



The 150- Hour Requirement and CPA Quality

*Time to evaluate
effectiveness*

By Thomas W. De Berry

In Brief

Has the 150-Hour Requirement Produced Better Accountants?

Many states now require candidates to complete 150 semester hours of college education in order to sit for the CPA exam. The objective of the requirement, according to the AICPA, is to "improve the overall quality of work performed by CPAs confronted with advancing technology, an increasingly complex business environment, and society's continuing demand for accounting and assurance services." But is it working? The author conducted a survey to determine whether new staff accountants hired after the 150-hour requirement took effect are more skilled and receive higher salaries.

Recent research has shown that CPA exam candidates with at least 150 hours of college credit perform better on the exam than those with less educational experience. Little is known, however, about other accomplishments of the 150-hour requirement. There has been much discussion in the profession about the 150-hour requirement turning students away from accounting, but what about the impact on the quality of new accountants? What about the cost to employers in terms of starting salaries?

While one might expect that a shrinking supply of candidates would lead to higher prices, have starting salaries changed because of the quality of new accountants?

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Survey Details

To answer such questions, 3,000 CPAs were sent a survey regarding their perceptions about changes in the capabilities of new staff accountants eligible to take the CPA exam, comparing those hired prior to the 150-hour requirement to those hired after its implementation. Those surveyed were also questioned about changes in starting salaries since the implementation of the 150-hour requirement. Survey participants were asked to estimate salary changes caused only by either positive or negative changes in quality of new hires, not salary changes due to inflation or supply-and-demand forces.

The survey respondents were from the state of Georgia, which implemented the 150-hour requirement beginning with the May 1998 exam. The 150 semester hours must include 30 hours in accounting beyond the elementary level and 24 hours in general business subjects. An implementation date of 1998, which corresponds with many other states, provided enough time before the survey was conduct-

ed late in 2001 for CPAs to have formulated perceptions about new CPA hires while the requirement change was still fresh in their minds.

After a pilot study was conducted, the survey was conducted electronically with the help of the Georgia Society of CPAs. Respondents were allowed to anonymously submit answers electronically. 171 responses were received, out of which 150 were usable, for a net response rate of 5%. *Exhibit 1* summarizes demographic data for the survey respondents.

Changes in Salaries and Quality

Respondents in this survey estimated that average annual starting salaries had increased nearly \$4,000 since the implementation of the 150-hour requirement for qualitative reasons. On the other hand, the perception of these same respondents was that new hires had improved only modestly, if at all, in 15 qualitative measures of capabilities of staff accountants, rated on a scale from -50 to +50 (*Exhibit 2*). Survey respondents perceived that new staff accountants exhibited improvement in most of the 15 qualitative measures since the 150-hour requirement was implemented. This change, however, ranged from an average of only +0.87 for "amount of supervision needed," to a high of +7.53 for "competency with complex accounting." Ratings were actually negative in one

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of the 15 qualitative measures, “commitment to the employer,” with an average score of -6.63.

Qualitative Measures of Capabilities

The list of 15 qualitative measures of capabilities of staff accountants used in the survey was developed after a thorough review of published discussions of the 150-hour requirement. While some of the reasons offered by proponents of the 150-hour requirement were related to technical accounting knowledge, many reasons were related to other skills and knowledge. Much of the public discussion contemplated more broadly educated professionals who possessed the groundwork for a career that would encompass many years in which many changes in the profession would occur. Improved CPA exam passing rates was definitely considered a benefit of the 150-hour requirement, but was only one of many such purported benefits. The 15 qualitative measures that were derived seem to be representative of the stated objectives for the 150-hour requirement.

Opinions among CPAs about the wisdom and value of the 150-hour requirement vary greatly. Exhibit 2 tells a story of modest improvement among new hires in 14 of the 15 qualities considered. But the perceptions about changes in these qualitative measures varied greatly among survey respondents. Written comments included by several survey respondents provided insights and revealed

strong, even impassioned opinions about changes in candidates’ abilities, changes in starting salaries, and about the 150-hour requirement in general.

A summary of the diversity of perceptions among survey respondents is presented in *Exhibit 3*. Statistical measures of diversity of the responses—the standard deviations—are large for the 15 survey items. A small majority of respondents believe that there has been no change in most of these qualitative measures, but often with a fairly large percentage rating positively and also a fairly large percentage rating negatively.

Survey Highlights

Perhaps the most interesting response in the survey was to the “commitment to the employer” item. The average rating of -6.63, along with the fact that 30% of respondents rated new accountants negatively in this measure, indicates that responding CPAs perceive new accountants as less loyal to their employers than in the past. Respondents’ written comments indicate that many perceive lack of commitment as attributable to the 150-hour requirement. Some think that the additional cost to new CPAs makes them

more likely to seize better employment opportunities that come along, reasoning that they have earned the right to do so because of the substantial education they had to obtain in order to become CPAs.

Respondents rated recent hires positively in terms of “maturity and professional judgment.” Once again, written comments from respondents were insightful; many of them recognized that obtaining additional hours of college credit frequently resulted in new accountants being at least a year older, resulting in greater maturity.

One of the most strongly supported objectives for the 150-hour requirement was the broadening of the knowledge base of accountants through a greater emphasis on the liberal arts and general business components of the curriculum. It has been commonly discussed that many individuals and educational institutions did not accommodate that objective, instead adding coursework in accounting and other business courses that were “most like accounting.” The survey’s two qualitative measures that most specifically addressed this objective, “appreciation/knowledge of the arts, current events, etc.” and “under-

EXHIBIT 1 SURVEY RESPONDENT DEMOGRAPHICS

Gender	
Male	69.3 %
Female	30.7
Total	100.0 %
Work Sector	
Public Practice	63.3 %
Industry	28.0
Education	2.7
Government	.7
Other	5.3
Total	100.0 %

EXHIBIT 2 QUALITATIVE MEASURES AND THEIR RATINGS

Measure	Average Rating
1. Analytical abilities	+ 6.00
2. Problem-solving skills	+ 4.80
3. Professionally ethical behavior	+ 4.11
4. Communication skills	+ 7.01
5. Appreciation/knowledge of the arts, current events, etc.	+ 2.17
6. Competency with complex accounting	+ 7.53
7. Understanding of other business fields	+ 5.70
8. Commitment to the employer	- 6.63
9. Commitment to the profession	+ 3.23
10. People skills	+ 2.27
11. Positive responsiveness to change	+ 4.37
12. Maturity and professional judgment	+ 6.81
13. Productivity	+ 2.61
14. Amount of internal training needed	+ 1.37 *
15. Amount of supervision needed	+ 0.87 *

* Not significant at .10; all others significant

standing of other business fields,” received modest positive ratings of +2.17 and +5.70, respectively. On the other hand, the measure “competency with complex accounting” received the highest average positive rating, +7.53. Together, these three results are consistent with a perception that many new accountants are obtaining their additional education through more accounting courses, rather than broadening their perspectives through language and literature, music, art, international culture, politics, or even marketing, management, or economics.

Firm Size

Do perceptions of CPAs in large firms differ from those in small firms with regard to how well the 150-hour requirement has met its objectives? To answer this question, the data from all respondents were broken down by firm size (number of employees), as identified by demographic data from the questionnaire.

The average ratings for each of the 15 qualitative characteristics are presented in *Exhibit 4* for all respondents and then broken down into six categories by firm size. For very small firm (1-10 employ-

Most survey respondents believe that cpas hired since the implementation of the requirement have not changed in terms of the 15 qualitative measures surveyed.

ees) respondents, average ratings were higher than the average for all respondents for 14 of the 15 qualitative characteristics. For large firm (501-5,000 employees) respondents, average ratings were higher than the average for all respondents for 12 of the 15 characteristics. Also, respondents in this firm size category rated even the characteristic “commitment to employer” positively, unlike any other category or all respondents. For the largest firm category (over 5,000 employees), respondents rated higher than the average for all respondents for 14 of the 15 characteristics.

Getting What You Pay For?

If one or more qualitative measures could be clearly linked to the previously noted \$4,000 average increase in starting salaries, the perception of

CPAs regarding the value of the 150-hour requirement could be better ascertained. After considering and comparing several analyses, the combination of variables that statistically correlated the strongest with salary changes were: analytical abilities; problem-solving skills; professionally ethical behavior; communication skills; commitment to the employer; and the joint effects of professionally ethical behavior and commitment to the employer. Together, ratings for these measures explained statistically approximately 27% of the perceived quality-induced salary changes.

Depending upon which standards are used, this statistic of 27% explanation of a dependent variable (changes in salaries) by identified independent variables (the collection of qualitative

EXHIBIT 3
DIVERSITY OF PERCEPTIONS AMONG RESPONDENTS

Qualitative Measure	Maximum Rating	Minimum Rating	Standard Deviation	Positive Rating	Negative Rating	Neutral Rating
Analytical abilities	50	-25	11.60	36.67%	6.00%	57.33%
Problem-solving skills	40	-50	11.41	35.33	6.00	58.67
Professionally ethical behavior	50	-50	12.38	25.33	2.67	72.00
Communication skills	50	-25	12.50	42.00	5.33	52.67
Appreciation/knowledge of arts	45	-50	10.01	20.67	5.33	74.00
Competency/complex accounting	50	-50	16.89	42.67	7.33	50.00
Understand other business	50	-50	14.01	36.67	4.67	58.67
Commitment to employer	30	-50	15.94	10.00	30.00	60.00
Commitment to profession	50	-50	18.54	31.33	18.67	50.00
People skills	50	-35	9.99	25.33	8.00	66.67
Positive responsive to change	50	-30	11.19	33.33	5.33	61.33
Maturity/professional judgment	50	-50	15.23	44.67	7.33	48.00
Productivity	50	-50	13.32	25.33	13.33	61.33
Amount of internal training needed	50	-50	12.94	22.00	13.33	64.67
Amount of supervision needed	50	-50	12.88	23.33%	15.33%	61.33%

measures) is a reasonably strong result. Putting it another way, one might conclude at first that respondents think that employers are willing to pay more for new hires because the 150-hour requirement has improved these characteristics. A closer look at the results, however, revealed interesting details. This statistically strongest combination included a negative relationship between salary changes and the ratings of "professionally ethical behavior" and "commitment to the employer." This can be interpreted as indicating that the lower the ratings of "professionally ethical behavior" and "commitment to the employer" were, the more likely an increase in annual starting salary was.

While this result may not be intuitively obvious, once again a study of the written comments from respondents and the statistical use of the interaction term for "professionally ethical behavior" and "commitment to the employer" provide helpful insights.

What the survey seems to indicate is that the recent hires that received the highest starting salaries were those that diligently negotiated their own career benefits at the point of hiring, which was subsequently perceived as downplaying the needs of their employers.

Evaluating the Requirement

CPAs continue to be sharply divided about the value of the 150-hour requirement, with impassioned opinions on each side. Evidence of success or failure of the requirement in meeting its objectives is only beginning to become available. Much more evidence is needed before the profession congratulates itself or considers a return to the drawing board.

Most survey respondents (82.4%) believe that real starting salaries have increased since the implementation of the requirement. Most also believe, however, that CPAs hired since the implementation of the requirement

have not changed in terms of the 15 qualitative measures surveyed. Even those that perceive a change in new hires do not rate such changes as very significant. On the other hand, that change, although small, is considered to be positive for 14 of the 15 qualitative measures. This could signal at least a limited degree of success of the 150-hour requirement in meeting its objectives.

But the perception of employers paying for success with these objectives is unclear from these survey results. While perception is clearly subjective, it is the perception of those in the profession that will ultimately judge the value of the 150-hour CPA exam requirement and determine its success in meeting its objectives. □

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EXHIBIT 4
AVERAGE RATINGS ANALYZED BY FIRM SIZE

Qualitative Measure	Firm size (number of employees)						
	All (150)	1-10 (37)	11-50 (41)	51-100 (15)	101-500 (22)	501-5,000 (8)	Over 5,000 (27)
Analytical abilities	+6.00	+7.03	+5.37	-1.00	+4.32	+10.00	+9.63
Problem-solving skills	+4.80	+4.87	+5.49	-2.33	+1.59	+10.00	+8.70
Professionally ethical behavior	+4.11	+4.38	+3.78	+2.33	+2.50	+5.63	+6.11
Communication skills	+7.01	+7.46	+7.44	+3.67	+1.82	+7.50	+11.67
Appreciation/knowledge of arts	+2.17	+3.81	-0.24	+1.67	-0.68	+1.88	+6.30
Competency/complex accounting	+7.53	+9.19	+6.83	+6.33	+0.91	+7.50	+12.41
Understand other business	+5.70	+7.16	+5.61	0.0	+2.05	+8.75	+9.07
Commitment to employer	-6.63	-4.70	-10.24	-13.33	-5.00	+1.25	-3.70
Commitment to profession	+3.23	+4.73	-0.49	+0.33	+5.68	+13.13	+3.52
People skills	+2.27	+3.14	+1.59	+0.33	-2.05	+10.00	+4.44
Positive responsive to change	+4.37	+6.11	+3.42	+4.00	+3.41	+5.00	+4.26
Maturity/profess. judgment	+6.81	+6.24	+5.61	+0.67	+3.86	+22.50	+10.19
Productivity	+2.61	+5.16	+1.59	-6.00	-0.68	+9.38	+6.11
Amount of internal training needed	+1.37	+2.84	+0.37	+2.00	-2.50	+2.50	+3.33
Amount of supervision needed	+0.87	+1.35	+1.34	+3.33	-3.41	-0.63	+2.04