CFA, CPA, CMA and CFP

One of the best ways for accounting and finance professionals to boost their knowledge and get an increase in pay is to complete a certification. There are many out there, depending on the area of accounting or finance that you specialize in, so here is a guide to help you plan early on. Three credentials stand out as both broadly recognized and highly relevant to a variety of industries and job functions, the CPA, CMA, and CFA. CFP will also be briefly discussed.

Each of these certifications involves three main things:

1. Passing a series of exams
2. Completing some type of educational requirement
3. Completing some type of experience requirement

▲ CPA – Certified Public Accountant

The CPA is by far the most broadly recognized both inside and outside the accounting and finance world. For most people, a CPA is best known as the person who prepares tax returns. CPAs certainly do that, but they do much more as well. Essentially, the CPA is the customer-facing side of the accounting world. A CPA license is legally required in order to do particular jobs, such as public accounting (independent auditing). However, one does not require a CPA license in order to prepare tax returns. State laws govern what CPAs can and cannot do with their license.

There are four parts to the CPA Exam. The CPA Exam is uniform throughout the US in that the content and structure is the same in every state. You can schedule to take the exam in what are called exam windows. Each window is two months and there are four of them throughout the year (Jan/Feb, Apr/May, Jul/Aug, Oct/Nov).

Requirement

Work experience for the CPA varies from state to state, but most states require between one and two years of experience working directly for a CPA. Education also varies by state. The typical requirement is 150 college hours of total coursework with a certain minimum in accounting (excluding the two fundamental courses Financial and Managerial). A common minimum is
30-36 accounting hours. Some states have much easier education hours, but note that you might have to qualify for your state’s educational requirements if you wish to transfer your license in from another state. Aside from the experience requirements, a CPA license usually takes about 18 months to complete beyond the educational requirements. Many students choose to pursue a masters degree in accounting to fulfill their educational requirements. See local state board for detailed requirements.

As far as popularity goes, according to the Bureau of Labor Statistics, in 2011 there were little less than 1.5 million accountants and auditors in the United States. Expand this to everyone in corporate accounting and finance, and you might get 1.8 to 2.0 million. The accounting field in general is projected to grow at a rate far above the average for all occupations. Visit BLS Accounting and Auditor info for more information. As of September 2012, there were approximately 575,000 CPAs registered in NASBAs Mobility and Accountancy Licensee Database (ALD). National candidate database increased 4.3% year over year in 2010. See NASBAs 2011 Annual Report for more details.

Exam
Although classroom requirements are a major requirement, the CPA exam is a difficult task in its own right. Exams are administrated by the American Institute of Certified Public Accountants, the governing body of CPAs in the United States. The 14-hour computerized exam consists of four sections:

Auditing and attestation
Financial accounting and reporting
Regulation
Business environment and concepts

Many undergraduate accounting students receive job offers long before they graduate. Accounting is an in-demand field and is projected to continue to be so. According to the U.S. Bureau of Labor Statistics, employment is projected to grow 18% between 2006 and 2016; this amounts to nearly 226,000 new positions. For CPAs wishing to advance to senior-level corporate positions, two to three years of experience at a major accounting firm is crucial.

For those seeking gainful employment but not wishing to climb the corporate ladder, there are numerous positions available in every city for accountants at small accounting firms and practices. For more ambitious job seekers, lucrative CPA positions are available in hedge fund accounting and Sarbanes-Oxley-related work. The chief requirements for these positions are experience and an excellent educational background.

▲CFA – Chartered Financial Analyst
The CFA reputation in the business community is world class, and CFA charterholders work in many countries around the world. It is sometimes considered the hardest of these three credentials to earn. Although the CFA designation is not a legal requirement to perform work as a financial analyst (the cornerstone CFA job), it is a great way to get a foot in the door for one of the most difficult jobs to crack. The CFA is focused on those with an active role in the investment decision-making process. This includes those in the corporate world as Treasurers and Financial Analysts, and then those in the investment world as Financial Advisers, Investment Banking Analysts, Portfolio Managers, Private Bankers, Research Analysts, and Traders.

Requirement
The CFA is a charter issued by the CFA Institute. The institute recommends that you prepare for at least 300 hours for each of the three parts, or 15-20 hours a week for four to six months. The CFA exam is offered only on certain dates and is not an exam you can schedule at your convenience. Candidates take the exam on the same day. Part 1 is offered twice a year, in June and December; and Parts 2 and 3 are offered only once a year, in June. The exam is also, as of now, not computer based, but pencil and paper.

Exam
The pass rates on the three tests are typically less than 55%, so if you don't pass the second or third exam, you must wait one year to take it again. The three parts of the CFA Exam do not test subject matter separately, as the CPA and CMA generally do. Each of the three tests has overlapping material such as ethics and financial analysis. Generally, though, the first test covers broad financial principles, the second is a very intensive exam on financial analysis and accounting, and the third exam covers portfolio management and decision making.

The following shows subject matter for each of the three parts of the CFA exam as an approximate percent of that exam total.

Subject Matter (Lv1%/Lv2%/Lv3%)

1. Ethical and Professional Standards (15/10/10)
2. Quantitative Methods (12/5+/0)
3. Economics (10/5+/0)
4. Financial Reporting and Analysis (20/5+/0)
5. Corporate Finance (8/5+/0)
6. Equity Investments (10/20/5+)
7. Fixed Income (12/5+/10+)
8. Derivatives (5/5+/5+)
9. Alternative Investments (3/5+/5+)

Because of the test structure, offering (the exam is only offered in English), and the difficulty of the subject matter and the exam itself, passing rates for the CFA are the lowest of any of the major professional certifications. CFAs who’ve completed the process often boast as to how low pass
rates were in their specific class. Level 1 routinely has the lowest pass rate at 34-42% (June 2012 was 38%) as many candidates get weeded out at this point. From there, pass rates improve. June 2012 pass rates were 42% for Level 2 and 52% for Level 3.

Education requirements for the CFA Exam are similar to that of the CMA in that they require only a bachelor’s degree. In fact, you can actually satisfy this education requirement even if you don’t have a bachelor’s degree with four years of professional (investment related or not) experience. This might be helpful for those students who have a college degree but not from an accredited university.

Just as with other credentials, there is also an experience requirement to get your CFA. However, instead of two years like the CPA and CMA, the CFA requires four years. On top of that the experience must “add value to the investment decision making process.” Which excludes a lot of typical accounting and finance roles.

In 2011 there were 5,742 charters awarded globally with about half of those coming from the US and Canada. Just as with the CMA, the CFA charter is currently experiencing significant growth in Asia and the Middle East. As of March 2012 there were about 107,000 members of the CFA Institute from 138 countries around the world, including 98,000 CFA charter holders.

According to the CFA Institute, 49% of charterholders work for institutional investors as in-house analysts, 16% work for broker-dealers, and the remaining 29% work for universities, the government and other areas. While not nearly as numerous as CPA jobs, CFA-related jobs are perhaps more lucrative. CFA Institute’s 2011 Member Compensation Survey reports that the median compensation for an equity portfolio manager is $215,000, with business development officers topping the ranks with a median of $350,000.

See the official Course of Study for the CFA Program for more details on the subject matter covered in the exam.

▲ CMA – Certified Management Accountant

The CMA is probably the least understood, but possibly most relevant credentials available to accounting and finance professionals today. In full disclosure, I am a volunteer board member for a local chapter of the organization that issues the CMA, the Institute of Management Accountants.

The CMA is not a state license, but instead a global credential. It is mainly geared towards individuals in corporate accounting for finance (industry as they say), making it more relevant to the vast majority of the accounting profession. Areas such as GL Accounting, even though heavily relies upon GAAP, includes more material from the CMA program than the CPA. See the CMA brochure for more information.

Requirement
The education requirement for the CMA Exam is significantly less strenuous than the CPA in that you only need a bachelor’s degree to qualify. This makes the credential available to many professionals with backgrounds in Finance, Marketing and Economics that don’t have the accounting hours to sit for the CPA exam. Work experience for the CMA is very similar to the CPA, at two years, except that you do not need to work for another CMA for your experience to qualify. Just as with the CPA, the list of jobs earning qualifying experience is relatively broad.

Exam
In 2010 the IMA announced the transition from a four-part exam to the current two-part exam. Previously, the four parts were Business Analysis, Management Accounting and Reporting, Strategic Management, and Business Applications. In the new exam, the content was modified to concentrate more specifically on financial planning, analysis, control, and decision support and focused less on economics, information technology, marketing, and behavioral organization.

Part 1 – Financial Planning, Performance and Control

• Planning, Budgeting and Forecasting (30%)
• Performance Management (25%)
• Cost Management (25%)
• Internal Controls (15%)
• Professional Ethics (5%)

Part 2 – Financial Decision Making

• Financial Statement Analysis (25%)
• Corporate Finance (25%)
• Decision Analysis and Risk Management (25%)
• Investment Decisions (20%)
• Professional Ethics (5%)

Just as with the CPA exam, the CMA exam has testing windows throughout the year in which you can take the exam. When the exam was four parts the windows were the same as the CPA. Now that the exam is only two parts, it is only offered three windows per year: Jan/Feb, May/Jun, and Sep/Oct.

Pass rates for the CMA exam typically hovered around 50%, but with the new format (and limited data on it), the pass rates are lower. In 2011, Part 1 pass rate was 31% worldwide (48% in US) while Part 2 was 47% worldwide (56% in US).

See the IMA’s CMA certification page for more details.

IMA currently has around 65,000 members of which 20,000 hold a CMA. This is about one-fifth the number of CPAs and a little less than one-third the number of CFAs. Although this certification is less known throughout the accounting and finance world, it is growing at a much
faster pace, especially outside the US. This recent surge in CMA growth has brought with it new attention to a management accounting credential. As more and more professionals seek out the most relevant certification, or seek to earn additional certifications, the CMA has benefited.

As a side note, in early 2012, the AICPA and the CIMA (from the UK) announced a new credential in the management accounting space. Teaming up to offer a competing certification, the CGMA is currently available to only AICPA voting members as an add-on credential. This means if you are a CPA, you can become a member of the AICPA, pay a fee, and in 5 minutes get more letters after your name. There will ultimately be an examination process developed for granting CGMAs, so I recommend everyone pay the fee now and get it while it’s easy. This doesn’t say much for what the credential means today, but if the program is a success in 5 or 10 years, you’ll have the same letters regardless.

BONUS:
▲CFP– Certified Financial Planner

The Certified Financial Planner (CFP®) is the only designation focused on investing. It provides an extremely practical course of study for those wishing to work directly with individual investors. The focus of the CFP® is to train financial advisors to create and implement financial plans for investors.

Requirements and Exam
The requirements for the CFP®, as specified by the CFP® Board of Standards, are a bachelor's degree in any major, three years financial planning experience, other educational requirements (see below) and an exam. The 10-hour exam covers the following: investments planning, insurance, estate planning, risk management, tax and retirement planning.

In order to take the exam, one must complete a prescribed course of study - unless exempt - in relevant financial planning areas. These six required courses take about nine months to complete and are conducted on college campuses nationally. They are:

Financial planning: process and environment
Fundamentals of insurance planning
Income taxation
Planning for retirement needs
Investments
Fundamentals of estate planning

Careers
People who benefit the most from the CFP® designation are those who usually work directly with individual clients. Opportunities exist nationally for people with the CFP®, but it is not necessarily a key to a high-paying job, as opposed to the CPA designation. There is no typical salary with the CFP®, as it helps gain client credibility in what is essentially an entrepreneurial position. Income potential is determined by the sales performance of the financial consultant, not
by a salary scale.

Summary
All in all, each of these exams covers relatively unique content and serves a specific purpose. Each one is geared toward a different type of professional, although many who earn them span across these different areas. Each credential provides value for the amount of time and money it takes to earn them. You just need to have the drive and large amount of discipline to study and put in the effort and you will come out successful.