

**LET'S MAINTAIN THE REQUIREMENT OF 150 SEMESTER  
HOURS TO SIT FOR THE CPA EXAM: A RESPONSE TO  
ROBERT W. MCGEE**

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**Abstract**

This paper is a series of comments on an article written by Professor Robert McGee, wherein Professor McGee recommended that the 150-hour rule to sit for the CPA examination be abolished. The arguments for and against the 150-hour rule address the fundamental role of US accounting instruction: a well rounded versus technical education. While, in general, Professor McGee's theoretical arguments are sound and persuasive, there are some practical arguments that he overlooked. There is support for the continued existence of the 150-hour requirement; this support emanates from an examination of the factors affecting the quality of accountants, their supply and demand as well as regulatory considerations.

**Professor McGee's Arguments**

In his article, Professor Robert McGee argues that the 150 hour requirement, and indeed, any education requirement, to sit for the CPA examination should be abolished.<sup>3</sup> The focus of his article and this response is on public accounting and the

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requirements for CPA licensure, not all accounting.<sup>4</sup> Professor McGee suggests that there are neither legal, economic nor ethical justifications for the 150-hour rule. In his view, the 150-hour requirement for taking the CPA examination will not produce more qualified accountants. He believes the examination process, not an education requirement, should, and will, protect society from an influx of nonqualified accountants. Further, the 150-hour rule only adds to the costs of providing accounting services.<sup>5</sup> Further, the education requirement creates entry barriers, which will increase the cost of providing necessary services, without protecting the public from fraud.<sup>6</sup>

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<sup>4</sup> The 150-hour education requirement is usually a precondition for taking the CPA examination. It is a qualification for certification, not for the practice of accounting in all arenas. The 150-hour rule is presently a requirement in 45 states and the remaining holdout states will probably join eventually. J. Cumming and L. J. Rankin, 150 Hours: A Look Back, *Journal of Accountancy* 187: 53-58 (April 1999).

<sup>5</sup> There is some empirical support for the argument that licensing regulations, including the 150 hour rule, ostensibly meant to maintain public standards of professional quality, have restricted the number of new accountants, thereby "creating earnings premiums for current licensees." J. Schaefer and M. Zimmer, Occupational Licensure in the Accounting Profession: Effects of Public Regulation on Accountants' Earnings, *Journal of Applied Business Research* 11: 9-17 (Spring 1995).

<sup>6</sup> Professor McGee's arguments for abolishing education requirements for certification closely mirror a position paper of the American Legislative Exchange Council (ALEC), a bipartisan association of state legislators, which opposes the 150 hour rule. ALEC provided the following reasons for their opposition to the 150 hour rule:

(1) The rule will reduce the number of accountants entering the market, thereby lessening competition and raising prices. This may adversely affect the competitive positions of smaller firms.

(2) Additional education does not guarantee a more qualified profession. On-the-job training is more preferred by accounting firms.

### **THE 150 HOUR RULE**

The 150-hour rule is a requirement that a prospective accountant complete at least 150 hours of education in order to sit for the CPA examination.<sup>7</sup> The objective of the rule is to create educationally well-rounded candidates for professional certification, which should improve the quality of CPA work within an increasingly technical and complex business environment.<sup>8</sup> The call for what is ostensibly a 5-year accounting program is not new; this issue was addressed over 60 years ago.<sup>9</sup> Arguably, accounting, as a profession, is emulating both the medical and legal professions in requiring what is tantamount to a post-graduate education. Medicine and law have left intact the viability of a broad, well-rounded undergraduate education, while leaving technical training to the graduate level.

As accountancy has developed in the US, the CPA designation connotes a competency in the practice of public accounting and the requirement of experience to refine the applicant's technical knowledge. However, the requirement for practical experience is decreasing, being replaced by an education

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(3) Most CPAs (55%) do not feel additional educational requirements are necessary.

(4) Additional educational requirements are discriminatory against minorities and lower income students.

(5) Consumers will ultimately pay higher costs caused by the decreased competition.

(6) The additional time commitment may prevent some students from entering the field.

(7) Small universities and colleges, already strapped for operating funds, may be adversely affected, being unable to offer sufficient courses and attract sufficient numbers of accounting majors. See L. S. Shapiro, When More May Be Too Much: The 150 Hour Rule. *The National Public Accountant* 40: 7-8 (June 1995).

<sup>7</sup> Cumming and Rankin (1999), *supra*, at 53.

<sup>8</sup> Anonymous, The 150-hour Requirement Gains Momentum, Now in 41 Jurisdictions. *The CPA Journal* 68: 8-9 (April 1998).

<sup>9</sup> R. C. McCrea and R. B. Kester, A School of Professional Accountancy. *Journal of Accountancy* 65: 106-107 (February 1936).

requirement.<sup>10</sup> In 1996, more than half of the states could grant a CPA certificate without requiring any practical work experience. Those states that did require work experience had varying requirements between 1 and 5 years.<sup>11</sup> A well recognized role of government is to protect its citizens from professional fraud or incompetence, and in the case of professions, this is especially true. The 150-hour rule can be seen as replacing on-the-job experience as a minimum quality standard for CPAs.

It should be pointed that in many states, the 150-hour requirement is merely an option that a prospective CPA can choose to meet the necessary requirements for sitting for the CPA examination. For example, in Ohio, where the 150-hour rule will go into effect in the year 2000, there are ways to circumvent the rule.<sup>12</sup>

### **THE ROLE OF ACCOUNTING EDUCATION**

“If by education we mean the cramming of a pupil’s mind with facts or rules, without any real conception of their meaning or of the relations in which they stand to each other, it is perfectly safe to say that it is a waste of time. This kind of education fits a man for a certain groove, in

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<sup>10</sup> In 1992, 5 states permitted the practice of accounting without any accounting experience at all. See Schaefer Zimmer (1995), *supra*, at 10.

<sup>11</sup> R. Mednick, Licensure and Regulation of the Profession: A Time for Change, *Journal of Accountancy* 181: 33-40 (March 1996).

<sup>12</sup> In Ohio, an applicant can qualify by taking 24 hours in accounting, taking 24 hours in business administration, passing a special written accounting equivalency examination, and earning either a baccalaureate or higher degree without 150 hours, or an associate’s degree and getting 1650 or higher on the GRE General Test (GREGT). J. Cumming and L. J. Rankin, The Year 2000: The Countdown Begins – Understanding Ohio’s 150-Hour Education Requirements, *Ohio CPA Journal* 57: 39-42 (January-March 1998).

which he moves in a routine way, a mere piece of mechanical machinery, incapable of independent thought or action. If confronted with a new condition, to which his rules do not apply, he is helpless, and is liable to make mistakes that are disastrous, because his action is based on insufficient knowledge of the foundation principles..."<sup>13</sup>

Fundamentally, the arguments presented for and against the 150-hour requirement address the role of education in preparing accountants for practicing their trades. Are the skills and knowledge that are needed by accountants developed through specialized, technical training programs or through the breadth and depth of a liberal arts education?

There are widespread complaints that accounting graduates can not communicate, can not reason logically, are deficient in interpersonal skills and can not think creatively.<sup>14</sup> Some commentators argue that the skills needed by accountants (communication, interpersonal, and critical-thinking) are not developed under the current educational system which concentrates on technical training.<sup>15</sup>

For the last hundred years, accounting education has followed a technical scope that prepares the accounting student for passing the CPA examination.<sup>16</sup> What has developed within the US accounting educational system has been the movement away from a liberal education toward technical training. Also as the

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<sup>13</sup> S. Walton, Practical Application of Theoretical Knowledge, *Journal of Accountancy* 47: 276-282 (October 1917).

<sup>14</sup> N. M. Bedford, and W. G. Shenkir, Reorienting Accounting Education, *Journal of Accountancy* 164: 84-91 (August 1987).

<sup>15</sup> J. von Brachel, Creating a Future, *Journal of Accountancy* 184: 69-71 (November 1997). Bedford and Shenkir (1987) *supra*, at 86-87.

<sup>16</sup> I.T. Nelson, What's New about Accounting Education Change? A Historical Perspective on the Change Movement. *Accounting Horizons* 9: 62-77 (December 1995).

quantity of regulatory material increases, the underlying issues and theories behind the 150-hour requirements are ignored.<sup>17</sup> Accounting education has become a collection of rules to be memorized in an uncritical, almost unthinking manner.<sup>18</sup> The consequence of this movement in the US is thus a technically proficient graduate whose communication, interpersonal, critical-thinking and professional skills are diminished.

The calls for a change in accounting education are coming from accounting practitioners themselves. The industry is calling for a fundamental change in accounting education with an emphasis on “developing communication, interpersonal and intellectual skills, and broadening the knowledge base.”<sup>19</sup> This is, and should have been, the role of accounting education: to develop analytical skills, not technical proficiency.<sup>20</sup>

### COMPLEXITY OF MODERN LIFE

A few centuries ago, nearly all the world's accumulated learning could be contained in the heads of a few philosophers.

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<sup>17</sup> The CPA examination presently does not test critical-thinking, analysis, synthesis and professional judgment. Thus US education is motivated to emphasize rule memorization rather than theoretical concepts. Nelson (1995), *supra*.

<sup>18</sup> S. A. Zeff, Does Accounting Belong in the University Curriculum? *Issues in Accounting Education* 1-3 (Spring 1989). See also Nelson (1995), *supra*.

<sup>19</sup> Nelson (1995), *supra*, at 62.

<sup>20</sup> Previts and Merino (1999) argue that, while in its infancy in the US, the accounting industry desired to follow the Scottish model for entry proficiency. That model tested writing ability, proficiency in mathematics, knowledge of geography, languages, history and physical and natural sciences. Education's role was to be to develop analytical skills; the mastery of technical procedures, such as auditing, would be learned through practical experience. See G. J. Previts and B. D. Merino, *A History of Accounting in America: The Cultural Significance of Accounting*. Columbus, OH: Ohio State University Press (1999).

Today, those heads could not hope to accommodate more than a tiny fraction of the information generated in a single day. Today, a professional needs to subscribe or have access to numerous journals or magazines just to keep up with what amounts to a minute proportion of the expanding frontiers of scholarship. This simple fact of life indicates the difficulty of maintaining standards in a profession.

The accounting industry has become highly competitive. CPA practices now go well beyond the traditional accounting, auditing and taxation services that existed at the onset of the profession and the regulatory systems which since have emerged.<sup>21</sup> The expanding scope of services offered by accounting firms, rising costs for providing those services, technological change, organizational restructurings, and increased specialization are characteristics of the changing environment of the accounting industry. Within the industry, the tax and traditional auditing segments have matured.<sup>22</sup> In response to these changes accounting firms have expanded their services, branching into management consulting, financial planning, litigation support, health care, and computer support and analysis.<sup>23</sup> To provide the services needed by consumers, CPAs will need to expand their knowledge bases to include management, marketing, international finance including the global capital markets, and information technology, while better honing their critical thinking and communication skills.<sup>24</sup> This necessitates a well-rounded, not a technical, education.

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<sup>21</sup> Anonymous, Final Report from the AICPA/NASBA Joint Committee on Regulation of the Profession: April 1997, *The National Public Accountant* 42: 13-23 (August 1997).

<sup>22</sup> P. M. Flynn, J. D. Leeth and E. S. Levy, The Accounting Profession in Transition, *The CPA Journal* 67: 42-45+ (May 1997).

<sup>23</sup> Flynn, Leeth and Levy (1997), *supra*, at 42.

<sup>24</sup> J. von Brachel, Reinventing the CPA, *Journal of Accountancy* 182: 49-51 (November 1996).

### EFFECTS ON SUPPLY AND DEMAND

There is an on-going shift away from public accounting. Most CPAs work outside of public practice, being employed in government, industry or education. This shift to nonpublic accounting will likely continue.<sup>25</sup> Even within public accounting, as previously discussed, CPAs are expanding the scope of their services well beyond traditional auditing and tax services.<sup>26</sup> The 150-hour rule is intended to ensure that businesses receive competent accountants who are certified in their profession (CPAs). There is no movement to require other accountants to receive additional education (entry-level management accountants do not have to complete 150 classroom hours before beginning employment).<sup>27</sup> With over 50% of AICPA's members working outside of public accounting, the effects of the 150-hour rule are greatly reduced. Granted the 150 rule may adversely impact the supply of accountants, however, there is no evidence to support this claim.<sup>28</sup> In order to offer these services, accounting firms are looking beyond the labor field of four/five year accounting majors to hire paraprofessionals, non-accounting majors, and individuals

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<sup>25</sup> Anonymous (1997), *supra*, at 14.

<sup>26</sup> See discussion at fn. 23.

<sup>27</sup> Flynn, Leeth and Levy (1997), *supra*. Anonymous, Accounting Grads Seen as Unprepared for Industry, *Journal of Accountancy* 178: 99 (November 1994).

<sup>28</sup> The experience in Florida indicated that the grandfathering provisions proceeding the effective date of the new 150-hour rule produced a glut of new accountants, which was followed by a shortage in the following year. However, since the time of the implementation of the 150-hour rule, the average number of licenses issued annually in Florida (1304) has exceeded the average number of licenses issued before the 150-hour rule (1147). John Cumming and Larry J. Rankin, 150 Hours: A Look Back, *Journal of Accountancy* 187: 53-58 (April 1999).

with graduate degrees, especially MBAs.<sup>29</sup> Perhaps these changes in hiring practices are not due to a shortage of CPAs, but due to the changes in industry dynamics and the need for qualified (i.e., well-rounded) individuals to meet those needs.<sup>30</sup>

The users of certified accountants (the demand side) should also be examined. Because businesses need competent help to handle complex issues, competent help will always be in demand (demand inelasticity). The penalty for mistakes can far outweigh the fees paid to professionals. It is far less costly to do complex reports / taxes right the first time. The responsibility / liability is shifted to the accounting firm, enabling a corporate manager to concentrate on income producing activities. This practice is more efficient than facing the SEC, IRS or other government agencies in administrative or court disputes. A CPA is worth the cost of court avoidance, and generally the accounting firm is insured against mistakes. Thus, the penalty influences the real world demand. Businesses should be willing to pay to avoid mistakes, and so will continue to demand qualified accountants, especially CPAs.

Professor McGee's economic arguments begin with a claim that "major cost savings can result" from the abolition of the 150-hour requirement.<sup>31</sup> Not all service providers are impacted by the new 150-hour education standards. Not all business accounting needs require a CPA. Taxes and basic bookkeeping do not require a CPA. Similarly, many people provide competent tax service without a CPA certificate. Thus, the 150-hour requirement does not affect all service providers equally. It follows that CPAs are the only service providers affected (a minority of the accounting service providers) and companies and people can handle most of their basic accounting requirements without the necessity of a CPA.

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<sup>29</sup> Flynn, Leeth and Levy (1997), *supra*.

<sup>30</sup> See discussion at fn. 23.

<sup>31</sup> R. McGee (1998) *supra*, at 7.

Accounting may be emulating the medical and legal professions in requiring what is tantamount to a post-graduate degree. In so doing, the additional education requirement imposed by the 150-hour rule may not necessarily decrease the number of accountants. Additional educational requirements for the medical and legal professions has not created an apparent shortage of either attorneys (there may actually be too many) or doctors.

Granted, requiring a license for accounting may raise the fees charged for services. The higher potential salary, however, should result in an increased supply of students seeking higher paid jobs.<sup>32</sup> Reasonably, as a profession becomes more lucrative, it attracts a greater number of adherents. Individual choice as to whether to become a lawyer, a doctor or an accountant is influenced by the monetary benefits of each career. By making the profession more selective, earnings rise, attracting more people to the profession.<sup>33</sup>

The demand for CPAs is not likely to change significantly, because businesses will still need to avoid costly mistakes. If the demand for CPAs decreases, accounting students may still be attracted to this profession due to the opportunities and financial rewards which are available. As these students graduate, they can create their own jobs. Similarly, accounting firms that downsize to reduce expenses (if the firm is losing clients because of higher fees) are putting more CPAs into private practice. Their services

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<sup>32</sup> It should be noted that starting salaries for accounting graduates has decreased over the last 25 years. The salaries have declined relative to other disciplines, such as finance, computer science, engineering, marketing and general business. Flynn, Leeth and Levy (1997), *supra*.

<sup>33</sup> As indicated earlier, many accounting firms are hiring paraprofessionals, liberal arts graduates and MBAs. There is no research that assesses the training costs or productivity gains (losses) in hiring these non-CPAs. Flynn, Leeth and Levy (1997), *supra*.

would be priced lower than accounting firms charge because overheads and corporate contributions are lower or nonexistent. The net effect is that potentially, with more CPAs available, businesses benefit from a higher level of service at a potentially lower cost. Additionally, if CPAs are forced into private practice to stay employed, then a compelling argument in favor of taking business courses can be made.

While accounting firms may be required to pay more for five-year graduates, they may be getting more for their money. The costs of a five-year graduate are offset by a more efficient and productive entry-level employee. The five-year graduate seems to be a more rounded individual and is more savvy.<sup>34</sup> Professor McGee's argument indicates correctly that the educational requirement is only 25% accounting, while 50% is liberal arts and 25% is business (but not accounting). "Individuals who want to become accountants could take just the accounting courses and skip the rest..." Assuming the college accounting course requirements were enough, then the number of people passing the CPA exam on the first try would be high. The number of CPAs who pass all parts on the first try is fairly low. Obviously there must be more to earning the CPA than taking a few courses. For example, increased vocabulary and reading comprehension are two benefits of the 50% course content of a liberal arts program. True, the barrier to entry increases in cost and time; but if the success rate for those taking the CPA exam increases, the time and cost are acceptable. The success rates of first-time candidates increased in Florida from 15% before the implementation of the 150-hour rule to over 30% after its enactment.<sup>35</sup>

Requiring more courses should not be an impediment to the average student. John Robinson (Professor of Sociology) at University of Maryland and Geoffrey Godbey (Professor of Leisure Studies) at Pennsylvania State University conducted joint

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<sup>34</sup> Cumming and Rankin (1999), *supra*, at 58.

<sup>35</sup> Cumming and Rankin (1999), *supra*, at 55.

research on free time.<sup>36</sup> They found that people have more free time today than say 10 - 20 years ago. Both time-use experts found that the average American has gained 5 hours a week in free time. The capable student would use their extra free time to take a full course load to ultimately shorten the extra year of classes into at most one semester. Additionally, summer classes can reduce the 150-hour requirement to 4 full years. Thus the opportunity costs are either at worst significantly lower than claimed (by at least half), or at best nonexistent.

In support of a liberal arts education, more leisure time means more time for other pursuits or activities. Perhaps a liberal arts background has some relevancy. As more free time is available, the possibilities for making life more enjoyable expand. It is likely a liberal arts background creates a foundation from which one can enhance their spare time, making it more productive or more enjoyable.

Who would want to avoid taking other business courses? Many CPAs run their own businesses. General business knowledge is as important as reading, writing and math. How could a high school graduate hope to cope with the math of accounting without courses in math theory? While many courses may not seem relevant to a CPA's career choice, why would an individual limit their sphere of knowledge to the exclusion of all other interests? Even physical education courses (golf for instance) might be of use to a CPA. The purpose of the university is to produce a well-rounded individual who can make career decisions as life's changes occur, not to produce narrowly focused individuals incapable of having a fully enjoyable life. Specifically with regard to business education, especially marketing,

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<sup>36</sup> J. P. Robinson and G. Godbey. *Time for Life: The Surprising Ways Americans Use Their Time*. University Park, PA: The Pennsylvania State University Press (1997).

“belonging to a luncheon club, playing golf with the right people, participating in cultural and community-based organizations is no longer enough.”<sup>37</sup> Marketing professional services is different and difficult, and it is suggested that accounting graduates receive a marketing education.<sup>38</sup> Contrary to McGee’s claim that many accountants do not interact with the public (the misperception that accountants deal with numbers, not people), most public accountants have interactions with the public, which requires both oral and written communication skills.<sup>39</sup>

Realistically, colleges or universities do not teach you to be an accountant as Professor McGee claims; however, they help you to organize your thinking which aids you in becoming an accountant or CPA. A fifth year (if necessary), along with the influence of maturity, is crucial to the development of advanced analytical and interpretive skills. Maturity is not equally distributed throughout the population and one cannot assume that all individuals could quickly master the necessary material. In addition to a formal education, determination and motivation are also important.

McGee points to isolated instances where additional courses are required without adding additional accounting courses. However, studies show that vocabulary, reading comprehension, and math skills decline once formal instruction is stopped.<sup>40</sup> Since colleges want students to be well-rounded and intellectual advancements is in of itself fulfilling, are these goals not worthy? Arguably, a higher level of development and longer retention of skills benefits an individual, and the society in which they live. Even if the additional hours do not contain additional accounting

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<sup>37</sup> Arthur A. Hiltner, John W. Gillett, and Dennis J. Elbert, Marketing Professional Services: Are Accounting Students Prepared? *Journal of Professional Services Marketing* 13: 91-100 (1995).

<sup>38</sup> Hiltner, Gillett, and Elbert (1995), *supra*.

<sup>39</sup> Nelson, (1995), *supra*.

<sup>40</sup> S. Mowey and P. Conahan, eds. *Reading/Writing Comprehension Strategies*. East Petersburg, PA: EDRS Publishers (1995).

courses; (however unlikely); surely the student is better prepared for the CPA exam.<sup>41</sup>

Professor McGee argues that accounting students should learn enough in four years to be good practitioners and suggests the same holds true if no courses other than accounting are taken. The above suggestion might cause negligence in maintaining current skills or keeping up with innovations. Avoiding taking other college courses would certainly produce a narrowly focused member of our society. CPA's are not unidimensional. No one would rationally desire to be so narrowly focused as to not choose to develop other pursuits in college. By narrowing their education, these accountants would acquire only industry-specific skills that are not easily transportable. In this era where individuals will often-likely change jobs and professions and where human capital is prized,<sup>42</sup> industry-specific skills and a narrow educational background can be a long term detriment to both employment and earning power. At the very least, most individuals examine several career options before making a decision. A university offers them the opportunity to examine the contents of several professions.

Could anyone become a CPA without preparation? How many would choose to take the exam without outside help / support? How can someone learn without discourse or discussion without sharing or testing of ideas? Interpretation and understanding are part of the classroom experience. And so is the development of a mind capable of understanding the complexity of the accounting life.

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<sup>41</sup> See discussion at fn. 35 regarding the increased passing rates for the CPA examination following the imposition of the 150-hour rule.

<sup>42</sup> M. Blair. *Wealth Creation and Wealth Sharing: A Colloquium on Corporate Governance and Investments in Human Capital*. Washington, D.C.: Brookings Institution (1996).

To imply that cutting educational costs by reducing the hours required would not have an adverse effect on technical competence is fraught with peril. The argument presented by Professor McGee assumes only 25% of the classes are needed to produce competent accountants. Suppose, under Professor McGee's proposal, the average CPA starts at age 18 (approximately), chooses to self educate themselves as a less expensive and less time intensive method. Would businesses feel that this unlicensed person would meet their complex needs? Would the average high school student have the skills necessary to prepare themselves for self-study and a CPA exam? While it is possible for some individuals to study on their own ("like Abe Lincoln and Thomas Edison did"<sup>43</sup>), the reader recognizes that these are exceptional individuals from our past, living in a time when the educational system was quite different. To imply that everyone has such exceptional talents and self direction in today's environment is faulty. The complexity of life is but one reason for the increased complexity of education and the need to increase the requirements (150 hours). The accounting profession, in trying to raise standards, is providing more guidance to those who seek to become CPAs. If this results in higher pay, then more people will seek this career.

That agencies do not always work in the public interest, is not contested. However, it is not possible to measure the cost increase versus public benefit. The author advocates scrapping a system that produces reliable, competent CPA's, in favor of a system that truly favors a minority; the self-made man. The old methods used by Lincoln and Edison were primarily apprenticeship. In the past, organized systems of instruction were in their infancy. The number of surgeons could only increase by as many apprentices as one could train. There were some questions about quality and competency considerations. Today, there are

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<sup>43</sup> R. McGee, Let's Abolish the Education Requirements for Professional Certification: An Analysis from the Perspectives of Law, Economics & Ethics, *Journal of Accounting, Ethics & Public Policy* 1(3): 1-9 (Summer 1998).

more CPA's available than in the past, largely due to accredited schools maintaining standards.

The McGee proposal - to cut education cost by 75% - would be detrimental to the CPA profession, but not just in terms of remuneration. CPA's would be unprepared for social interaction, running a business, marketing their services and managing their employees. The learning curve to do this "on the job training" would hurt their business development for years. Consequently, the average CPA would be at a disadvantage if unable to take required courses or if allowed to practice without the benefit of said courses. This is a greater financial cost than the opportunity cost associated with the time lost to take the 5<sup>th</sup> year of classes.

### **THE NEED AND DEMAND FOR QUALITY**

The primary objective of the 150 hour rule, as professed by the AICPA, is to improve the overall quality of accountants who are now being confronted by advanced technology, an increasingly complex business environment, and a continuous demand for accounting services. The requirement seeks to provide an opportunity of a well-rounded education, which will enable CPAs to acquire the necessary accounting and business knowledge and to develop the skills to support a lifelong professional career.<sup>44</sup>

The need for quality is not solely a client-professional relationship. The public users of accounting information, especially the finance profession which uses accounting

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<sup>44</sup> Anonymous, Accounting Grads Seen as Unprepared for Industry, *Journal of Accountancy* 178: 5-6 (November 1994).

information derived from the auditing process, are equally concerned with the quality of work performed by CPAs.<sup>45</sup>

### **COSTS TO THE POOR**

The issue of cost to the poor customer who needs CPA services and to the student who is unable to afford the 5<sup>th</sup> year of education is also not as clear cut as Professor McGee claims. The public needs competent professionals, ideally at a reasonable price. The average person needs help with taxes. Realistically, since the average tax return is fairly straightforward, a company such as H&R Block is more than capable of meeting those public requirements without being dependant upon new CPAs, or losing business because of the 150 hour requirement (which is not a condition of employment). The poor do not suffer to the extent indicated by Professor McGee.

The author claims that the poor will suffer by virtue of not being able to afford a CPA. The poor do not need a CPA and they can already contract with tax preparers who are not CPA's but do a credible job with simple returns, at a reasonable cost. The CPA is intended for complex businesses requiring professional help of a caliber higher than the average H&R Block employee.

The author states blacks, Hispanics and low income students are harmed the most. Students with the ability and or determination have always had the means to educate themselves. Minority scholarships as well as competitive scholarships are available. Government grants are based on need. Government loans are also available - with no interest or repayments for one year after graduation.

Disadvantaged students can apply for minority scholarships in addition to regular scholarships; an additional advantage to the so-called disadvantaged student. Achievement based scholarships do not measure your income level. If you cannot compete

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<sup>45</sup> M. Geary and W. G. Wessendarp, Mandatory Quality Review: Impact on CPA Firms and Practitioners in Ohio, *Ohio CPA Journal* 48: 5-9 (Summer 1989). Schaefer and Zimmer (1995), *supra*.

academically, grant and government loan support is a successful way: just ask Sallie Mae. The above programs remove the dollar burdens of education. Furthermore internship programs allow students to work while finishing their education. Additionally, the last year can be completed at night, if so desired, at many institutions. There are innovative ways for educational institutions and industry to work together to staff accounting firms, while preparing students for their future careers.<sup>46</sup>

Professor McGee correctly states that there is an opportunity cost of not having a job for the extra year to complete the fifth year. However, most U.S. students already have a job, which diminishes the opportunity cost argument somewhat. Also, there is some evidence that 5<sup>th</sup> year graduate start at higher salaries.<sup>47</sup>

### CONCLUSIONS

Financial reporting requirements and the tax laws have increased in complexity. Perhaps this complexity requires additional courses. The complaint voiced by McGee should be made to the source of tax complexity, namely the IRS, or ultimately to Congress, not to the response of the CPA community or the response of the university system. Truthfully, lifetime learning is what is required to keep up with changes in laws and taxes.

Who exactly is hurt by the 150-hour requirement? Apparently, the evidence presently available indicates only students pay a cost in time and money. But isn't this to be expected, as accounting becomes more complex? Won't

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<sup>46</sup> Cumming and Rankin (1999), *supra*, at 58.

<sup>47</sup> Cumming and Rankin (1999), *supra*.

circumstances require more effort to master the material, and shouldn't some standard be used to measure competency?

Professor McGee's arguments, while theoretically efficient, do not consider the human reality of life in the 21<sup>st</sup> century. It is correct that "CPA's ...by going to various state legislatures to ask for protection against competition [;]"<sup>48</sup> they are protecting their turf. There may be some rent seeking as a result of this protection but primarily the move is to raise standards. However there is general disagreement on the benefits of said legislative acts. While such laws do entail a cost, the benefits (improved quality of service or protection from incompetence or fraud) outweigh the costs.

Firms will need people who can meet the new requirements. Because initially such individuals will be in short supply, the salary levels will be higher. Rising prosperity is not a problem as ever larger numbers of CPA/Bookkeepers are produced. They are in demand and therefore employable. Currently, enrollment in accounting is climbing not declining.<sup>49</sup>

The author is correct in that the barrier to entry has increased by 25%. The individual is however better prepared for the CPA. The student pays a cost, but benefits not only from the increased level of preparation, but also stands a better chance of passing the CPA exam on the first try - a true savings of time and cost savings of over two thirds of all students who must retake the exam. However, the long-term effects of the 150-hour rule are still unknown. There is still a need for empirical research, which will clarify its ultimate effects and the need for any changes in the regulatory schema.

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<sup>48</sup> R. McGee, The Economics and Ethics of Requiring 150 Semester Hours of Coursework to Sit for the CPA Exam, *Journal of Accounting, Ethics & Public Policy* 1(2): 282-286 (Spring 1998).

<sup>49</sup> I. Gleim, *Gleim's CPA Review: A System for Success*. Gainesville FL: Gleim Publications, Inc. (1999).