

The Accounting Education Change Commission: Its History and Impact

APPENDIX B

Perspectives on Education: Capabilities for Success in the Accounting Profession

Big 8 White Paper

FOREWORD

We have developed this paper because of our concerns regarding the quality and number of accounting graduates available to the public accounting profession. At the same time, questions are being raised by the academic community regarding the effectiveness of accounting education. We believe our views are supportive of previous efforts by the American Accounting Association (AAA) and the American Institute of Certified Public Accountants (AICPA). We particularly applaud the AAA's Committee on the Future Structure, Content, and Scope of Accounting Education (the Bedford Committee) and its follow-up groups. The analysis and recommendations by that committee provide an excellent foundation for the future of accounting education, including curriculum content, the teaching process and faculty responsibilities.

In this paper, our focus is not on specific course content or the number of hours in the curriculum, but on the capabilities needed by the profession that should be developed through the educational process. We recognize that the role of the profession is to specify and communicate the skills and knowledge needed to be an accomplished practitioner. Responsibility for curriculum development and appropriate teaching methods rests primarily with the academic community. However, we believe any successful effort to enhance education for accounting will be achieved only through a partnership of faculty and practitioners.

As part of our contribution to this coordinated effort, we are prepared to make a five-year commitment of up to \$4 million to support the development of stimulating and relevant curricula. The major portion of these resources is for grants to colleges and universities to support the development of curricula that are responsive to the needs of the profession. The commitment of these funds is contingent on the condition that they be used effectively and in a timely way for the design and implementation of innovative curricula, new teaching methods and supporting materials that will equip graduates with the capabilities for success in our profession.

Our firms look forward to the opportunity to participate in a coordinated approach by the major professional and academic groups to shape the future direction of education for the accounting profession.

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THE CURRENT ENVIRONMENT

The accounting profession faces a unique convergence of forces, which creates a critical need to re-examine the educational process.

- The profession is changing, expanding and, as a result, becoming increasingly complex.
- Declining enrollments in accounting programs indicate that the profession is becoming less attractive to students.
- Implementation of the AICPA requirement of 150 hours of education for membership by the year 2000 must be addressed.

Today's business world is more dynamic and complex than ever before. Advancing technology, proliferating regulations, globalization of commerce and complex transactions make the environment in which public accountants practice extremely challenging. Successful practitioners must develop and apply a wide range of professional capabilities to serve the business community.

Many accounting programs have experienced declines in enrollments, and questions are being raised regarding the quality of accounting graduates. While the number of freshmen enrolling in business schools has grown substantially, the proportion of students planning to major in accounting has decreased. This decline in the attractiveness of accounting as a major may not be a significant issue if the resulting pool of graduates exhibits exceptional quality. However, there is some evidence that this may not be the situation, based on indicators such as scores on college entrance examinations.

The supply and demand imbalance is a very real problem for the profession. Over the last 10 years, demand from public accounting rose substantially, while there was only a slight increase in the supply of accounting graduates from institutions accredited by the American Assembly of Collegiate Schools of Business (AACSB).

The result is a decreasing ability to be selective in the recruiting process, which adversely affects the quality of new hires brought into the profession.

Also, the effectiveness of accounting programs is being questioned. The AAA's Bedford Committee undertook a comprehensive review of the subject. It found that while the profession has changed in recent years, accounting education has not and, as a result, "accounting education as it is currently approached requires major re-orientation between now and the year 2000."*

Extending university education for accounting majors has been under discussion for 20 years. As previously mentioned, the AICPA will require 150 hours of education for membership by the year 2000. Although the AICPA has provided guidance about the composition of the accounting curriculum in meeting this requirement, there is no apparent consensus among accounting educators regarding their support for these guidelines—or of alternative approaches. This issue

must be addressed in the next several years, since students enrolling in college in the mid-1990s will need to meet this requirement. Effective marketing of this additional investment required of students will be essential to meet the demands of the profession.

RECOMMENDATIONS FOR CHANGE

The current environment makes real curricular change essential and necessitates response from a dynamic partnership between practitioners and academicians. First, the profession must specify the capabilities necessary for practice and communicate these to the academic community. With this input, faculty can develop a relevant and stimulating curriculum with state-of-the-art teaching methods.

Recognizing our responsibility to the profession, we have joined together to provide our views on the skills and knowledge needed by tomorrow's practitioner. Considering the diversity of practices in our firms, we believe that the capabilities outlined later in this paper are representative of the requirements for the profession. We also present the following recommendations for a coordinated approach to making changes in education for accounting:

- "The Capabilities Necessary for Practice," which follows these recommendations, should be used by the academic community as a statement of needs for the profession.
- A Coordinating committee of all major constituencies should be formed to address issues that impact the educational process and to guide the academic community in re-engineering the curriculum. Representation would include, among others, the AICPA, AAA, AACSB, National Association of State Boards of Accountancy (NASBA), Financial Executives Institute (FEI), National Association of Accountants (NAA) and the major firms.
- Our firms should participate in, and support, the coordinating committee and other appropriate groups with leadership, guidance and financial resources.
- The American Accounting Association, as the primary organization representing accounting faculty, should be encouraged to take the leadership role in establishing the coordinating committee. Efforts by the AAA to bring about the required curricular changes should be supported by the profession.
- Designated representatives from the profession should actively participate in the review of the accreditation standards to be conducted by the AACSB.

We also understand that external factors, such as professional examinations and conditions of licensure, affect the educational process. In the future, organizations responsible for such activities should recognize, in their policies and procedures, the broad skills and knowledge needed by the profession. Particularly important are the scope and timing of the CPA examinations.

THE CAPABILITIES NECESSARY FOR PRACTICE

The dialogue about education must be based on a clear statement of the capabilities needed for practice. Also, there must be a focus on the broader skills that will support a lifetime of professional success. Without a clear set of capabilities to use as objectives in the curriculum design process, it is unlikely that changes in the current content or teaching methods will be responsive to the needs of the profession.

In 1988, the AICPA issued a revised version of its *Education Requirements for Entry into the Accounting Profession*. That monograph includes an illustrative program of study with narrative descriptions of the appropriate content in specific areas. While the AICPA report and the capabilities described in this paper have much in common, the following focuses on the desired outcomes of the educational process, as contrasted with courses of study.

Education for the accounting profession must produce graduates who have a broad array of skills and knowledge.

Skills for Public Accounting

To be successful, an individual must bring to the practice several general skills. These are divided into three categories:

- Communication skills
- Intellectual skills
- Interpersonal skills

The categories are not mutually exclusive and cannot be considered in a vacuum. Obviously the communications skills are highly interrelated with the interpersonal skills, and some of the intellectual skills are dependent on some of the communication skills. The curriculum must support all of these skills.

Communication Skills

Public accounting requires its practitioners to be able to transfer and receive information with ease.

Practitioners must be able to present and defend their views through formal and informal, written and oral, presentation. They must be able to do so at a peer level with business executives.

As the rate of change in the business world increases, so does the amount of information that must be gathered from outside sources. Practitioners must be able to listen effectively to gain information and understand opposing points of view. They also will need the ability to locate, obtain and organize information from both human and electronic sources.

Intellectual Skills

Individuals seeking to be successful in the diverse world of public accounting must be able to use creative problem-solving skills in a consultative process. They must be able to solve diverse and unstructured problems in unfamiliar settings. They must be able to comprehend an unfocused set of facts; identify and, if possible, anticipate problems; and find acceptable solutions. This requires an understanding of the determining forces in a given situation and the ability to predict their effects.

Inductive thought processes and capabilities for judgment must be developed to support such activities. Practitioners must also be able to identify ethical issues and apply a value-based reasoning system to ethical questions.

The practice of public accounting, like the practice of any profession, includes many challenging pressures. Conflicting demands, unexpected requirements and coinciding deadlines are but a few of the sources of stress found in practice. The effective practitioner must be able to manage these pressures. This requires the ability and judgment to select and assign priorities within restricted resources and organize work to meet tight deadlines when necessary.

Interpersonal Skills

The ability to work with other human beings is an important part of public practice. Working effectively in groups with diverse members to accomplish a task is essential.

The practitioner must be able to influence others; organize and delegate tasks; motivate and develop other people; and withstand and resolve conflict. These are the skills of a competent manager. Because public accountants advise clients on the operation of their businesses, they should possess the requisite management skills. They must also be able to assume leadership positions within their own firms.

Knowledge for Public Accounting

An individual must also bring to the practice of public accounting a large body of knowledge. It is categorized here into three areas:

- General knowledge
- Organizational and business knowledge
- Accounting and auditing knowledge

To counter the temptation to focus only on knowledge directly related to accounting and auditing, this discussion starts with the general knowledge category.

General Knowledge

For the good of the profession and society as a whole, education for accounting must include a sufficiently large, broad and deep general education component to yield a level of knowledge that is characteristic of a broadly educated person.

The successful practitioner requires general knowledge that covers a number of factors:

- An understanding of the flow of events in history and the different cultures in today's world.
- The ability to interact with diverse groups of people and at the highest levels of intellectual exchange.
- A sense of the breadth of ideas, issues and contrasting economic, political and social forces in the world.
- Experience in making value judgments.

The general education component of university education should support the development of these factors and should leave the student excited about, and prepared for, lifelong learning.

Organizational and Business Knowledge

To understand their clients' and their own work environments, public accountants must have an understanding of the economic, social, cultural and psychological forces that affect organizations. They must also understand the basic internal workings of organizations and be able to apply this knowledge to specific examples. This requires an understanding of interpersonal and group dynamics.

Given the rapid pace of change in the business world, public accountants must understand the methods for creating and managing change in organizations. The professional environment is also characterized by rapidly increasing dependence on technological support. No understanding of organizations could be complete without attention to the current and future roles of information technology in client organizations and accounting practice.

Accounting and Auditing Knowledge

Post-secondary education should provide a strong fundamental understanding of accounting and auditing. This includes the history of the accounting profession and accounting thought, as well as the content, concepts, structure and meaning of reporting for organizational operations both for internal and external use. A companion area includes the methods for gathering, summarizing and analyzing financial data. Entering practitioners must also understand the meaning and application of, as well as the methodology for, attest services.

Accounting knowledge cannot focus solely on the construction of data. The ability to apply decision rules embodied in the accounting model is only a part of the goal. Accountants must be able to use the data, exercise judgments, evaluate risks and solve real-world problems.

Passing the CPA examination should not be the goal of accounting education. The focus should be on developing analytical and conceptual thinking—versus memorizing rapidly expanding professional standards.

SOURCES OF CAPABILITIES

The skills and knowledge that support the successful practitioner come from three sources:

- Talents
- Pre-entry education
- Continuing education and development

In this discussion, the term "pre-entry" is used to describe any education required prior to beginning licensing procedures. Under the present model, this may include both undergraduate and graduate education. The term "continuing education and development" includes all training, education and

development during the period a person is involved in the public accounting profession. This encompasses all formal and informal, classroom and on-the-job, firm-supported or individual experiences.

Talents

Clearly, pre-entry education cannot bear the total responsibility for developing the capabilities discussed earlier. Each individual has inherent talents that will contribute to a successful professional career.

Pre-entry education must be perceived as sufficiently stimulating, interesting and rewarding to draw the best students. At the same time, the opportunities for challenging work, rewards and advancement in the public accounting profession must also be competitive to maintain a pool of high-talent practitioners.

Pre-Entry Education

Pre-entry education has focused on developing rule-based knowledge. Beyond anecdotal evidence, little is known about its ability to create or strengthen the other capabilities discussed in this paper. It seems to be a reasonable and necessary goal for pre-entry education to make significant improvements in these capabilities.

Continuing Education and Development

Major accounting firms devote significant resources to the continuing education and development of their personnel. These programs are an integral part of lifelong education for service in the public accounting profession. Any comprehensive effort to improve education for accounting must include continuing education and development. Challenging opportunities for learning and using skills and knowledge are an important part of the exciting and rewarding career that will attract and keep high-quality entrants.

Continuing education in the firms must meet several goals. First, it must support and enhance the knowledge and skills cited earlier. By doing so, it will achieve its second goal—to help attract and keep the best people in the profession.

To meet these goals, continuing education and development will require considerable commitment by the firms. As university curricula are re-engineered, continuing education must be redesigned. The focus on developing capabilities that is proposed for pre-entry education should become the model for education in practice. To support this comprehensive approach, licensing laws must include appropriate credit for continuing education in the development of all the capabilities. Restriction of full Continuing Professional Education credit to a narrow range of technical subjects would obstruct the development of the broad range of capabilities needed for the practice.

THE CHALLENGES FOR EDUCATION

To achieve pre-entry education that will develop the needed capabilities requires a complete re-engineering of the educational process. This includes defining objectives, content, design and methodology. Piecemeal responses to educational reforms will not suffice.

Major Components

Efforts to change education for accounting require consideration of five major components of higher education:

- Curriculum
- Faculty
- Students
- Universities
- Accreditation

Curriculum

Basing pre-entry education on capabilities will mean fundamental changes in the curriculum. The current textbook-based, rule-intensive, lecture/problem style should not survive as the primary means of presentation. New methods, both those used in other disciplines and those that are totally new to university education, must be explored. Some of the alternatives for student involvement include seminars, simulations, extended written assignments and case analyses. Creative use of information technology will be essential.

The use of new teaching methods will be a message in itself. Students learn by doing throughout their education much more effectively than they learn from experiencing an isolated course. The skills and knowledge comprising the needed capabilities must be integrated throughout the curriculum. For example, if students are to learn to write well, written assignments must be an important, accepted and natural part of most or all courses. To relegate writing to a single course implies to students that the skill will not be useful throughout their careers and does not require continuing attention. The capabilities must be reinforced throughout the curricular experience.

Teaching methods must also provide opportunities for students to experience the kinds of work patterns that they will encounter in the public accounting profession. As most practice requires working in groups, the curriculum should encourage the use of a team approach.

The development of an efficient curriculum requires attention to integration. Re-engineering the curriculum should include a careful evaluation of topical coverage in all subjects. Emphasis should be placed not only on the presentation of relevant material, but also on the compounding of learning by appropriate combination across course and departmental lines. When knowledge and skills learned early in a university experience are expanded on in work at a later stage, the student's experience is reinforced and enriched.

Faculty

A vital, knowledgeable, creative professoriate is an essential part of the educational process. Most accounting faculty base their course content on information gained through secondary sources—usually textbooks and sometimes standards. They frequently lack other significant, continuing sources of information about the realities of the practice environment. The challenge for the public accounting profession is to assist in developing new ways to maintain a knowledgeable, practice-oriented faculty.

Accounting is a particularly difficult profession in which to maintain a high level of understanding of practice because neither of the two common ways of gaining information about practice is available to accounting faculty. Some professions (for example, most health-related fields) use a clinical model, where faculty are simultaneously practitioners and teachers. Often these faculty treat the most difficult cases or circumstances and thus are not only current in the profession but are also at the "cutting edge" of practice development. At this time, very few accounting faculty are actively involved in practice.

In some professions, much of practice is a matter of public record available to faculty for study and analysis. Law professors may go to their library to find many examples of current practice methods and results. The confidentiality provision for accountants prevents faculty from having access to a robust continuing source of information about the evolution of practice.

The nonclinical, confidential nature of accounting creates a faculty that designs and executes pre-entry professional education without direct knowledge of current practice.

Where other professions enjoy much interaction with their teaching faculty, accounting has a persistent "schism" problem. The classroom experience is diminished by the distance between pedagogical content and practice reality. Academics and practitioners would benefit from the stimulation and challenge that come from a meaningful association.

There is no model for increasing interaction between academics and practitioners in a nonclinical, confidential profession. Current efforts to integrate academicians in the practice include seminars, internships and joint conferences. While these efforts are commendable, a much greater level of activity must be achieved. Innovative methods to increase interaction between the practitioners and

the professoriate must be created.

Students

Increases in educational requirements may exacerbate the current trend toward declining enrollments. In the free market of academic major selection, students will have to be convinced that the additional investment is worthwhile. Significant increases in tuition or time must be offset by a stimulating curriculum and the expectation of increased opportunities upon graduation. Efforts to increase educational requirements must also be consistent with the objective of maximizing opportunities for minorities in the profession.

Universities

To achieve a comprehensive re-engineering of the accounting curriculum will require a major effort from faculty. Currently, most institutional reward structures do not attach a high value to curriculum development activities. To ensure the necessary faculty input, individuals must be rewarded for their contributions.

While the responsibility for designing the specifics of the curriculum appropriately rests with the faculty, the role of university administrators cannot be ignored. Without appropriate leadership and support from deans and central administrations, re-engineering of curricula will be impossible.

Accreditation

Accreditation standards have a significant impact on accounting education. At this time, the American Assembly of Collegiate Schools of Business is the sole accrediting agency for college-level schools of business, management and accounting in the United States. The AACSB has recently initiated a major review of the accreditation process.

Accreditation standards must be responsive to the desired outcomes of educational preparation as outlined in this paper. The accreditation process must also be sensitive to, and supportive of, the innovation and experimentation that are inherent in curricular change.

The Opportunity

The challenge for all individuals and organizations concerned with education for the accounting profession is to create a curriculum that will draw the best students and provide them and their instructors with an interesting, demanding and relevant experience. The vitality generated by the creative effort will enrich both universities and the profession. Meeting this challenge will support excellence in education well into the next century.

The opportunity to make the accounting curriculum an active, dynamic experience exists now. A convergence of environmental and institutional factors makes significant change possible and essential. Faculty, universities, accounting firms, professional organizations and accrediting bodies must find a way to work together to create a positive future for the profession.

* "Future Accounting Education: Preparing for the Expanding Profession," Special Report of the American Accounting Association Committee on the Future Structure, Content, and Scope of Accounting Education published in *Issues in Accounting Education*, 1986.