
Integrating, Applying, Communicating Accounting and Auditing Standards		3 <sup>2</sup>
Total Semester Credit Hours	120-129	150-155

<sup>1</sup> Adapted from Doyle Z. Williams, *Accounting Education: A Statistical Survey, 1982-83* (New York: American Institute of Certified Public Accountants, 1983), pp. 35, 37-38.

<sup>2</sup> Taught on an integrated basis with extensive use of case studies.

<sup>3</sup> Courses integrated.

panded body of knowledge, but no such device is available for undergraduate programs in accounting. As to encouraging accounting curricula to be more conceptual and less procedure-oriented, such a desirable goal is facilitated by postbaccalaureate study during which mastery of the technical standards gives way to problem analysis and solutions, case studies, and consideration of professional attitudes and conduct.

• A further contention is that additional educational resources are not justifiable. While it is a truism to state that implementation of a postbaccalaureate study requirement for entry into the accounting profession would necessitate substantial human and monetary costs, to view that additional cost as an argument against the Commission's conclusions is to beg the question. If the preponderance of evidence indicates that postbaccalaureate study is essential for adequate academic preparation for entry into the accounting profession, then the resources *must* and *will be* found. This may necessitate rethinking by university administrations of the many obstacles that aspiring accounting educators must over-

come to *enter*—and to *remain in*—university teaching of accounting.

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*No professional examination can serve as a completely fool-proof screening device . . .*

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In summary, the conclusions of the Commission are supported by *evidence* rather than supposition. We believe the postbaccalaureate study requirement for accounting profession aspirants should be implemented if accounting is to maintain its status as a distinguished and distinguishable profession.

## Exhibit II

## Example Graduate Portion of Professional Accounting Program

Skill area	Courses primarily devoted to area <sup>1</sup>	Methods of Skill Enhancement
Analytical Abilities	<ul style="list-style-type: none"> <li>Professional accounting and auditing theory, policy, and research</li> <li>Professional responsibilities of the practicing accountant</li> <li>Professional Accounting seminar</li> </ul>	<ul style="list-style-type: none"> <li>Use of complex case studies taken from the practice files of various public accounting firms: cases require conceptual and technical analysis and acceptable problem resolution</li> <li>Seminar discussion of concepts and issues beyond those included in undergraduate education, e.g., SEC reporting, ethical concepts in addition to those of AICPA, and legal concepts and responsibilities</li> </ul>
Communication Abilities	<ul style="list-style-type: none"> <li>Professional Accounting and auditing theory, policy and research</li> <li>Professional responsibilities of the practicing accountant</li> <li>Professional Accounting seminar</li> </ul>	<ul style="list-style-type: none"> <li>Preparation of written memoranda regarding case studies above</li> <li>Critical review of memoranda of other students</li> <li>Role playing, e.g., client and CPA, CPA defending work in litigation, CPA firm dispute resolution.</li> </ul>
Computer Systems	<ul style="list-style-type: none"> <li>Systems</li> <li>Information technologies and accounting</li> <li>Information technologies and auditing</li> </ul>	<ul style="list-style-type: none"> <li>Hands-on use of computers including various software utilization applied to accounting problems</li> </ul>

<sup>1</sup> All courses should have multiple learning objectives; therefore, this exhibit is intended as only a general overview.

### A Suggested Program of Additional Study

Reasonable questions posed about requiring additional education for entry level accountants are: How will that time be spent; what subjects should be included; and what skills should be developed in students?

The example five-year curriculum described below is based on substantial consultation with practitioners, educators, and others about the most common and critical skill deficiencies noted in recent baccalaureate degree holders. The responses were surprisingly strong and much in agreement. The three areas identified as most deficient in those completing an undergraduate program are:

- Inadequate oral and written communication skills.
- Inadequate analytical skills.
- Inadequate knowledge of the role, uses, and limitations of electronic data processing.

Most of the individuals with whom this subject was discussed did not believe other elements of undergraduate programs should be sacrificed to eliminate these deficiencies. How would the curriculum of a five-year program differ from that of a four-year program?

Exhibit I presents a composite of the "typical" four-year program based on a national survey of accounting curricula. Although an insufficient number of five-year professional programs have become operational to synthesize a typical program, one possible view of a five-year program is presented in Exhibit I. Exhibit II depicts the nature and structure of the graduate accounting portion of the example curriculum.

### Conclusions

Recognizing that the lead time from initiating efforts to implement a postbaccalaureate education requirement to its effective date is almost a decade, the need to initiate such action is becoming increasingly acute. For effective implementation, candidates for the fifth year must believe that the additional educational requirement will add value to their educational experience and, likewise, employers of those completing such accounting programs must experience an added value in their recruits. Extreme care in designing and conducting such programs is, therefore, absolutely essential. The success of those programs and, more importantly, the broad future of professional accounting education will depend in large measure on the perceived value of the skills acquired.

Establishing a postbaccalaureate education requirement does not eliminate the need for four-year programs; but for those who aspire to be truly professional accountants, the message is clear—a minimum of five-years is a necessity and no longer an option. The issue is no longer *should* there be a postbaccalaureate education requirement for CPAs, but what should be the curriculum. □

### Editors' Note

Our July 1985 issue featured an article, "Adding Up the Change in Accounting," in which Lee Seidler discussed the accounting profession's standard-setting process and the relationship between problems that process is encountering and the profession's existing educational requirements.

The main thrust of articles we select for inclusion in *The CPA Journal* is usefulness to the practicing professional CPA. Despite the fact that adequacy of the educational process is not one which occupies the day-to-day attention of our readers, we believe that the audience we address has more than a passing interest in the effect of the educational process (both entry-level and continuing) on those day-to-day activities.

After discussing various criticisms currently being heard, the Seidler article states:

The obvious area for attention is education. The four-year preparation that was adequate 50 years ago is now strained. . . . (T)he time frame is simply too restrictive to prepare students to assume the responsibility for top jobs without further training.

In this and several forthcoming issues, we will address various issues affecting education of accounting professionals, both at the entry level and throughout one's career.

This article "Modification of the Educational Requirements for the Public Accounting Profession," by Holder, Larsen and Williams, describes the 1983 report of the Commission on

Professional Accounting Education on postbaccalaureate education. It analyzes the conclusions and recommendations of that group and sets forth some of the arguments, pro and con, for a licensing requirement for education beyond the bachelor's degree. The authors, all highly regarded accounting academics, describe current "typical" four-year program curricula and, based on their experiences, a possible view of a five-year program.

This month's article addresses entry-level education. In a subsequent issue, we will present articles by other leading members of accounting's academia. One will pose questions on the methods of testing and evaluation of the education process throughout its spectrum, from aptitude of potential entrants through the benefits of continuing education. Another will describe the changed need for acquiring communication skills at the pre-entry level, and propose that such a need be met as part of the postbaccalaureate approach.

We hope that you, the readers, will find these articles thought-provoking. We will welcome your comments, favorable and unfavorable, on the topics discussed. □

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