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Some Empirical Evidence on the Impact of the AICPA's Mandatory Continuing Education Requirements

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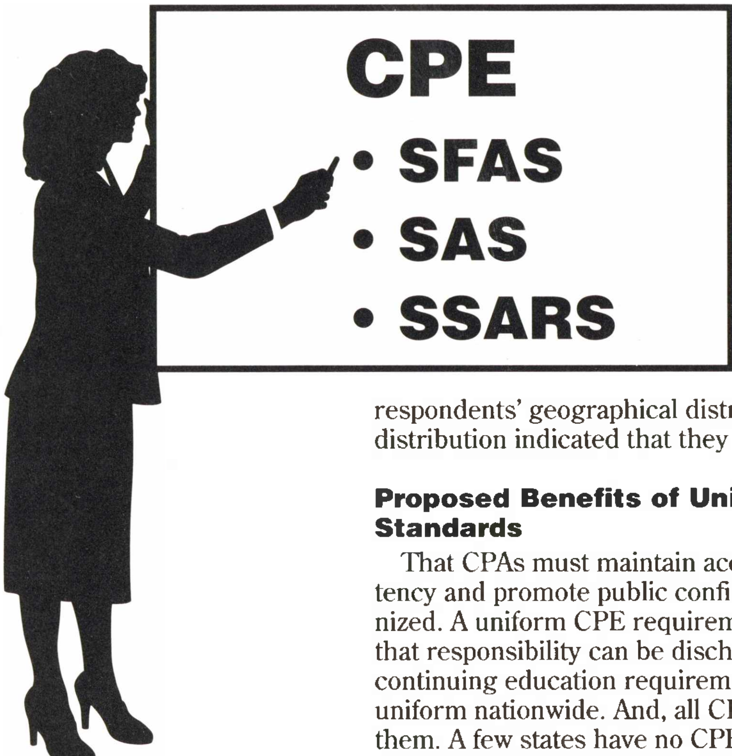


Introduction

In 1986 a special committee of the American Institute of Certified Public Accountants (AICPA) on restructuring professional standards, recommended adopting mandatory continuing professional education (CPE) requirements. The Institute cited as reasons for its proposal the rapid growth in the body of knowledge that CPAs must master, the expansion of services provided by CPAs, and unique technological developments in business. In January, 1988, the membership of the AICPA overwhelmingly adopted all of the committee's recommendations and over 90% voted in favor of the CPE proposal.

The new rules require members in public practice to take 120 CPE hours every three years with a minimum of twenty hours per year. Members not in public practice are required to take 60 hours of CPE over a three-year period starting in 1989. In 1992, the requirement increases to 90 hours over three years with a minimum of ten hours each year. This topic is discussed in the following article.

Since forty-seven states already require CPE, the AICPA hopes its CPE requirement will set a national standard. The Institute wants state boards of accounting to follow its leadership and enact similar requirements.

The purpose of this article is to provide evidence concerning the possible impact of uniform mandatory CPE rules on licensed certified public accountants. The sample was taken from state CPA society mailing lists containing the names and addresses of 10,860 licensed CPAs from six western states.[1] A systematic sample of 10% of the population was taken resulting in surveys being sent to 1,086 CPAs. Five hundred and fourteen surveys were returned for a response rate of 47.3%. Analysis of postmarks of returned surveys comparing respondents' geographical distribution to the population distribution indicated that they were almost identical.[2]

Proposed Benefits of Uniform Mandatory Standards

That CPAs must maintain acceptable levels of competency and promote public confidence is widely recognized. A uniform CPE requirement is one means by which that responsibility can be discharged. Current state continuing education requirements overlap and are not uniform nationwide. And, all CPAs are not covered by them. A few states have no CPE requirements. For those that have, the requirements in most states are only for those in public practice.

The disparity among state regulations is a significant problem since accounting professionals have become more mobile. If the state in which the accountant is licensed has different rules for education and/or practice from the state in which he or she needs to work, reciprocal licensing can be difficult. Additionally, CPAs who are employed by large national or regional firms often must be licensed in several states. If the licensing requirements

[1]The states were selected because of their low population density and the preponderance of small firms and local practitioners. These firms and individuals should be affected most by adoption of hte AICPA's new rules.

[2]A chi-square test was run and the result supported the hypothesis of no statistical difference in the distributions of the group.

are dissimilar, the CPA may have difficulty making certain all the states' requirements are met. Uniformity of CPE rules would obviate these types of problems.

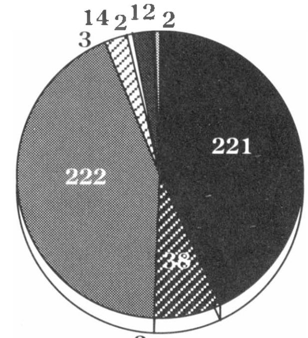
The benefits of uniform CPE requirements go beyond relieving CPA's licensing problems caused by increased mobility. (Humphries et al. 1988, p. 74) feel that uniform CPE rules would provide evidence to the public as to the competency of CPAs nationally. The authors also feel that uniform standards would increase the quality of the programs offered while lowering their cost since distributors of CPE programs could operate on a national level. These distributors could function with larger budgets and higher quality standards. The result would be the development of programs for larger audiences with a corresponding reduction in cost due to economies of scale and competition.

Additional CPE requirements for those not engaged in public practice may be especially burdensome. The AICPA position is that these individuals will find various alternatives to fulfill the requirement, such as self-study, home video, and teleconferences, that are not too financially burdensome (AICPA, 1986, p. 65). Moreover, conferences and seminars such as those conducted by state CPA societies and other professional organizations, should be a regular part of CPAs professional lives. As does the CPA certificate, CPE increases the value of CPAs not in public practice either to their employers or in the general marketplace.[3]

Exhibit 1

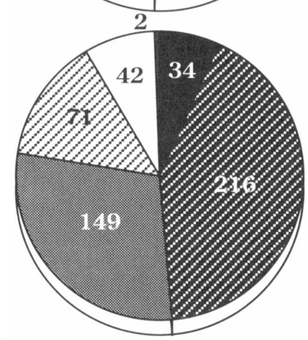
Employment Status

Self-employed, full-time	221
Self-employed, part-time	38
Employed full-time by others	222
Employed part-time by others	14
Retired	3
Shareholder in professional corporation, full-time	12
Other	2
No response	2
	514



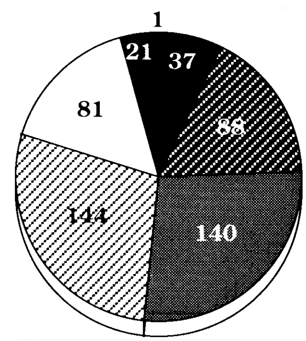
Age Distribution

25 - 29	34
30 - 39	216
40 - 49	149
50 - 59	71
Over 60	42
No response	2
	514



Experience

5 years or less	37
6 - 9 years	88
10 - 14 years	140
15 - 24 years	144
25 - 39 years	81
40 or more	21
No response	3
	514



The Cost of Uniform Mandatory Standards

Some CPAs feel that recent Congressional criticism of the auditing profession pressured the AICPA into mandating CPE. This group does not believe that uniform mandatory CPE standards will necessarily result in a higher degree of competency of CPAs or audit quality.

Their concerns may very well affect the adoption of uniform continuing education rules. These concerns essentially center around the financial burden placed on non-practicing CPAs and those CPAs employed by small public accounting firms.

Some in the profession will bear a heavier financial burden than others under mandatory uniform requirements. Large national firms provide many extensive in-house CPE programs and consequently their staff personnel will not have to incur additional costs. In contrast, CPAs in industry, government, and education may personally incur substantial incremental costs. Since CPE costs are treated as miscellaneous expenses for income tax purposes, they are deductible only to the extent that they exceed two percent of adjusted gross income. Individuals who are not highly paid and/or have few other miscellaneous expenses have a unique financial burden placed upon them. Given this financial burden, these CPAs may seek out the least expensive CPE programs regardless of quality. This will result in CPE credit which is of dubious value.

In the final analysis many feel that the pressures of competition as well as professionalism will compel CPAs to stay up-to-date in the areas in which they work. Uniform mandatory continuing education requirements are therefore unnecessary.

The task of choosing the best educational opportunities from among a myriad of programs offered under multiple sponsorship becomes an even tougher game because the CPA faces increasing risks in terms of cost and time on programs of doubtful benefit. Many also maintain that little evidence exists that proves that uniform mandatory CPE, requiring a certain number of credit hours over a given period of time, assures quality of service or competence of the practitioner any more

[3]Nix and Nix, 1987, p. 13, found that 75 percent of their respondents (directors of state societies of accountancy) indicated that their state should have the same mandatory continuing education requirement for accountants in industry, public practice and government.

In contrast, CPAs in industry, government, and education may personally incur substantial incremental costs.

than CPE taken on a voluntary basis.

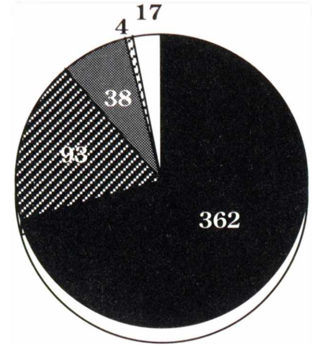
From the survey, demographic data was collected on personal and job related characteristics, as well as information on possible CPE rule changes. The most significant aspects of the responses are discussed below.

The first section of the questionnaire related to three personal characteristics, employment status, age, and experience, shown in Exhibit 1. The second section of the questionnaire asked about three job related characteristics, field of employment, firm size if in public accounting, and area of specialization, shown in Exhibit 2.

Exhibit 2

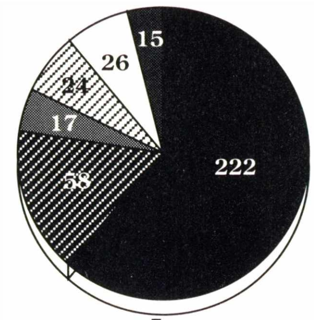
Fields of Employment

Public accounting	362
Private accounting	93
Governmental accounting	38
Education	4
Other	17
	514



Firm Size

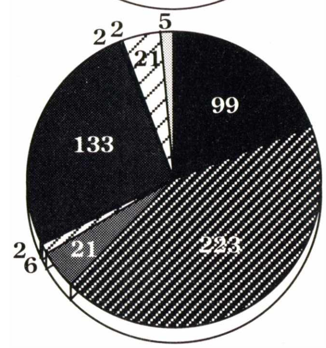
Less than 10 employees	222
10 - 25	58
26 - 50	17
51 - 199	24
Greater than 200	26
No response	15
	362



Area of Specialization

Auditing	99
Taxation	223
Management Advisory Services	21
Budgeting	6
Cost Accounting	2
General Accounting	133
Systems Analysis	2
Teaching and/or Research	2
*Other	21
No response	5
	514

*The "Other" category included tax law, financial analysis and planning, administration, consultation, and sales management.



Continuing Professional Education Efforts

Respondents answered several questions relating to their CPE efforts. First, they were asked to estimate their average annual nonreimbursed costs for continuing education. The average expenditure was $152 which included 388 respondents (76.8%) who indicated that their nonreimbursed costs were zero. The 117 who had nonreimbursed costs averaged $658 per year. This result is consistent with the responses to the question "How are you currently financing the costs of CPE?" Exhibit 3 reports the responses to that question.

Interestingly, only five percent of the respondents are employed by firms which do not pay for any cost associated with CPE. For those engaged in public practice, 84% of the respondents noted that their firms paid all costs of CPE while another 7.4% indicated that their firms paid most or some of these costs. Over 50% of those not employed in public accounting had their CPE costs paid by their firms and another 33.5% had most or some of those costs paid by their firm.

The CPAs were also asked to indicate the average number of hours of approved CPE credit that they reported for the last three years. The average number of hours was 47.8 and the median was 43.0. Additionally, the sixteen respondents not subject to CPE requirements but who voluntarily participated in CPE activities, indicated they averaged 35.3 hours per year for the last three years. The median number of hours per year was 40 for this group.

Finally, the sample group was asked how they typically met CPE requirements. These results are presented in Exhibit 4.

The numbers do not sum to 514 or 100% because most of the respondents used multiple methods. The AICPA and/or State Society Programs were the most widely utilized method of meeting the continuing education requirements. Firm sponsored, in-house programs were second. In the "Other" category,

Exhibit 3

Financing of CPE Costs

Firm pays all costs of CPE	383
Firm pays most costs of CPE	42
Firm pays some costs of CPE	36
Firm pays no costs of CPE	28
Not applicable	21
No response	4
	514

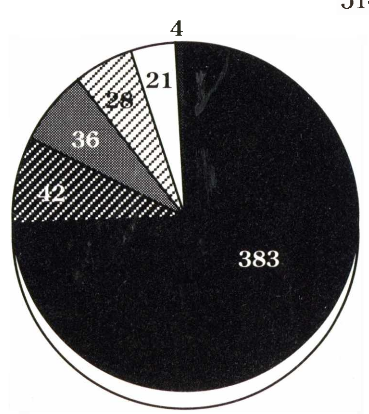


Exhibit 4

Activities Used to Meet CPE Requirements

College Course Work	33
Self-Study Courses	114
AICPA and/or State Society Programs	444
In-House Programs	193
Other commercial state-approved CPE providers	91
Other	29

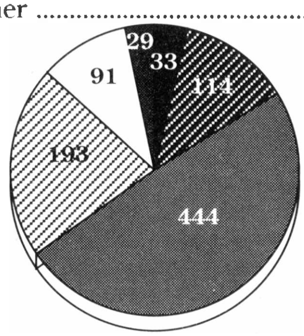
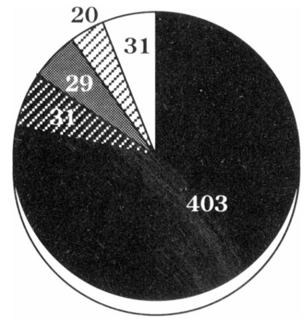


Exhibit 5

Effect on Nonreimbursed Costs

No increase in personal cost	403
Small increase in personal cost	31
Moderate increase in personal cost	29
Large increase in personal cost	20
No response	31
	514



respondents included teaching college courses, presenting seminars, writing articles, and giving lectures.

Questions on the Proposed Adoption of Uniform Mandatory CPE Requirements

The next section of the questionnaire asked the sample of CPAs six hypothetical questions relating to the adoption of uniform mandatory continuing professional education requirements. The first three questions focused on the impact of adoption on the respondent while the last three questions were firm-specific.

The first question dealt with how the new AICPA CPE rules would affect the respondents' nonreimbursed costs of CPE if his/her state adopted the new rules. Exhibit 5 displays the answers to that question.

Seventy-eight percent of the respondents feel that adoption of the new rules would have no effect on CPE costs. This result is consistent with the data from Exhibit 3 indicating most respondents' firms paid all CPE costs. Eighty-four percent of those in public accounting and 69.1% in non-public accounting agreed that if their state adopted the AICPA's new rules there would be no increase in personal cost. Another 9.9% of the non-public accountants felt there would be some increase and 9.2% felt that a moderate increase in cost would occur. This finding does not support the contention that non-public accountants will suffer a disproportionate amount of the costs of CPE relative to those engaged in public accounting.

Four hundred and thirty (83.7%) of those responding were members of the AICPA. They were asked if, because of the adoption of the new rules, they would consider dropping their membership. Of the four hundred and thirty respondents, 87.4% stated they would not drop their membership in the Institute. Only 6.5% indicated that they would drop their membership while 6.1% were undecided. For those AICPA members employed in public accounting (314), 90.4% indicated they would not drop their memberships, 5.1% said they would, and 4.5% were undecided. Of those in non-public accounting positions (116), 10.3% stated they would drop their memberships, 79.4% would not, and 10.3% were undecided.

The next question was addressed to those primarily engaged in accounting practices not requiring a CPA license. These individuals were asked if they were considering dropping the CPA designation due to increased personal nonreimbursed costs of CPE. The question was applicable to 220 of the respondents. Apparently they felt that the benefit of having the designation outweighed the cost, since 81.8% indicated they would not drop the designation. Thirty, or 13.6%, indicated they would drop their designation, and 4.6% were undecided. Response distributions to this question for public and non-public accountants were nearly identical.

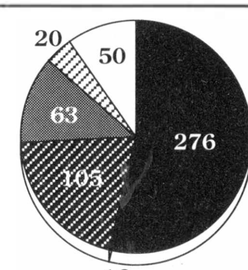
The remaining three questions asked about the effect of adoption of uniform mandatory CPE on costs to the firm. Exhibit 6 shows the responses to the question, "If your firm bears any or all of the costs of CPE, to what extent do you believe your employer's costs would rise due to the new requirements?"

A majority feels that there would be no increase in the cost of CPE due to the new rules. This may be because each of the states surveyed have either an 80 hour over two-year requirement or a requirement of 120

Exhibit 6

Effect on Firm's Cost - All Respondents

No increase in firm's cost	276
Small increase in firm' cost	105
Moderate increase in firm's cost	63
Large increase in firm's cost	20
No response	50
	514



Effect on Firm's Cost

No increase in firm's cost	210
Small increase in firm' cost	64
Moderate increase in firm's cost	41
Large increase in firm's cost	16
	331

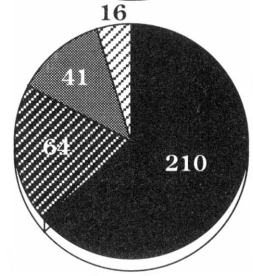
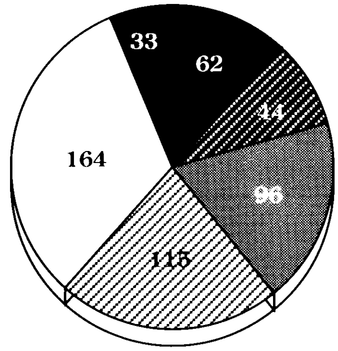


Exhibit 7

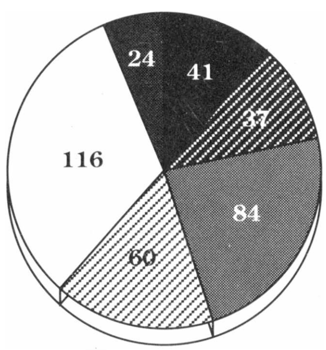
Ability to Pass On Added Costs to Clients and/or Customers

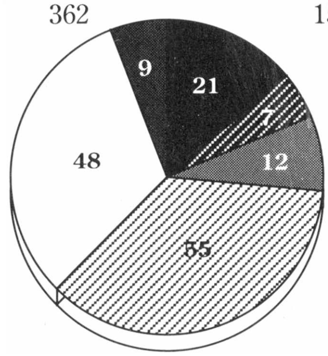
Firm can pass on all costs	62
Firm can pass on most costs	44
Firm can pass on some costs	96
Firm cannot pass on any costs	115
Not applicable, costs to firm will not increase	164
No response	33
	514



Ability to Pass on Added Costs to Clients and/or Customers

	PP	NPP
Firm can pass on all costs	41	21
Firm can pass on most costs	37	7
Firm can pass on some costs	84	12
Firm cannot pass on any costs	60	55
Not applicable, costs to firm will not increase	116	48
No response	24	9
	362	152





hours over a three-year period. On average then, many firms currently bear the equivalent cost. However, over 46% believe the new rules will result in some increase in the costs associated with continuing education.

Exhibit 6 also displays the answers to that question grouped by those employed in public accounting and non-public accounting. The respondents are those individuals who have their CPE costs paid by their firms. For those not employed in public accounting, 50.4% believed that costs will increase as opposed to 36.6% in public practice.

If there is a perception of increases in CPE costs, a logical question is, "To what extent can these added costs be passed on from the employer to clients and/or customers." The answers to this question are arrayed in Exhibit 7.

The question was applicable to 317 of the sample group. Of this total, 36.3% (115) felt that none of the additional costs of CPE could be passed on to clients and/or customers. Additionally, another 44.2% from this group believed most or some of the costs could be passed on.

Exhibit 7 also presents the distribution of responses arranged by public and non-public classifications. The table reveals that there is disagreement between the two groups as to whether additional CPE costs can be passed on. More of those in non-public accounting positions felt that the firm cannot pass on any of these costs. In fact, for those answering the question in non-public accounting, 58% believe that no costs can be passed on versus 27% in public accounting. If some or all of these costs have to be absorbed by the firm, what reduction in other costs or service quality will have to be made to maintain profitability?

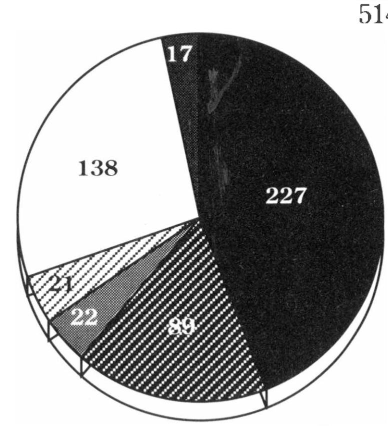
The last question was stated as, "Some accounting services do not require a CPA designation. To what extent do you believe that increased costs for CPE would be disadvantageous to your firm relative to those firms not subject to CPE requirements?" Of those who indicated that the question was applicable (359), over 63% felt there was no disadvantage. These individuals must feel the CPA designation more than outweighs any additional incremental costs. However, the other 36% felt that some disadvantage would be caused by increased CPE costs. Exhibit 8 shows the responses to that question. Public and non-public responses to this question were similarly distributed.

How this perceived disadvantage impacts competition among those offering accounting services is certainly a concern. One respondent indicated that the additional cost of CPE along with the cost of an individual license, firm license, AICPA and state society dues, and liability insurance was enough to make non-CPA firms overly competitive, as he put it, to the detriment of the public. The inability to pass on incremental costs associated with CPE and the effect of these costs on the marketing of accounting services

Exhibit 8

Are Increased CPE Costs a Competitive Disadvantage?

No Disadvantage	227
Some Disadvantage	89
Moderate Disadvantage	22
Much Disadvantage	21
Not Applicable	138
No response	17
	514



may very well have a negative impact on state movements in adopting the AICPA's CPE requirements.

Conclusion

From its first sponsored voluntary continuing education program in 1954 until its 1971 resolution urging statewide adoption of CPE requirements, the AICPA has been at the forefront in recognizing the importance of CPE (Schlosser, et al., 1987, p. 242, 245). The 1971 resolution emphasized the importance of uniform CPE requirements and recommended that states adopt and use the guidelines contained in the AICPA report. Although 48 of the 54 CPA licensing jurisdictions have CPE requirements, the response to uniformity has been less than enthusiastic. The adoption of mandatory CPE requirements by the Institute is an important step in that direction. Whether the states will accept the AICPA guidelines is another question.

This study partially addresses that question by examining some of the obstacles to uniform CPE requirement adoption. Specifically, a sample of CPAs was asked to assess the impact of mandatory CPE on themselves and their respective firms. Since the sample came from a population with employees of many small firms, the authors assumed they would be severely affected financially because of increased CPE costs. Additionally, those in non-public accounting would be excessively burdened because of nonreimbursed CPE costs. The evidence does not support either of these expectations.

Further, for those who are members of the AICPA, adoption of the new rules does not seem to pose any significant problems. For those engaged in providing accounting practices not requiring a CPA license, increased nonreimbursed CPE costs are not a consideration in retaining or dropping that designation.

Over 40% of the respondents believe that adoption of the AICPA guidelines will increase their firm or employer's cost. However, public and non-public accountants are divided as to whether these costs can be passed on to clients and/or customers. Finally, the group believes that the CPA designation is well worth the additional cost of CPE, and is not a competitive disadvantage relative to those firms providing similar services and not subject to CPE requirements.

The results suggest that, for this group, the adoption of the AICPA's continuing professional education requirements does not present the obstacles suggested by the literature. As the expectations of the users of CPA services rise, a greater degree of accountability is demanded. Perhaps the time for establishing uniform CPE requirements has finally arrived.

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