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## Professional requirements and qualifications of Filipino CPAs.

American Institute of Certified Public Accountants. International Qualifications Appraisal Committee

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### Recommended Citation

American Institute of Certified Public Accountants. International Qualifications Appraisal Committee, "Professional requirements and qualifications of Filipino CPAs." (1975). *AICPA Committees*. 151. [https://egrove.olemiss.edu/aicpa\\_comm/151](https://egrove.olemiss.edu/aicpa_comm/151)

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**AICPA**

**American Institute of Certified Public Accountants**

1211 Avenue of the Americas, New York, New York 10036 (212) 575-6200

To: All United States Jurisdictional  
Boards of Accountancy

From: AICPA International Qualifications  
Appraisal Committee

Objective

To determine to what extent the professional requirements and qualifications of a Filipino Certified Public Accountant are comparable to those of a Certified Public Accountant in the United States.

Purpose

To offer guidance to United States jurisdictional boards of accountancy in assessing the educational, examination and experience qualifications of Filipino Certified Public Accountants applying for a Certified Public Accountant's Certificate in the United States.

Conclusion

Based on its study of the examination, education and practice requirements for a Filipino Certified Public Accountant, the details of which follow, the Committee concludes that due to the broad spectrum of educational and experience backgrounds acceptable to qualify a candidate for a certified public accounting certificate in the Philippines, no general recommendation can be made regarding their comparability to the professional requirements and qualifications of a Certified Public Accountant in the United States. Therefore, the Committee suggests that the qualifications of each individual holding a Filipino CPA certificate and requesting certification here should be considered on a case by case basis.

The Committee makes the following recommendations to assist the jurisdictional boards in making such individual decisions:

1. The quality of education in different universities or colleges varies to the extent that consideration must be given to the university or college from which an individual received the degree when determining the acceptability of the educational requirements. It seems appropriate to give full recognition to those individuals who have a degree from a university or college considered by the committee to have a strong program in Accounting. (See the discussion of Educational Background Required in the text which follows).
2. The experience requirement prescribed by the Board of Accounting Education in the Philippines may be fulfilled by means other than employment in public accounting. This may not be acceptable to some licensing bodies in the United States. In addition, the quality of the experience gained in public accounting often appears to vary with the firm served. A board may wish to make inquiry to determine how and with whom a Filipino CPA requesting certification in the United States fulfilled his practical experience requirement. It seems appropriate to give full recognition for experience to those individuals who satisfied the requirement with firms which have a high level, diversified public accounting practice comparable to that found in high quality United States firms.
3. The Committee found the Filipino CPA examination substantially less difficult than the current United States CPA examination. The Filipino examination trails the United States examination in degree of difficulty and subject matter by approximately 10 to 15 years. In view of this fact, the Committee suggests that other factors, especially experience and education be given more weight in assessing an individual Filipino CPA's qualifications. Successful completion of the Filipino CPA examination may not be an adequate indication

of an individual's qualifications. (See the discussion of Content, Coverage and Ability Level of the Examination in the text which follows.)

4. In addition, laws vary from country to country; and the taxation system in the Republic of the Philippines is different from that of the United States. Therefore, the Committee also makes the following recommendations:

Filipino Certified Public Accountants should be required to:

- (1) Pass the law portion of the Uniform CPA Examination, or pass at an acceptable grade level, a three semester hour course in Business Law or the Uniform Commercial Code;
- (2) Pass at an acceptable grade level a three semester hour course in United States Federal Income Taxation, or a comparable examination suitable to the jurisdictional board of accountancy.

These additional adaptive measures should be required even when a jurisdictional board of accountancy determines that a particular Filipino CPA's total preparation is comparable to that of a CPA in the United States.

#### Background

The Philippines is a young republic just over a quarter of a century old. It has a developing economy which is gradually shifting from basically agricultural to agro-industrial. There has been, within the last 15 years, an awakening among Filipinos to the advantages of investing in securities and industrial enterprises as the corporation emerged as the dominant form of business organization. Because of these factors business in the Philippines has not as yet reached the complex and sophisticated level we are familiar with in the United States. As a result, the accounting profession in the Philippines has not yet achieved the same stage of development as its counterpart here.

The accounting profession in the Philippines began at the turn of the century as British accountants completing their employment contracts with companies in Manila began to open their own firms. Today the Filipino accounting profession is held in high esteem not only in the Republic of the Philippines but throughout Southeast Asia. Many Philippine accountants have emigrated to other countries.

In 1923 the First Accountancy law was enacted to organize the profession. It created the Board of Accountancy which has the power to give the written CPA examination and to regulate accounting to Certified Public Accountants. In addition, the law provides that all corporations exceeding a relatively low figure must be audited by a CPA. These two laws have provided a substantial demand for the services of Filipino CPAs and have provided considerable stimulus to the growth of the profession.

The Accountancy Act of 1967 was enacted to improve and update the profession and to make it more responsive to the needs of business and society. This act created the Board of Accounting Education with the powers to prescribe the requirements necessary to qualify as a CPA candidate. This includes naming the collegiate courses required for a Bachelor of Science degree or its equivalent with a major in accounting.

The Philippine Institute of Certified Public Accountants was founded in 1929 and is the only national organization of accountants in the Philippines. It has its national office in Manila and Chapter offices in other business centers.

The PICPA Committee on Accounting Principles appears to be taking the broad approach of developing a framework of fundamental principles related to valuation and statement presentation of individual balance sheet and income accounts. When necessary, however, they have acted to solve a pressing

accounting problem. For example, after the 65% devaluation of the peso in 1969, PICPA issued in a very short time, a sophisticated (by comparison with applicable U.S. pronouncements in effect at the time) pronouncement clarifying the accounting aspects of the change. Generally, however, they do not appear to have spoken to as many issues, nor been as specific in the statements made as has been the case in the United States. Still, there appears to be no basic conflict between those documented statements of generally accepted accounting principles that have been made by the profession in the Philippines and those promulgated by the profession in the United States.

Generally Accepted Auditing Standards in the Philippines follows almost exactly the content and form of the pronouncements made by the AICPA Committee on auditing standards. The Philippine bulletins on auditing standards make reference to the AICPA Statements on Auditing Procedure and call for the same general standards and the same type of opinions with the same recommended wording. In addition, PICPA audit Bulletin No. 15 states:

The American AICPA has taken a leading role in the task of developing universally accepted accounting principles and in providing written expression of these principles. In the absence of pronouncements by the Philippine Institute of Certified Public Accountants on similar matters, the auditor should refer to the AICPA studies and pronouncements and, in his judgment, adapt those which are applicable to local conditions and to the particular situation at hand.

The Filipino CPA is required to adhere to a code of professional ethics which requires competence, independence of mind and moral behavior. It is essentially the same as the AICPA Code of Ethics. There are only two significant differences between these guides to professional conduct. In the Philippines (1) there has been no sanction against competitive bidding and (2) the confidential relationship between an accountant and his client is protected except when national security requires disclosure.

The Republic of the Philippines has a Securities and Exchange Commission which requires that financial statements be filed by all issuers of securities traded on an Exchange or over-the-counter, as well as by corporations with twenty or more shareholders. Although investment activity is at a less complex level in the Philippines, their Commission has detailed requirements regarding the form and content of the financial statements filed with it. These requirements are similar in almost every respect to the regulations issued by the United States Securities and Exchange Commission.

During interviews conducted by a member of the Committee, financial executives of large multinational companies in Southeast Asia which either employ Filipino CPAs or have had experience dealing with them as auditors expressed highly favorable opinions about their qualifications and their performance. These financial executives felt that the performance of the Filipino CPAs with which they had had experience was at least comparable to a United States CPA.

### General

In determining which aspects of the foreign profession should be evaluated and which should not, the Committee restricted itself to the education, experience and examination requirements for a Filipino CPA. The Committee is aware that this is a limited approach. However, it believes that it is not qualified, nor would the profession be best served, if the Committee attempted to compare socio-political factors affecting the accounting profession in the country under review with those in this country.

The Committee is aware that the environment in which the professional body under consideration operates has a significant impact on the way the profession functions in that country. However, it concluded that these non-quantifiable factors should be disregarded because the applicant will be emigrating from the Philippines, largely leaving behind the influence

of its business community. The influence of his association with fellow American professionals, should overcome any problems resulting from the difference in socio-political environment.

The Committee concluded that the most extensive and assessable aspects of any accounting body's system is its educational, examination and practice requirements. Therefore, the Committee's review focused on a comparative study of these areas.

### Scope

The general steps followed in evaluating the requirements for becoming a Certified Public Accountant in the Republic of the Philippines were:

1. To perform a comparison of the Philippine examination and the American CPA examination by: (a) evaluating the subject area covered in the two examinations for an appropriate number of years; and (b) evaluating the two examinations as to the level of knowledge demanded in examined areas, the degree of difficulty of the questions, and the conceptual, as opposed to procedural, context of the questions;
2. To determine the comparability of educational requirements for a CPA in the Philippines by evaluating, through discussions with educators, the course content and depth of coverage in both countries;
3. To compare the practice requirements with regard to length of time as well as to the quality of experience obtained by reference to applicable rules and through discussions with practitioners in both countries;
4. To determine overall comparability a member of the Committee conducted interviews with executives of large multi-national corporations throughout Southeast Asia who are both users and employers



of Filipino CPAs. The Committee also interviewed a Filipino CPA who is presently a member of one of the United States jurisdictional boards of accountancy.

The following is a summary of the Filipino educational, examination and practice requirements for a CPA, which formed the basis for the Committee's conclusion.

#### Educational Background Required

The majority of Philippine colleges and universities which offer a specialization in accounting were founded and/or are operated by members of the accounting profession. Furthermore, the Accountancy Act of 1967 requires that accounting and auditing be taught only by Certified Public Accountants. However, the quality of education varies from school to school because there are no accreditation procedures for colleges and universities in the Philippines comparable to those in the United States. Private schools including proprietary (profit seeking) colleges and universities simply register with the Bureau of Private Schools of the National Department of Education which is responsible for setting and maintaining general minimum standards of efficiency for these institutions, particularly in regard to curricula. The Bureau's recognition of an institution and approval of its educational program is not an index of scholastic quality. While the public universities and colleges generally enjoy a certain degree of qualitative superiority regarding curriculum and course content, a few private institutions are comparable.

During their study, the Committee concluded that the University of Philippines (public), Far Eastern University and the University of the Far East (both private) were examples of schools whose accounting programs were comparable to those of most colleges and universities in the United States. Besides producing the largest number of accounting degree graduates in the country (who subsequently achieve a relatively high pass rate in the Filipino

CPA Examination), these schools have accounting curriculums and degree requirements that are models for other schools in the Philippines. For further information concerning education in the Philippines, contact Mr. Dremuk at the IQAC Buffalo address.

The Board of Accounting Education established by the Accountancy Act of 1967 has prescribed the following minimum requirements for a Bachelor of Science degree in Commerce or its equivalent.

<u>Subject</u>	<u>Semester Hours</u>
Accounting and Auditing	39
Business Law	9
Tax	6
English	15
Mathematics	9
Management	6

Any graduate holding a Bachelor of Science degree or its equivalent meeting these minimum requirements from any institution of learning recognized by the Philippine government is eligible to apply for candidacy.

#### Practical Experience Required

The experience requirement prescribed by the Board of Accounting Education in the Republic of the Philippines is in some respects different from that generally required by the various United States jurisdictional boards of accountancy. In the Republic of the Philippines, the experience requirement may be fulfilled by either one year's employment or internship or by two semesters covering 12 credits of approved academic work. The one year's employment or internship consists of at least 1,600 hours with either (1) a certified public accountant or a certified public accounting firm engaged in the practice of public accounting; or (2) a business organization or government organization. These include commercial or industrial business organizations and government owned or controlled companies.

Experience with a CPA firm includes auditing, tax, accounting and management services; while experience with a business organization or government corporation includes internal auditing, tax and accounting work, as well as management services.

The practice of public accounting in the Republic of the Philippines is dominated by a few firms; i.e., Sycip, Gorres, Velayo & Co., Carlos J. Valdez & Co. and Price Waterhouse & Co. The Committee believes that staff training and practice experience in such firms is comparable to that of high quality U.S. firms. The Committee recognizes that there may be other local firms which meet U.S. standards. However, those listed above are the only ones which the Committee studied in the preparation of this report.

#### Procedures for Conducting the Examination

The Board of Accountancy, which was established by the Accountancy Act of 1923 conducts the Certified Public Accounting examination at least once a year in the City of Manila, Cebu City and Davao City.

Questions and problems on specific subjects are assigned to Board members for preparation. The exam is designed to test the overall knowledge and competence of a candidate. Therefore, questions and problems on topics which do not have general applicability in the Philippines are avoided.

One member of the Board has the responsibility of accounting for the questionnaires. He must prepare a report showing the number printed, spoiled, distributed and undistributed. Spoiled and undistributed questionnaires, together with the stencils and other reproduction sheets are bundled together and sealed.

The examination is conducted in mutual cooperation by the members of the Board of Accountancy and the personnel of the Civil Service Commission. The rules regarding behavior during the examination are comparable to those of the examination for the Uniform CPA Examination here in the United States.

At the conclusion of the examination the Secretary of the Board prepares a report to the Board Chairman accounting for the examination papers he re-

ceived from the individual Room Supervisors. Before grading, the Secretary, in the presence of the other Board members validates the examination papers with a mechanical device, then they are packaged and properly sealed for distribution to graders.

The Committee found no reason to believe that the Philippine procedures for Conducting the Examination were not at least sufficient to protect the integrity of the examination at all times.

Grading

The Board member who prepared the questions and problems in a specific subject area is also assigned to grade that subject area. Although this is not an accepted practice in the United States, the Filipinos believe that the person who prepared the question or problem is the person best qualified to grade it since he is most familiar with all of its subtle nuances.

To qualify for certification a candidate must have received a weighted average grade of at least 75% with no grade below 65% in any subject area.

If a candidate receives a grade of 75% or above in any three subject areas having a combined weight of six units, the candidate receives conditional credit for the subjects passed provided that he successfully completes the examination in the remaining subject areas within two years.

The board of Accountancy has established procedures which appear adequate to insure the clerical accuracy of the candidates final result.

Content, Coverage and Ability Level of the Examination

The Filipino examination covers the following subjects with the corresponding weights and time:

<u>Subject</u>	<u>Weights in Units</u>	<u>Minimum Hours</u>
Theory of Accounts	2	3
Business Law	1	1½
Tax	1	1½
Management Services	1	1½
Auditing Theory	1	1½
Auditing Problems	2	3
Practical Accounting Problems	2	3
Practical Accounting Problems	2	3
	<u>12</u>	<u>18</u>

The material covered in each of the subject areas is as follows:

Theory of Accounts - Accounting terminology, accounting principles and procedures, classification of accounts, valuation of assets and liabilities, income determination, and new developments in accounting theory.

Business Law - Obligations and contracts, partnerships and corporations, negotiable instruments and other phases of the legal framework of business;

Taxation - Income tax, business tax, transfer and other taxes;

Management Services - Principles and procedures involved in management consulting services that may be rendered by a certified public accountant such as systems installation, preparation of budgets and forecasts, project studies and controllerships;

Auditing Theory and Problems - Theory and problems in independent examination of accounts, auditing standards and procedures, audit programs and work papers, preparation of audit reports, and internal auditing;

Practical Accounting Problems I & II - Problems on transactions and situations usually encountered in both public and private accounting practice.

Since members of the Board of Examiners prepare problems and questions for a specific subject area, there are very few whose solution requires an integration of knowledge in several subject areas. Often the questions require only a simple statement of fact rather than requiring the candidate to use logical reasoning or judgement.

In addition, a small number of questions on the Filipino examination are taken from earlier United States Uniform CPA examinations. In some instances these questions have only slight modifications and in others the questions are modified into a less rigorous form. However, the committee believes that such instances are infrequent enough that no undue advantage would be gained from the systematic study of prior U.S. exams. In general, the questions on the Philippine examination appear to be less difficult to answer than those on the United States Uniform CPA Examination. This is obviously a reflection of the fact that accounting practice in the Philippines often involves problems that are somewhat less sophisticated than those encountered in the United States.

The Committee concludes that the Filipino examination appears to be, in the degree of difficulty and in the level of knowledge demanded, substantially less difficult than the current United States Uniform CPA Examination. The Philippine examination appears to be very similar to the United States examination prior to the substantial revisions in content and ability level which have taken place in the last 15 years.