

THE 'LEGAL ENVIRONMENT' AND THE BUSINESS  
LAW PORTION OF THE CPA EXAM:  
DIVERGING INTERESTS?

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## Introduction

The Board of Examiners of the American Institute of Certified Public Accountants (AICPA) has adopted new content specification outlines for the CPA examination, to become effective with the November 1983 examination. These content specification outlines list the topics to be tested and reflect the approximate percentage of the total test score devoted to each area. The content specification has several purposes, including to insure consistent subject matter coverage from one examination to the next, to assist candidates in preparing for the exam, and to provide guidance to those who are responsible for preparing the exam.<sup>1</sup>

Another stated purpose of the outlines is to provide accounting educators with the subject matter considered essential for success on the exam.<sup>2</sup>

A comparison of the content specification outline for the Business Law portion of the exam, and current trends in undergraduate Business Law education in the business schools around the country suggests that the gap between what is expected of CPA examination candidates and what is taught in the classroom may be widening for many people. It is the purpose of this article to draw the attention of educators, practicing accountants and students to this potential problem. Several issues will be discussed and possible solutions for the problem will be offered.

### Examination Candidates

The total number of candidates who sat for the November 1982 Uniform CPA Examination was 73,140.<sup>3</sup> Since candidates can sit for anywhere from 1-4 parts, depending upon the number of previously passed parts, it is not clear how many of those candidates sat for the entire exam--Auditing, Business Law, Accounting Theory and Accounting Practice. However, we do know that 55,476 of the 73,140 who took the exam did sit for the Business Law portion of the exam in November of 1982.<sup>4</sup>

It is widely accepted that the Business Law portion of the exam represents a significant challenge for CPA candidates. This is particularly true for those individuals who attended an undergraduate institution offering a limited Business Law curriculum. While the Board of Examiners of the AICPA does not disclose national passing percentages for the CPA exam, it generally holds true that approximately 10 percent of the first time examinees pass all four sections of the exam, with the pass rate for each individual section of the exam approaching 30 percent.<sup>5</sup> CPA exam pass rates are only reported by individual state boards of accountancy.

### The Changing Business Law Curriculum

The organization which establishes accreditation standards for schools and colleges of business nationwide is the American Assembly of Collegiate Schools of Business (AACSB). The AACSB sets the standards for subject matter content in the schools and colleges of business. The AACSB standard which addresses the question of undergraduate student exposure to business

law requires a "background of the . . . legal environment as it pertains to profit and nonprofit organizations, along with ethical considerations and social and political influences as they affect such standards."<sup>6</sup>

Finding the proper method to provide the needed exposure to business law for undergraduate students has caused considerable debate among educators. Numerous articles have appeared in the literature which address the issues raised in the debate. Many lively sessions have been held in national and regional meetings of the American Business Law Association, where undergraduate legal educators offer widely varying opinions on the most effective way to meet the AACSB standard and to provide the students with information which will be useful to them in business.

Out of the many years of course development and discussion following the issuance of the AACSB standard, a few trends in the business law curriculum emerge. Although surveys indicate that the percentage of schools requiring more than four credit hours is declining,<sup>7</sup> the number of electives offered in business law is growing.<sup>8</sup> Furthermore, there is an increasing trend, albeit slowly developing, toward basic courses which are often described as "The Legal Environment of Business," or "Business and Society." It is the latter trend which has the greatest potential impact on accounting majors as they begin their preparation for the Business Law portion of the CPA exam.

You need not go far in the literature to ascertain that there are many different definitions of what constitutes a "Legal Environment" course. As a relatively new academic discipline, there is no universally accepted definition of content of these courses. The variation in the

table of contents from one textbook to the next, all of them bearing the title of The Legal Environment of Business, is testimony to the difficulty of trying to define what constitutes a legal environment course. However, it is probably sufficient to say that the environmental approach represents a shift away from the traditional rule-oriented business law courses. The legal environment courses are more comprehensive in scope, exploring the basic characteristics of the U.S. legal system and its interaction with markets and political institutions.<sup>9</sup>

Where the more traditional business law courses present a moderately detailed treatment of such subjects as Contracts, Commercial Paper, Agency, Partnership and others, the legal environment courses often reduce the coverage of those subjects, shifting the emphasis to subjects with a public policy or managerial focus--Antitrust, Consumer Protection, Employer-Employee Relations, Labor Law and the Environmental laws. The traditional business law course remains the most common offering in the schools and colleges of business. However, a moderate shift toward the legal environment approach is evident.

For most undergraduates in business, the legal environment approach is certainly appropriate. The greatest exposure to liability for most people in business today rests in those areas most commonly treated in the legal environment courses. The magnitude of the potential liability is being redefined almost daily in the courts. A business student who graduates with a detailed knowledge of Contracts, Agency and Partnership, but no knowledge of Consumer Protection, Environmental Laws, Employer- Employee

Relations, Products Liability and the other areas which have recently experienced a significant growth in litigation, has probably been ill-served by his or her university. However, for accounting majors, a detailed knowledge of the traditional business law subjects is necessary for success on the Business Law portion of the CPA exam.

#### Content Specification vs. Legal Environment Subjects

I have outlined below a summary of the Content Specification Outline for the Business Law portion of the CPA exam, with corresponding comments about how (and if) these subjects are treated in legal environmental courses. As discussed above, the variation from one text book to the next guarantees that any such listing below will not hold true for every Legal Environment of Business text.

[Insert Table Here]

As is the case in nearly every undertaking, generalization is convenient, but often inaccurate. An examination of each available textbook will reflect greater or lesser treatment of the subjects listed above. However, the description provided above is for the most part accurate.

The shift toward the legal environment approach has been well received by educators. Many educators, publishers and the AACSB are in agreement regarding the utility of this approach. There are some who are strongly opposed to such a shift, particularly as the emphasis shifts away from the traditional subjects with which they are entirely comfortable--Contracts--to subjects with which they may have little or no exposure--Environmental Law. This too promises to be an issue causing considerable debate. However, the academic discussions and the underlying motives are almost entirely

TABLE 1

<u>Content Specification</u> (Weight allocation in %)	<u>Legal Environment Texts</u> <sup>10</sup>
I. The CPA and the Law (10%)	Not commonly covered.
II. Business Organizations (15%) A. Agency B. Partnership C. Corporations D. Other Forms	Usually covered, but not in great detail.
III. Contracts (15%)	Commonly covered, but some books delete entirely.
IV. Debtor-Creditor (10%) A. Bankruptcy B. Suretyship C. Bulk Transfers D. Consumer Protection	Bankruptcy and Consumer Protection covered. Suretyship and Bulk Transfers rarely covered.
V. Government Regulation of Business (15%) A. Administrative Law B. Antitrust Law C. Regulation of Employment D. Federal Securities	Usually covered in considerable detail.
VI. Uniform Commercial Code (25%) A. Commercial Paper B. Documents of Title C. Sales D. Secured Transactions	Sales commonly covered--some texts delete entirely. Commercial Paper Documents of Title and Secured Transactions usually not covered.
VII. Property, Estates and Trusts (10%) A. Real and Personal Property B. Mortgages C. Estates and Trusts D. Fire and Casualty Insurance	No consistent treatment among the textbooks. Real and Personal Property not commonly covered.

irrelevant to an accounting student who is trying to select courses to gain enough knowledge to pass the Business Law portion of the exam.

As the adoption of the legal environment approach becomes more common--the literature and the number of new textbooks suggests that it is--the gulf between what is being taught and what is expected for success on the CPA exam may become wider. This should be of no little concern to educators because accounting majors often constitute the largest major in schools and colleges of business. The evident utility of a legal environment approach, when contrasted with the CPA exam requirements, can present a problem for educators who are responsible for structuring undergraduate course requirements and electives.

It should not be forgotten that the CPA exam is not intended to be a mere test of subjects which all students have been exposed to in undergraduate courses. In the booklet Information for CPA Candidates,<sup>11</sup> the AICPA reminds the candidates that some subjects tested on the exam are either not included in business law texts, or are not covered in adequate depth. Furthermore, candidates are reminded that recent developments with which the examinee is expected to be familiar may not yet be in some of the texts. And it is true that most professional exams, such as bar exams, always present material which many students will not have been exposed to in regular course offerings. However, unless those in academe address themselves to this problem, the shift toward the environmental approach in undergraduate legal education may make the gap between what is taught and what is tested much larger than anyone expected, including the

AICPA. Success on the Business Law portion of the CPA exam should represent a significant accomplishment--not a miracle.

### Alternatives and Proposed Solutions

The content specification outline for the Business Law portion of the CPA exam reflects an expected knowledge of a variety of legal issues which are considered crucial for the accounting professional. The exam requires a relatively detailed knowledge of a variety of subjects. The legal environment approach in undergraduate business education, although well suited for most business majors, does not, by itself, provide sufficient introduction to even a majority of the subjects tested in the CPA exam. Filling the gap for accounting majors represents a considerable challenge for educators. The solutions implemented among the various universities are quite diverse, if they exist at all.

Based on discussions and correspondence with colleagues in the ABLA, I have become familiar with several common approaches currently utilized to address the needs of accounting majors preparing for Business Law portion of the CPA exam. Several universities offer two tracks of Business Law courses; one for accounting majors and the other for the non-accounting business majors. Others offer a basic course (one or two terms required), and then offer a multitude of electives, many of which deal with the subjects tested on the Business Law portion of the CPA exam. One of those electives may be a legal environment course. Either of these approaches are useful for accounting majors, assuming that they have sufficient elective hours outside of their major for the Business Law electives. Considering the rigor and multitude of required accounting

courses in the various accounting programs across the country, free elective hours are often strictly limited. Furthermore, if the Business Law electives are fragmented and subject-specific (as they are at this University), an accounting major would end up with something close to a minor in Business Law if he or she attempted to get an exposure to even a majority of the subjects tested on the Business Law portion of the CPA exam.

The most difficult circumstance for accounting majors may be the school or university which offers a basic course in business law, with no electives. This is not an uncommon situation, particularly at the moderately-sized and small schools. If the school decides to adopt the legal environment approach as the one and only course, the accounting majors can be left with a large void to fill to become even reasonably prepared for the CPA exam. The point is not to editorialize about the benefits or costs of shifting to the legal environment approach. Rather, the purpose here is to focus on possible solutions for accounting majors.

An unfortunate but not infrequent solution to the problem is inaction. Slight or no exposure to even a majority of the subjects tested on the Business Law portion of the CPA exam is often the norm, rather than the exception.<sup>12</sup>

Budgetary problems and/or the shortage of qualified and interested faculty members provide some of the explanation. Interdepartmental jealousy and territoriality--two destructive tendencies existing both in academe and industry--provide a part of the answer. The business law faculty, frequently housed in a distinct department from the accounting

faculty, may be hesitant to offer a "Business Law For Accountants" course because among other things, it is perceived to reduce the demand for the various business law electives. The experience at this University, which offers a wide array of Business Law electives and a Business Law Review for accountants does not support the "reduced demand" hypothesis.<sup>13</sup>

The issue of territoriality arises in cases where the accounting department purposes to teach a business law review course for the accounting majors. Faculty members usually become unsettled when someone in another area proposes to offer a course which is viewed as the property of another discipline. The Business Law faculty at several institutions are reluctant to offer a course directed toward accounting majors, yet they resist the development of such a course if it will originate through the accounting department, to be taught by an accounting professor who holds a J.D. The most unfortunate results can be a standoff--a Chinese Wall drawn between the accounting and Business Law faculty--with few course offerings directed toward accounting majors and the subjects tested on the CPA exam. There are many sound arguments on both sides in these conflicts, but the result for accounting majors is the same. They are forced to scramble after graduation to become familiar with many of the Business Law subjects, either through individual study or review courses.

There is commonly considerable resistance to incorporating a CPA Business Law review course in the undergraduate curriculum. It is certainly reasonable to suggest that an "exam coaching" course does not belong in the regular list of course offerings for credit. However, such

a course is obviously highly useful for accounting majors who must approach the CPA exam as a major hurdle in their professional careers. Furthermore, the implementation of such a review course can serve to free Business Law professors from the pressures to direct most of their coursework toward accounting majors. It is not uncommon for Business Law professors to feel unduly pressured by the needs of accounting majors facing the CPA exam. As the trend toward the legal environment approach continues, such a comprehensive review course of the major Business Law subjects tested on the CPA exam becomes even more useful for accounting majors, without altering the focus of the other electives.

At this University, we offer a basic Business Law course (one semester) and a multitude of electives.<sup>14</sup> We also offer a one semester course entitled "Business Law for Accountants." In fact, this is a course designed to prepare our accounting majors for the Business Law portion of the CPA exam. These students take the introductory Business Law course (required), and frequently take several Business Law electives. However, approximately 90 students each year sign up for the upper level course which is geared toward success on the exam.

Teaching such a course presents an exceptional challenge. The focus of the course necessarily directs the instructor away from comprehensive treatment of the subjects, as they are typically presented in undergraduate business law courses. Case study and policy analysis do not occur in this course. The subjects are taught and reviewed in the order that they are most heavily weighted on the exam, and only this issues tested on the exam are addressed. The exams are structured to acquaint students with similar

questions and time constraints, as they appear in the CPA exam. We usually manage to cover 10 to 12 of the subjects which are tested on the CPA exam. It is made clear from the outset through a course syllabus and discussion that this course is one with a large scope, when considering the number of subjects presented in a short period, but a narrow purpose. People who leave this course are adequately prepared for the Business Law portion of the CPA exam. They are not familiar with the case law and policy issues which so enrich the other undergraduate business law courses.

The potential disadvantages of such a course are obvious. Aside from the comments about the inappropriateness of an "exam coaching" course, it was thought that this course would reduce the demand for business law electives. This did not occur here. Our business law electives remain populated by a large number of accounting majors.

The development and implementation of this course has served to strengthen the standing of our accounting majors in preparation for the exam, without altering the enrollment and focus of the other business law electives. Consideration of such a course may be even more crucial in those universities which shift their emphasis away from traditional business law courses toward the legal environment approach. While a comprehensive business law review course can never take the place of the educational experience resulting from case study, discussion and analysis, such a course is of the greatest utility to those students who will be sitting for the CPA exam in the near future. Most of the students enrolling in such a course are exceptional people with strong academic records. Many

have already accepted positions with public accounting firms before enrolling in this course in their final semester. Success on the CPA exam is a crucial step in their professional lives.

### Conclusion

Students entering the accounting profession should be educated to recognize relevant legal problems, realize what facts are important, apply the underlying legal principles to accounting and become sensitized to potential legal liability. The Business Law portion of the CPA exam is intended to develop and test the candidates exposure to the relevant legal principles. Many accounting majors are not exposed to even a majority of the subjects tested on the Business Law portion of the CPA exam.

Although basic Business Law courses remain the cornerstone of the Business Law curriculum at the undergraduate level, there is a definite trend toward what has become known as the legal environment approach in undergraduate legal education. The material covered in most legal environment courses diverges significantly from the Content Specification Outline for the Business Law portion of the CPA exam. While the legal environment approach is highly useful for most undergraduate majors, the exclusive adoption of such an approach in the Business Law curriculum will likely increase the difficulty accounting majors now face in sitting for Business Law portion of the CPA exam. Undergraduate legal educators should move to fill the void, either through intensive review courses or creative adjustments in the Business Law curriculum for accounting majors.

## NOTES

<sup>1</sup>SEE CONTENT SPECIFICATION OUTLINES FOR THE UNIFORM CERTIFIED PUBLIC ACCOUNTANT EXAMINATION 2, prepared by the Board of Examiners of the AICPA, adopted August 31, 1981.

<sup>2</sup>Id. at 2.

<sup>3</sup>Letter from Mitchell Rothkopf, Director, Examinations Division, AICPA (March 16, 1983).

<sup>4</sup>Id.

<sup>5</sup>I. GLEIM, CERTIFICATION OF ACCOUNTANTS 10 (1982).

<sup>6</sup>AACSB Accreditation Council, POLICIES, PROCEDURES AND STANDARDS, Curriculum Standard IVb., pp. 30-32.

<sup>7</sup>See Deal, "Business Core Curricula Revisited," COLLEGIATE NEWS AND VIEWS 19, 21 at Table 3 (Spring 1977).

<sup>8</sup>See Dunfee, Brennan and Decker, "The Business Law Curriculum: Recent Change and Current Status," 18 AM. BUS. L. J. 59 (1980).

<sup>9</sup>See Bucholz, "Business Environment/Public Policy: A Study of Teaching and Research in Schools of Business and Management" 117 (1979) (Working Paper No. 41).

<sup>10</sup>B. FISHER and M. PHILLIPS, THE LEGAL ENVIRONMENT OF BUSINESS (1983); R. MEINERS and A. RINGLEB, THE LEGAL ENVIRONMENT OF BUSINESS (1982); J. BLACKBURN, E. KLAYMAN and M. MALIN, THE LEGAL ENVIRONMENT OF BUSINESS (1982); M. LITKA and J. INMAN, THE LEGAL ENVIRONMENT OF BUSINESS (1983); R. CORLEY, R. BLACK and O. REED, THE LEGAL ENVIRONMENT OF BUSINESS (1981).

<sup>11</sup>American Institute of Certified Public Accountants, Information for CPA Candidates 10 (1981).

<sup>12</sup>Preliminary results from a survey of CPA candidates, drawn from a population of students at universities largely in the Southeast.

<sup>13</sup>A one semester traditional Business Law course is required. Ten electives in Business Law are offered.

<sup>14</sup>Id.