



THE EFFECT OF THE 150-HOUR REQUIREMENT ON CORPORATE HIRING PRACTICES

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Abstract

Accounting educators are on the front lines between a changing profession and its potential entrants. One of the most significant changes to effect the accounting profession in recent history is the 150-hour requirement. Employers, students and educators are uncertain about the benefit of education beyond a bachelor's degree for entry-level corporate accounting. To address this issue, 176 chief financial officers were surveyed to determine actual corporate hiring practices and the potential benefits of a master's degree. The results suggest that corporations are beginning to develop a preference for candidates with a master's degree and that those new-hires are more qualified for their entry-level position.

The Effect of the 150-Hour Requirement on Corporate Hiring Practices

Introduction

Accounting educators are on the front lines between a changing profession and its potential entrants. Employers are looking to academics to create entry-level employees who will provide value to their organization, and college students are looking to professors to provide them with the skill, abilities, and degrees needed to get that first position in accounting. In this era of change, employers, students, and accounting educators are all uncertain about the benefit of education beyond a baccalaureate degree for entry-level corporate accountants. This project gathered information from corporate employers in the Southwest in the fall of 1998 that can help to address directly whether a master's degree (one measure of education beyond a baccalaureate degree) is valued for entry-level corporate accountants.

Thirty chief financial officers from Texas, Oklahoma, New Mexico, Louisiana, Arkansas and Kansas provided information about their actual experience in recruiting and hiring entry-level accountants with bachelor's [\[1\]\[1\]](#) and master's degrees. Their responses indicate that there is a demand for entry-level accountants with master's degrees and that companies will pay a premium to entry-level employees with an advanced degree. This paper will provide background about post-baccalaureate education in accounting, a review of current research in the area, a description of a survey that addresses the value of an advanced degree, and an analysis of the results obtained.

Background on Post-Baccalaureate Education in Accounting

The move towards the 150-hour requirement has not been taken lightly by the accounting profession. The issue itself first arose almost thirty years before the mandate was established by the general membership of the AICPA. Once in place, the mandate has been phased in over a ten-year period to allow the individual state boards to enact any legislation that they feel is appropriate.

In 1959, the AICPA Commission on Standards for Education and Experience for CPA's approved a resolution stating that a post-baccalaureate degree should be required to become a CPA. The AICPA General Council approved the resolution, but it never came before the full membership. The requirement for additional education has been subsequently reaffirmed on several occasions.

The issue next arose in 1969. The AICPA asserted that holding a CPA certificate is evidence of a body of knowledge common to all professional accountants. Rather than explicitly recommending a post-baccalaureate degree, it was affirmed that at least five years of college study should be required to obtain a CPA certificate. However, one year of experience could take the place of the fifth year of college education.

Continuing on what seems to be a ten-year cycle, in 1978, the AICPA reaffirmed its support for a graduate degree. To garner support for the resolution, an independent study group was formed in 1981. The group included a cross-section of the profession including membership of the AICPA, the American Accounting Association (AAA), the Federation of Schools of Accountancy and the National Association of State Boards of Accountancy. The purpose of this group was to formulate a strategy to promote the five-year, post baccalaureate requirement to the profession and the states.

Finally, in 1987, the AICPA issued the Plan to Restructure Professional Standards. According to the plan, after the year 2000, 150 hours of college education (rather than a master's degree explicitly) will be required for all new AICPA members. The plan was approved by 83% of the general membership in 1988 and has been incorporated into the AICPA bylaws.

The need for the 150-hour requirement can be seen in the profession's self-assessment. The Big Eight (now Big Five) position paper "Perspectives on Education and Capabilities for Success in the Accounting Profession" listed three areas in which a professional accountant must be competent: communication skills, intellectual skills and interpersonal skills. The AAA's

Bedford Committee found that accounting education was inadequate to prepare graduates to meet the needs of the expanding profession. Consequently, education must move from a narrow technical subject to the study of information development and distribution. Also, students must “learn to learn”. However, the technical knowledge must not be neglected. Siegel and Sorensen (1994) found that because accounting education is focused more heavily on public accounting, graduates entering corporate practice were deficient in technical knowledge as well as communication skills.

Table 1

150-Hour Legislation for States in Sample
(as of 1998)

State	150-Hour Requirement	
	Enacted Date	Effective Date
Arkansas	1990	1/1/1998
Colorado	1998	1/2/2002
Kansas	1990	6/30/1997
Louisiana	1990	12/31/1996
New Mexico	Not Enacted	N/A
Oklahoma	1998	7/1/2003
Texas	1989	8/31/1997

Literature Review

The 150-hour rule has been the subject of much speculation in the accounting press. Even the “empirical evidence” reported is primarily the accumulated speculation of the many rather than the few. Since surveys of employers about 150-hours/master’s degree education in accounting have taken place primarily in the interval between the adoption of the requirement for state licensure and its implementation, many surveys provide only hypothetical responses to questions about what the employer expects to do in the future. In fact, the increase in graduate degrees in accounting has tracked the adoption by states. Thus employers have had little experience in recruiting or hiring entry-level accountants with 150-hours/master’s degrees before actual implementation of the 150-hour rule in their state. However, these early-stage surveys provide an indication of the controversy in this area.

Three of the early surveys of the effects of the 150-hour rule were consistent in their disparagement of its value for corporate accountants. Harrison, Chesser and Conway (1991) reported that 85% of the 150-hour program graduates entered public accounting at that time. However, in 1991 the 150-hour rule was implemented in only two states and enacted in only eighteen. Ethridge and Hinway (1993) reported that 90% of the 155 corporate accountants surveyed felt that 4 years of education was sufficient for an entry-level position and only 31% felt that entry-level workers with advanced degrees performed at a higher level than four-year graduates. In 1993, three states had implemented the 150-hour rule and thirty had enacted it. Siegel and Sorenson (1994) surveyed 800 high level accountants from a national sample. They report that 60% of corporate accountants surveyed did not feel that 150 hours of university

education was necessary for their entry-level positions. Thirty percent recommended accountants pursue that additional 30 hours of college work after obtaining work experience. Only 27% said that they would be willing to offer a 20% premium. Siegel & Sorenson's work was published at a time when the 150-hour rule was implemented in only four states and enacted in 32.

Surveys such as those described above have been primarily pessimistic about the future usefulness of an advanced degree for an entry-level accountant. However, empirical research that looked at accountants from their hiring to their promotion or turnover provides a different point of view. Hunton and Wier (1996) examined the promotion and turnover of 828 entry-level accountants in three private industry groups: printing, publishing and allied industries, chemical products, and paper and allied products. They found that the most significant factor in increasing the probability of promotion was a master's degree. Those with a master's degree in accounting achieved promotion thirty months before those with only a bachelor's degree, and those with a master's degree in business achieved promotion eighteen months before. In addition, turnover for bachelor's degree workers occurred sooner than turnover for master's degree workers. Although the timing of the award of the advanced degree is not known, these two findings together are consistent with a master's degree having value to an employer for even entry-level workers.

Only additional research can provide a resolution to the fundamental question about the value of an advanced degree to an entry-level accountant. Wallace (1996) suggests the primary question is whether graduates of 150-hour programs receive a premium in the job market. The search for a premium must be made in the corporate world because public accountants in 150-hour states naturally have a preference for hiring those who have completed the minimum preparation for the job. Only in the corporate job market are 120-hour and 150-hour candidates competing with each other. This project adopted the Wallace research strategy to find whether, in an era of beginning implementation of the 150-hour requirement, corporations are recruiting, hiring, and paying a premium to entry-level accountants with a master's degree. As of 2001, 48 jurisdictions have enacted the 150-hour rule and 39 have implemented it.

Methodology and Results

To determine the effect of the 150-hour requirement on actual corporate hiring practices, surveys were mailed within a seven-state region of the Institute of Management Accountants (IMA). In 1998, the time of this study, this region included characteristics of the entire fifty-state population. It included one of the earliest states to enact the 150-hour requirement, (Louisiana in 1990), one of the last states to enact the requirement (Oklahoma in 1998) and one of the five state that had not passed legislation (New Mexico)[\[1\]\[2\]](#)