

E³ GENERATIONEFFECTS OF THE 150-HOUR
EDUCATION REQUIREMENT

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The 150-hour education requirement has been passed in 48 of the 54 U.S. licensing jurisdictions, and it has been implemented in 39 of them. Data is becoming available to accurately assess the 150-hour requirement's impact. Previous research has suggested that candidates for entry-level public accounting positions who have met the 150-hour requirement are better qualified for those positions, and should be able to assume more responsibility sooner than four-year accounting graduates. It has also been reported that the number of first-time candidates dropped dramatically after enactment, making it more difficult for CPA firms to hire qualified entry-level staff. An article by Read, Raghunandan, and Brown (*The CPA Journal*, March 2001) indicated that candidates with the 150-hour background demonstrate better performance on the CPA exam. The data compiled in "Candidate Performance on the Uniform CPA Examination," published by the National Association of State Boards of Accountancy (NASBA), allows comparison between states that implemented the 150-hour rule in the 1990s.

CPA Exam Passing Rates

When the 150-hour requirement was originally proposed, it was envisioned as a catalyst for a broader, more liberal education for accounting students. The graduate education requirement aimed to reverse the historical trend toward narrow technical training that focused primarily on CPA exam preparation. Nevertheless, passing rates on the CPA exam after the 150-hour enactment do give some indication of the quality of the pool of candidates.

Exhibit 1 calculates the average passing rates before the effective date of the 150-hour requirement, using data from the third and fourth exams prior to enactment; data from the first and second exams prior to implementation were excluded because there is often a sharp

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EXHIBIT 1
EFFECT OF 150-HOUR ACT ON PASSING RATES

State	Passing rate prior to enactment	Passing rate after enactment
Utah	25.5%	28.9%
Georgia	19.2	27.8
Montana	15.8	24.3
Kansas	11.2	21.8
Tennessee	10.2	15.2
Louisiana	13.8	14.7
Alabama	10.9	14.5
South Carolina	8.8	13.3
Texas	12.5	13.1
Arkansas	8.8	10.4
South Dakota	6.3	10.0
Mississippi	8.6	9.2
Nebraska	11.4	8.4
Combined	12.5%	16.3%

Note: Passing rates include first-time candidates passing all parts of the CPA exam.

EXHIBIT 2
EFFECT OF 150-HOUR ACT ON PASSING RATES,
RELATIVE TO NATIONAL AVERAGE

State	Passing rate vs. national average before enactment	Passing rate vs. national average after enactment
Utah	5.4%	13.3%
Georgia	3.4	12.0
Montana	-0.5	9.1
Kansas	-5.0	6.7
Tennessee	-10.0	-0.7
Louisiana	-3.1	-0.5
Alabama	-7.7	-1.1
South Carolina	-7.1	-2.6
Texas	-3.4	-2.7
Arkansas	-7.1	-5.4
South Dakota	-9.6	-6.4
Mississippi	-10.0	-6.4
Nebraska	-4.5	-7.5
Combined	-4.4%	0.8%

decline in passing rates in those years, attributable to an increase in candidates trying to pass under the old rules.

The overall average passing rate prior to enactment was 12.5%. After enactment, the average passing rate was 16.3%. The data also indicate marked differences among states in passing-rate improvement. For example, the largest improvement was in Kansas, where the passing rate nearly doubled, from 11.2% to 21.8%. For Utah, the improvement in passing rates was a modest 3.4%, reflecting an already high rate prior to implementation. The improvement was also modest in several other states, including Texas, the largest among those examined.

The passing rates can be compared by state to the national average prior to and after enactment (see *Exhibit 2*). The overall passing rate for the states examined was 4.4% below the national average prior to the requirement. After enactment, the average passing rate was 0.8% above the national average. Kansas' average passing rate before the rule was below the national average by 5.0%; it jumped to 6.7% above the national average after enactment. For Texas and several other states, however, the improvements relative to the national average were small or negligible.

FOR MOST STATES THERE WAS A DRAMATIC REDUCTION

in the number of candidates immediately after the requirement went into effect.

Candidates' Level of Education

Recent data has shown that a graduate degree may better prepare candidates to pass the CPA exam than merely having 150 hours. This may explain why the states examined in the current study only exhibited a modest increase in passing rates after the 150-hour requirement became effective. The percentage of candidates with advanced degrees in the 13 states studied increased from 14.2% to 40.7%. Therefore, the majority of these candidates still did not possess a graduate degree.

It appears that the majority of CPA candidates are tailoring their own programs by taking additional hours beyond the undergraduate level, rather than pursuing a master's degree. For many candidates, the 150-hour requirement can often be met by simply taking a few extra undergradu-

ate courses. The fact that most exam candidates are not pursuing formal five-year programs certainly raises questions as to whether the requirement is meeting its intended objectives.

The data indicate that passing rates are significantly higher for candidates with advanced degrees, particularly for those with a master's in accountancy or an MBA with an accounting emphasis. For example, results on the 1999 exam indicate that the passing rate for candidates with a bachelor's degree was 14% whereas the passing rate for candidates with a master's of accounting or an MBA with an accounting emphasis was approximately 33%. These figures suggest that the benefits of an extended education requirement will not be fully realized in the absence of a mandate for a graduate degree.

Size of Candidate Pool

Exhibit 3 illustrates the number of first-time candidates after implementation of the 150-hour requirement as a percentage of candidates before enactment. For most states there was a dramatic reduction in the number of candidates immediately after the requirement went into effect. Furthermore, the size of the candidate pool has, in most states surveyed, remained at 30% to 40% of pre-enactment levels. The notable exceptions to this downward trend are Utah and Texas.

If the past is any indication of the future, the 21 jurisdictions that have recently adopted the 150-hour requirement and the nine planning to do so soon can expect a modest improvement in the quality of the pool of CPA candidates, but at the expense of a significant reduction in the number of candidates. □

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EXHIBIT 3
NUMBER OF FIRST-TIME CANDIDATES AFTER ENACTMENT
AS A PERCENTAGE OF CANDIDATES BEFORE ENACTMENT

State	First and second exams after enactment	Third and fourth exams after enactment	Fifth and sixth exams after enactment
Tennessee	15.5%	23.9%	32.4%
Alabama	13.1	30.1	33.1
Mississippi	29.3	81.5	37.3
Louisiana	24.4	36.9	37.4
Utah	74.4	81.9	90.0
Montana	21.2	22.4	—
Nebraska	24.2	23.9	—
Georgia	17.4	25.0	—
South Carolina	27.5	35.9	—
South Dakota	23.7	32.4	—
Arkansas	29.2	38.2	—
Kansas	25.4	42.1	—
Texas	67.0	75.4	—