



TEACHING & CURRICULUM SECTION  
AMERICAN ACCOUNTING ASSOCIATION

Special Issue, May 2005

The Accounting Educator,  
Volume XIV, No. 3

# **The Accounting Educator**

## ***Special Edition —***

## ***Responses to NASBA Proposal***

### **INSIDE**

**T. Calderon, pp. 1—4**

**T. Fogarty, p. 5**

**Lam & Samson, pp. 6—9**

**R. Madison, pp. 10—11**

**D. Fisher, pp. 12—15**

**C. Price, pp. 16-17**

**A. Spalding, pp. 18—20**

**W. Wood, pp. 21—24**

**J. Cheh, pp. 25—27**

**S. Mintz, pp. 28—31**

**D. Viehland, pp. 32—33**

**K. Zakany, pp. 34—35**

**M. Kranacher, pp. 36—37**

**Mooney & Hibbs, pp. 38—39**

**Call for Papers, p. 39**

### **A Message from the Chair**

Thomas G. Calderon, [tcald@uakron.edu](mailto:tcald@uakron.edu)



This issue of *The Accounting Educator* is devoted to NASBA's proposal to revise Uniform Accountancy Rules 5-1 and 5-2. It contains several articles that present the views of members and friends of the Section.

The content of this newsletter is not intended to represent an official position of the Section or an official position of the AAA. Rather it serves as a forum for sharing the ideas of many different individuals on a matter of profound interest to the Section.

Articles were reviewed by an ad hoc team of reviewers that included Brian Patrick Green (University of Michigan-Dearborn), Roland Madison (John Carroll University), Wallace Wood (University of Cincinnati), Tim Fogarty (Case Western Reserve University), Wendy Tietz (Kent State University), and Thomas Calderon (University of Akron). I wish to thank the ad hoc review team as well as the many authors who submitted short articles for consideration.

The call for papers requested articles that supported NASBA's proposal as well as those that were opposed to it. Most authors who submitted articles opposed NASBA's proposal. Some supported the need for more ethics education but questioned NASBA's proposed approach. One author who supports NASBA's goal of strengthening the accounting profession believes that accounting needs a conceptual framework that reflects the contemporary business environment and accounting and auditing practice.

My beliefs, which I discuss below, are that NASBA needs to reexamine the assumptions that underlie its proposal and arrive at more effective approaches to address the issues and

(Continued on page 2)

*(Continued from page 1)*

challenges that derive from them. My remarks focus on four of those assumptions—(1) accreditation matters; (2) accountants ought to be ethical; (3) the domain of accounting education must be defined in the context of CPA certification; and (4) accounting faculty have the capacity to influence the business curriculum. While there are other assumptions that are implicit in NASBA's proposal, I have elected to limit the scope of my remarks to only those four teaching and curriculum issues.

### **Accreditation matters**

NASBA's classification of accreditation into three levels is laudable and it communicates the importance of accreditation in a fairly unambiguous manner. However, the classification presumes that regional accreditation is granted to only four-year institutions. On the contrary, two year institutions are also accredited by those agencies and students from some two-year institutions currently go on to take the CPA exams.

Furthermore, NASBA's specification of required pre-certification courses seems inconsistent with the current context and spirit of both regional accreditation and specialized business accreditation. Both regional and specialized accreditation agencies recognize that institutions of higher learning have different missions, exist in different contexts, and serve diverse stakeholders with varying needs. Thus, accreditation agencies expect these institutions to offer mission-based programs that produce outcomes that are consistent with the needs and values of their key stakeholders. Each accredited institution is expected to define its mission, identify its key stakeholders, and develop and pursue learning outcomes that reflect its mission and context.

One might argue that NASBA ought to be considered a key stakeholder and, in that sense, educators should design programs that reflect NASBA's needs. Most accounting educators would be favorably disposed to this argument, but only to a very limited extent. In defining key stakeholders whose needs might influence the curriculum, educators have traditionally embraced (1) organizations that employ their graduates and (2) institutions that offer their students opportunities to further their academic studies. NASBA does neither. The profession hires our students and institutions of higher learning recruit our students to pursue graduate programs. But the road to a CPA certification goes through the State Boards and the State Boards determine who is given the privilege to practice accountancy in each state. NASBA's membership and authority come from the State Boards, and the various State Boards exist because there is a profession to regulate. And though the State Boards regulate the profession in their respective states, it is not clear whether the revised rules reflect the needs of the profession. Clarke Price's (2005) article suggests that the revised rules may not be in the best interest of the profession.

### **Accountants ought to be ethical**

Accountants ought to be competent, ethical, and socially responsible professionals. The profession has a long history of emphasis on ethics (Lam and Samson 2005) and every major accounting program has for many years incorporated ethics in their curricula. Yet there are still several cases in the profession of lapses in ethical reasoning, ethical decision making, and ethical conduct. As Lam and Samson observe "cleverness and creativity have replaced the traditional honesty and integrity which have characterized accountants of the past."

NASBA presumes that adding more ethics content in the curriculum will change this situation. However, the history of the profession seems to suggest that the link (if any) between learning about ethics,

*(Continued on page 3)*

(Continued from page 2)

promulgating rules for ethical behavior, and behaving ethically is not linear. At least two issues need clarification in attempting to understand that link. First, to what extent do accounting graduates learn about ethics in the accounting curriculum? Madison (2001) suggests that about 10 contact hours (in total) are devoted to ethics education among accounting programs in Ohio. We know little about the goals and expected outcomes of current ethics education in the accounting curriculum and have no evidence to indicate whether the 10 hours devoted to ethics education among accounting programs in Ohio are sufficient to cover the goals and desired outcomes of those programs. The second issue relates to the success or failure of ethics education and the circumstances in which such education produces desired outcomes. There are varying approaches to teaching ethics and there is insufficient clarity on what the expected outcomes are and the methods that are most effective in producing those outcomes. Unless such issues are researched, debated and understood, merely legislating ethics courses may do little to change the status quo.

### **The domain of accounting education**

NASBA's proposal implicitly assumes that accounting education should focus on preparing students for careers as Certified Public Accountants. State Boards of Accountancy regulate professionals who practice, desire to practice, or just wish to be recognized as certified public accountants. Thus, it is natural that NASBA would define the domain of accounting education based on their interests and on the scope of their regulatory authority.

Defining accounting education in a manner that resembles traditional programs which prepare students for entry into public accounting is consistent with NASBA's mission. What is not clear is whether the traditional accounting program framework, which NASBA has adopted, will satisfy the needs of the profession and prepare students to practice in contemporary business environments. Yet, given the resource constraints under which most programs operate, NASBA's proposed curriculum, if approved and adopted by state boards, could become the *de facto* accounting curriculum in the U.S. Designed with little dialogue and virtually no discussion about the goals, the content, and the structure of accounting education, it is not surprising that the proposal has generated significant negative reaction. On the other hand, NASBA should be commended for energizing a great debate about the domain of accounting education.

### **Testing the influence of accounting faculty**

NASBA assumes that accounting educators will have the capacity to require in the curriculum specific courses that the accounting department controls as well as those that are offered as part of the business core and controlled by faculty from other departments. The implications of this assumption are astounding. For example, under NASBA's proposal, accounting educators at an institution that offers business programs only at the undergraduate level will have to ensure that (1) courses in the business core that are currently offered as sophomore-level courses are moved up to junior or senior levels, (2) the equivalent of 3 hours of business research are integrated into the business core at junior and senior levels, (3) the equivalent of 3 hours of business communication are integrated in the business core at the junior and senior levels, and (4) accounting students take a total of 36 hours of core business courses at the junior and senior levels. These are formidable requirements that may not be approved by a college's curriculum committee, particularly if the committee believes that the changes are incompatible with their school's mission. It is well known that

(Continued on page 4)

## 2004–2005 Officers

**Chairperson:** Thomas G. Calderon, The University of Akron, [tcalderon@uakron.edu](mailto:tcalderon@uakron.edu)

**Vice Chairperson–Academic:** Timothy J. Fogarty, Case Western Reserve University, [tjf@po.cwru.edu](mailto:tjf@po.cwru.edu)

**Vice Chairperson–Practice:** Bob Dean, Grant Thornton, [bdean@gt.com](mailto:bdean@gt.com)

**Treasurer:** Georgia Saemann, University of Wisconsin-Milwaukee, [gsaemann@uwm.edu](mailto:gsaemann@uwm.edu)

**Secretary:** Phil Reckers, Arizona State University, [phillip.reckers@asu.edu](mailto:phillip.reckers@asu.edu)

**For other officers, see the T&C website at <http://raw.rutgers.edu/raw/aaa/tccomm/t&chome.htm>**

(Continued from page 3)

---

accounting faculty cannot make these decisions unilaterally and they must rely on the processes used by the college to effect such changes. These types of issues are not impossible to overcome, but the rationale for addressing them must be compelling in order to obtain faculty support.

### Conclusion

NASBA's proposal and vision for change are laudable and have generated a significant amount of dialogue. It is clear that the implications of the proposed rule changes need to be more thoroughly considered. Accreditation issues must be reexamined. The goals and desired outcomes of ethics education must be more thoroughly debated and addressed. There needs to be more dialogue on the domain of accounting education and the role of certification in defining the scope and content of accounting programs. Finally, the curriculum approval process as well as the culture and internal politics of business schools must be more thoroughly considered. The rationale and arguments for change must be compelling for both accounting and non-accounting faculty.

### References

- Lam, Marco and W. D. Samson. 2005. Support For Accounting Ethics Course Comes From Historical Roots Of The Profession. *The Accounting Educator* 14(3).
- Madison, Roland L. 2001. To what Extent is Ethics Taught in Accounting Programs of Ohio's Colleges and Universities? *Ohio CPA Journal* (April/June): 39 – 41.
- Price, J. Clarke. 2005. Nasba Proposal Misses the Mark. *The Accounting Educator* 14(3).

## NASBA: A Voice from the darkness

*by Timothy J. Fogarty, Case Western Reserve University, [tjf@weatherhead.cwru.edu](mailto:tjf@weatherhead.cwru.edu)*

The assumption of my essay is that my esteemed colleagues in academic accounting will address the substantive points of the NASBA proposal. I will take a more general tack. Specifically, I would like to consider this proposal as a symptom of a larger concern.

Education has always been a contested affair. To believe that optimality is achieved magically or because the market for knowledge is efficient is naïve. What is taught reflects the way that society is organized, and therefore the relative power of organizations. The NASBA proposal makes this reality uncomfortably obvious. Whatever else you might think of it, the proposal's subtext is "education is too important to be left to the educators."

As a license, the CPA opens a legitimate governmental interest in the knowledge that an entry-level accountant possesses. To ensure that this is in place, we have a CPA examination. Backing this up, some contend that this creates a governmental right to control who can sit for the exam. A decade ago, when the "150 hour" battles were fought, educators were aligned on the side of more education. However, the new NASBA proposal suggests that the appetite to regulate has not abated, and now extends to a detailed look at pre-exam coursework.

Had NASBA conducted extensive research that included the advice of the educators on what courses should be offered and what was currently feasible in the current climate of the university, I would have been more favorably disposed to it. However, its announcement in the absence of such a "white paper" approach strikes me as a naked power grab that runs contrary to the superior information position that the academy enjoys. What NASBA tells us is that it does not matter what you think, this is what we must have. What this says is that we are merely content providers or delivery modules destined to serve somebody's version of the public interest. Not exactly a strong endorsement of the professionalism of educators, is it?

Before I overreact, let me acknowledge that the NASBA proposal is the act of a disparate organization. The computerization of the CPA exam has eliminated a good portion of the need for NASBA. In addition, technology and the AICPA have threatened NASBA's revenue. Thus, this proposal could also be interpreted as an effort to reposition NASBA as a quasi-legislative agent. If so, the importance of the proposal may not be so much related to its contents but insofar as it gives NASBA a seat at the curriculum table. It is, by no means, axiomatic that they can be successful here.

Essentially, NASBA's demand for changes in the accounting curriculum asserts a certain degree of market failure has occurred. Schools of business and departments of accounting apparently have failed to protect the public from the unqualified and the ethically challenged. NASBA is the heroic force that has recognized this and is stepping up to counter it. Coming on the heels of the crisis of accountability that offered us Enron, Worldcom and Andersen, the implication is that a little more enlightened guidance will save us. Isn't it pretty to believe so?

Despite its illegitimate origins, and flawed logic, the NASBA provides us something to think about. Do we have the curriculum we need? Have we been trapped by our inertia for too long? Have we responded to structural change in our economy and our profession? Our choices appear to be to clarify our answers to these questions, or have uninformed answers imposed on us by the ignorant but powerful.

## SUPPORT FOR ACCOUNTING ETHICS COURSE COMES FROM HISTORICAL ROOTS OF THE PROFESSION

*By Marco Lam, University of Alabama, [mlam@cba.ua.edu](mailto:mlam@cba.ua.edu), and  
William D. Samson, University of Alabama, [wsamson@cba.ua.edu](mailto:wsamson@cba.ua.edu)*

Today's crises over ethical failures by accountants – both corporate and public - raises concerns that accountants cannot be trusted; that cleverness and creativity have replaced the traditional honesty and integrity which have characterized accountants of the past. Since the services that accountants provide are based on trust, the erosion of confidence in the statements of accounting professionals is disastrous as well as unprecedented. Yet the well-known financial fraud cases all had corporate accountants involved and external auditors who seemed all too compliant and conducted “cosmetic” audits. With over 1,000 restatements of past AUDITED financial statement due to accounting “mistakes” (frauds?), investors have to be questioning the value of audited financial statement information.

Other scandals have rocked the profession. The billing scandal in which large CPA firms saw nothing wrong with charging clients for the full cost of travel during engagements, yet received “rebates” (kick-backs) of up to 40% of these same costs at year end is another black-eye for the profession. Aggressive selling of tax shelters which could never pass the “economic substance” test of the courts is another ethical failure. To top all off, when these ethical issues come to light, firms deny a problem and attempt to excuse or shift responsibility for their actions. Ethical failures seem to be compounded by the lies and spin that follows the revelation.

To attempt to restore ethical standards of the profession the National Association of State Accounting Boards has taken the position that not only should a business ethics course be required, but an accounting ethics course also required for all CPA candidates. The Board's view is that ethics must be part of the education of the youngest members of the profession. Thus, the Board may be saying that the ethics crisis is best solved by those entering the profession. It is also implicitly saying accounting is a profession and not “a business” (as often was the excuse for the bad professional behavior in recent years).

We support this call for accounting and business ethics as a requirement, not only because the ethics failures requires such strong action, but also as recognition of the foundation of the accounting profession: a concern for ethics marked the profession from its beginning at the start of the Twentieth Century. The remainder of this essay is a review of the ethics heritage that marked the CPA profession. This review further supports the ethics course requirements but also serves as a reminder of the profession's roots to those who may not be fully aware of this legacy.

### WHEN THE ACCOUNTING PROFESSION'S LEADERS SPOKE ABOUT ETHICS

Paul Williams points out that the ethical requirement that underlies accounting manifests itself from two sources: from general responsibility of all professions to behave in ethical ways and from accounting's unique role which imposes ethical responsibilities as well [Chatfield, 1996, pp. 537-558]. Williams argues that as a profession, accounting and other professions, are accorded privileges and status by society, which in turn brings responsibilities. These responsibilities (including competence, integrity (trust), and welfare of others) are expected to be put ahead of self-interest. Williams states that an accountants' unique responsibility is that of absolute honesty. After all, the person paying for the CPA's services may not be the user of the



financial statements.

The striving in the late 1800s of U.S. accountants for professional status led them to emulate the older professions of law and medicine and also to follow the examples of the accounting profession in the United Kingdom. Early on, U.S. accountants sought ways to distinguish the ‘profession of accountancy’ from other commercial activities. [Marquette, 1996, p. 233] . As Penny Marquette notes, this would lead to the adoption of a code of professional conduct for certified public accountants.

The foundation for accounting being a profession was laid at the International Congress of Accountants meeting in 1904 - the first international meeting of accountants. Many of the attendees became the giants of the profession – leaders that had influence beyond their own firms which eventually became today’s “Big Four”. For instance, Sterrett, Dickinson, May and Montgomery attended the 1904 International Congress of Accountants. These influential practitioners set the standards for generations that followed. The counter-point is the virtual silence of today’s leaders in the profession about ethics – the silence is indeed deafening.

The 1904 International Congress was opened by Joseph Edmund Sterrett, president of the Pennsylvania Society of CPAs. In his address, he emphasized the importance of ethics:

....The crowning glory of our profession is that it must stand for the brightest ideals in the life of an individual and for the slow but sure evolution of society into a state where honor and honesty shall not be mere abstractions.  
[DeMond, p. 100]

Because of his close work with Arthur Lowes Dickinson of Price Waterhouse, who was chairman of the Local Arrangements Committee of the 1904 International Congress, a life-long bond was formed. This led to Sterrett merging his Philadelphia firm with Price Waterhouse in 1907 with Sterrett becoming the first American-born partner of Price Waterhouse.

At the October 16, 1907 meeting of the American Association of Public Accountants, J.E. Sterrett spoke again on ethics. This speech is important for Sterrett had clearly analyzed and developed his thinking about the approach that best suited the profession with regard to ethics. He emphasized that ethical behavior could never be instituted if the profession were to rely on detailed rules defining conduct. Sterrett argued that only when all accountants fully subscribed to such concepts as justice, truth, integrity, honor and other such ideals would ethical conduct be practiced in the profession. [Merino, p. 563].

Sterrett’s important speech, published in the October 1907, *Journal of Accountancy*, was twenty five pages. The speech and article covered several very specific ethical-related topics that seem to be resilient issues: incorporating of audit practices, contingency-fee arrangements, advertising and identification of who is the true client of the auditor. [Sterrett, pp. 407-431].

This landmark speech set the stage for future discussion on ethical topics as well as planted the seed for the Code of Professional Conduct that was to be written a decade later (1917). Thus, as Marquette notes, Sterrett’s 1907 speech set the agenda for future discussion as well as setting a framework for ethical conduct for decades afterward. The 1907 speech defined ethical responsibilities by a CPA to three different parties: (1) to clients, (2) to other CPAs and (3) to the public. Sterrett identified several enduring points which are:

- a) confidentiality
- b) professional care (competence, due diligence)

- c) tact, combined with courageous honesty (forthrightness)
- d) not certifying misleading financial statements
- e) impartiality
- f) financial independence from client
- g) speaking well of one's professional colleagues
- h) duties of a subsequent auditor
- i) duties to assistants

Sterrett opposed the use of contingent fees, solicitation of clients, advertising, competitive bidding, fee splitting, commissions not earned for professional work, and the practicing as a corporate entity. Independence was not directly addressed at this time.

Next, in 1908, Sterrett boldly advanced the belief that accountants much take responsibility for mistakes arising out of audits. He put forth the idea that auditors bear civil liability as a result of an audit engagement if there is carelessness in the work. This idea was first presented in his speech given at the annual meeting of the American Economic Association [DeMond, p. 103].

Perhaps influenced by Sterrett's ideas, George O. May of Price Waterhouse saw the accountant as having a professional obligation which was uniquely "quasi-public nature" (hence the name "Public" in CPA). In the years after taking charge of U.S. operations from retiring partner Arthur Lowes Dickinson in 1911, he repeatedly described the CPA's duty as follows:

The high-minded accountant who undertakes to practice in this field assumes a high ethical obligation that makes what might otherwise be a business, a profession. Of all the groups of professions which are closely allied with business, there is none in which the practitioner is under a greater ethical obligation to persons who are not his immediate clients. [Brewster, p. 61]

May also promoted the concept that it was the readers of the financial statements – as oppose to the entity whose books were being audited – that were the clients of the auditor. Following this concept to its logical application, changes the relationship between the auditor and the management of the company being audited. The wisdom of May is clearer given the accounting crises today.

Robert Montgomery contribution to the profession, like May's and Sterrett's, was monumental. He was a founder of Lybrand, Ross Brothers and Montgomery in Philadelphia. Robert Montgomery spoke often about his belief in the auditor's duty to be "totally, brutally honest about his client's financial condition" [Brewster p. 62]. In his later years, he looked back and recalled the early (pre World War I) CPA.

Then, they were fearless seekers for the truth. Poor as they were, no power on earth could have swerved them from their search...[O]ur profession always has had a vision – this urge to find and tell the truth – and we should cling to it and continue to strive for its accomplishment." [Brewster, p. 62]

For Montgomery, the search for truth and the need for brutal honesty were part of auditor's role.



May, on the other hand, was more sophisticated in realizing that absolute truth does not exist in the realm of artificial measurement of accounting; instead, it is the integrity of the people doing the measuring and the integrity and complete independence of the auditor which are essential.

The generation of leaders that followed still saw ethics as a key component of the accounting profession. For example, Arthur Andersen started a firm in 1913 which, during the Twentieth Century, had the reputation of having the highest integrity. For decades, this firm with his name truly practiced “think straight – talk straight” which had been his creed.

Another example is Colonel Arthur Carter, managing partner of Haskins and Sells. In testifying before Congress in 1933 about proposed securities legislation and the possible requirement for CPAs to audit publicly-traded companies’ financial statements, he was asked “who will audit the auditors?” Carter replied, “Our conscience.” There is little doubt that CPAs of the day believed fully what Carter had espoused.

The explosion of the number of ethical failures committed by public and private accountants coupled with the silence or denial by the profession’s leaders, are strong arguments for an accounting ethics course. The historical development of the profession and the ethics standards enunciated by the founders support the call for ethical training for all those that enter the profession. The ethical basis of the profession can be passed on to those seeking to enter the profession via a course of accounting ethics.

## REFERENCES

Brewster, Michael. 2003. *Unaccountable: How the Accounting Profession Forfeited A Public Trust*. Hoboken, NJ: John Wiley.

DeMond, C.W. 1951. *Price, Waterhouse & Co. In America*. New York: Comet Press.

Marquette, P. 1996. "Professional Ethics", in *The History of Accounting – An International Encyclopedia*, edited by Michael Chatfield and Richard Vangermeersch. New York,: Garland. pp. 563-564.

Merino, Barbara D. 1996. “Sterrett, Joseph Edmund (1870-1934)”, in *The History of Accounting – An International Encyclopedia*, edited by Michael Chatfield and Richard Vangermeersch. New York,: Garland. pp. 563-564.

Sterrett, J.E. “Professional Ethics”. *Journal of Accountancy*, October 1907, Vol. 4, No. 6, pp. 407-431.

## CAUTIOUS OPTIMISM FOR NASBA ACCOUNTING AND ETHICS PROPOSAL: EMPIRICAL EVIDENCE IS ON THE HORIZON.

*by Roland Madison, John Carroll University, [rmadison@jcu.edu](mailto:rmadison@jcu.edu)*

While there is no debate that the Accountancy profession needs to re-evaluate the requirements to take the CPA examination, NASBA must consider the overall ramifications of putting forth a blanket course-specific requirement for taking the CPA examination.

When the 150-hour law was passed in the majority of 54 NASBA jurisdictions, the law was curriculum neutral for a reason – if specific course and credit hour requirements were made in the Uniform Accountancy Act (UAA), it was unlikely that the law would pass the various legislative bodies needed to approve the 150-hour requirement to take the CPA exam.

Now that we have successfully adopted the 150-hour law in most jurisdictions, it would be a grave error for the NASBA to attempt to micro-manage the content of the specific college and university programs that are providing candidates to take the CPA exam. In most states, either 24 semester hours (excluding introductory accounting) or 30 semester hours (including introductory accounting) in accounting are required to take the CPA examination. For top flight institutions accredited by the AACSB-International, these accounting credits are specified. There is absolutely NO reason for NASBA to attempt to supersede these specific course requirements as they have done in their proposal to establish curriculum content.

The NASBA proposal would require accountancy programs to include both a general business ethics class required of all business majors and an accounting specific ethics class required of all accountancy majors – essentially six semester hours of ethics within the confines of the undergraduate curriculum. This would prove to be an undue burden on many universities as well as being contrary to the AACSB accreditation requirements for ethics education.

Presently the AACSB permits institutions to meet the ethic education requirement by either having a stand alone ethics class in the business core curriculum or by integrating ethics throughout the business and accountancy program. The AACSB reaffirmed this position in its spring, 2003 accreditation standards meeting.

When the AICPA released its Vision for the Profession to 2011 and beyond, I was charged by the Ohio Society of CPAs Professional Ethics Committee to determine to what extent ethics was taught in our accounting programs in Ohio's colleges and universities. The end result of this research (*Ohio CPA Journal*, June, 2001) showed that Ohio's colleges and universities required accountancy students to spend about ten hours of their accounting program studying ethics-specific topics. Additionally, a number of schools, primarily private religious-affiliated institutions, required ethics-specific classes for all business school students.

The type of evidence that NASBA used to develop its proposal is not clear. However, it does not appear that they had access to the facts about ethics education in business and accounting programs. Last term (Fall, 2004), this professor had a research leave of absence to study the extent to which ethics is taught in the accounting programs of the largest 530 colleges and universities in all of North America. That research has been completed and the data is in the process of being analyzed. The preliminary results of this research should be available by early September of 2005. Essentially, we have attempted to learn to what extent is ethics education included in ALL of the Accountancy classes at the present time and also to determine if the current coverage is deemed to be satisfactory. Since we have a response rate of nearly twenty-five percent (25%) of the largest programs in both the United States and Canada, the results of this research should provide us with meaningful information that will help to determine whether a need exists to legislatively invoke changes in the requirement for ethics education to take the CPA examination.

Finally, there is an issue that NASBA has overlooked. How many of the 54 jurisdictions have an ethics education requirement to renew license to practice as Certified Public Accountants? (NOTE: when Cenger and Madison conducted research in this area in 2001, only five of 54 jurisdictions had a post-CPA CPE ethics requirement of license renewal). How many jurisdictions require that a newly minted CPA complete an ethics exam before being issued a license to practice as a CPA? These issues should be addressed by NASBA before the organization attempts to dictate the content of accountancy programs offered by the various colleges and universities in the United States at this time.

Respectfully, I would suggest that NASBA address the questions posed in the preceding paragraph before attempting to make curriculum specific requirements that the colleges and universities must meet in order for their graduates to be eligible to take the CPA examination. Also, NASBA could strengthen its decision making with regards to the need for ethics education in accounting by relying on the empirical literature, including this author's research in progress about the nature and the extent of ethics education that is being provided to accountancy graduates.

## A CALL TO STRENGTHEN PROPOSED NASBA ETHICS REQUIREMENTS: A THREE-STEP FORMULA

*By D. G. Fisher, Kansas State University, [dfisher@ksu.edu](mailto:dfisher@ksu.edu), and*

*Diane Swanson, Kansas State University*

The National Association of State Boards of Accountancy (NASBA) exposure draft of proposed changes to the Uniform Accountancy Rules 5-1 and 5-2 addresses the much-neglected area of ethics education in accounting. In particular, the NASBA proposal suggests that the 150-hour curriculum should emphasize ethical conduct and professional responsibility. Toward this end, the exposure draft would require three credit hours of accounting ethics and three credit hours of business ethics.

Given the breach in public trust caused by recent accounting scandals, we applaud NASBA for proposing a new focus on ethics education. Moreover, we believe that the proposed rules are a step in the right direction. We are concerned, however, that the NASBA proposal stops short of ensuring sufficient ethics coverage. That the standards allow the integration of ethics coverage in accounting content courses, in lieu of requiring a standalone course, seriously undermines the intent of the proposal. In many if not most schools, this *ad hoc* approach, left in the hands of individual faculty members, will result in superficial, incoherent, or nonexistent ethics coverage.

Moreover, if NASBA approves this approach, it will be following the precedent set by the Association for the Advancement of Collegiate Schools of Business (AACSB), whose response to the earthquake of corporate scandals was to reject requiring even one standalone ethics course in its 2003 accreditation standards (Swanson 2004). Although AACSB has set disappointingly low standards for ethics education, the NASBA proposal still holds the potential to become a roadmap for truly responsible accounting and business ethics education.

*In order to enact this higher standard, NASBA needs to mandate a standalone ethics course as a requirement to sit for the CPA exam, and we offer a three-step formula for positioning this course foundationally in the accounting curriculum.*

### **A Three-step Formula for Strengthening Accounting Ethics Education**

Our position is not meant to be an elaboration on the misconceived, worn out debate about whether a stand-alone course or integration across the curriculum is the best approach. Common sense dictates that we must do both! Specifically, a required accounting ethics course offered early in the curriculum provides the foundation for the meaningful integration of ethics into core courses and extra-curricular activities. According to Swanson and Frederick (2005), the three-part formula for this holistic coverage is simple and straightforward, presented here as sequential building blocks.

Offering extracurricular ethics activities, such as special seminars, guest speakers and service learning projects is highly desirable;

Integrating ethics into core courses must be encouraged and supported; and

Requiring a foundational stand-alone ethics course early in the curriculum is a necessary building block for integration across the curriculum.

This three-step approach has the following advantages:

**Provides the building blocks for sound ethics education.**

According to Bloom's (1956) taxonomy, students need a conceptual foundation before application, analysis, synthesis and evaluation of material may occur. Indeed, the NASBA exposure draft seems to embody this conventional wisdom by stating that "the process of ethics education should begin with broad philosophical concepts, followed by the application of these concepts in the world of business and accounting." In other words, students need theory and principles to channel analysis and dialogue toward constructive results. Without solid theoretical underpinnings, attempts to integrate ethics into core courses easily become superficially naive rather than analytically sound.

Before ethics can serve as one of the conceptual and theoretical pillars from which business and accounting is applied, ethical concepts must be delivered early in the curriculum, whole cloth by knowledgeable faculty.

**Signals to students that ethics in accounting matters.**

Accounting programs, in general, have settled for an *ad hoc*, disconnected, incoherent smattering of ethics across the curriculum. Fisher et al. (2005) report that accounting educators spend virtually the same amount of time covering ethics as was the case a decade ago. Madison (2001) determined that the ethics coverage *in total* in accounting programs in Ohio averaged slightly more than nine contact hours or about 20 percent of one semester. Weigh that against the amount of time committed to developing technical expertise and it is easy to see that students are getting the message that technical expertise is more important than --and perhaps even separate from -- ethical integrity.

To make matters worse, a formulation of economics that interprets business decisions to be "value free" while promoting narrow self-interest over community needs has taken root in business schools to trivialize ethics in the curriculum (Swanson and Frederick 2005). This amoral, self-serving perspective is buttressed by the language of "wealth maximization for shareholders, decision-usefulness for accounting information, and utility functions composed of effort aversion and wealth attraction, with varying degrees of risk aversion" (Ravenscroft and Williams 2004). The integration-only approach prevents ethics from reaching the same plane as economics and renders ethical theory incapable of serving as the necessary counterbalance to the unrealistically outdated assumptions about human nature parlayed by current interpretations of economic theory.

The bottom line is that students will not take ethics education seriously until it is foundational to business and accounting applications, amplified in a standalone course.

**Assures that students have met the minimum standard to sit for the CPA exam.**

An integration-only approach assumes that faculty will systematically intertwine ethics with technical coverage, a position many educators find burdensome. Professors understandably prefer to focus first and foremost on their own areas of technical expertise, especially when they lack training in ethics. Predictably, many perceive that making room for ethics means cutting material they assign greater priority. Under these circumstances, coverage of ethics is superficial at best or nonexistent at worst.

The only way to ensure that ethics coverage meets the minimum standard being recommended to sit for the CPA exam is to mandate a stand-alone ethics course taught by knowledgeable faculty who are dedicated to the project.

**Resolves unwieldy assessment problems.**

When ethics is scattered across the curriculum, assessing learning outcomes becomes difficult if not impossible. For instance, ethics coverage may be assessed as being sufficient when it is woefully inadequate or even missing in action. Furthermore, ethics content can be distorted, diluted, and trivialized but still pass inspection (Swanson and Frederick 2005). In the final analysis, the listing of ethics on various syllabi and/or letters from faculty claiming the ethics has been woven into various courses does not satisfy any particular assessment criteria, and it reinforces the message that ethics in accounting does not matter.

**A Call to Action**

Since the 1986 Bedford Committee Report, every significant academic and professional organization has advocated increased ethics coverage. Despite these calls, meaningful incorporation of ethics into the accounting curriculum has not occurred (Fisher et al. 2005). In 1991, the AACSB moved away from language that clearly pointed to requiring some type of ethics course in the business curriculum to the current flexible, mission-driven standard that allowed interweaving ethics into other courses. The primary outcome of this standard has been the deterioration of business ethics in the curriculum to the point that only one-third of all accredited business schools require a freestanding ethics course (Willen 2004). In this environment, ethics has not fared well against courses that are sacred cows or currently in vogue (Swanson 2003). That the AAA Task force embraces this status quo in the wake of a virtual earthquake of business scandals is unacceptable. Should we be surprised that an external body is attempting to force change that the Academy has been unwilling to deliver?

Because the NASBA proposal is still in draft form, we still have time to rectify a longstanding deficiency in accounting education. Failure to act now may have serious consequences, not the least of which is



that students who face increasingly complex and dynamic business environments will be ill equipped to recognize ethical dilemmas, much less prevent or resolve them. A continuation of this state of affairs will do little to ameliorate the public's newly found distrust in business and may even help set the stage for the next wave of accounting scandals. With so much at stake, we encourage all interested parties to visit the NASBA website and weigh in on the need to mandate a standalone ethics course in Rules 5-1 and 5-2.

### References

- Bloom, B., ed. 1956. *Taxonomy of Education Objectives*. New York: David McKay.
- Fisher, D. G., C. Blanthorne, and S. Kovar. 2005. Accounting educators' opinions about ethics in the curriculum: A profile. Unpublished working paper, Kansas State University, March.
- Madison, R. L. 2001. To what extent is ethics taught in the accounting programs of Ohio's colleges and universities? *Ohio CPA Journal* (Apr-Jun): 39-42.
- Ravenscroft, S. and P. F. Williams. 2004. Considering accounting education in the USA post-Enron. *Accounting Education* 13 (Supplement 1): 7-23.
- Swanson, D. L. 2003. Business education outs corporate reputations at risk. *The Corporate Citizen* 3: 34-35.
- \_\_\_\_\_. 2004. The buck stops here: Why universities must reclaim business ethics education, in D. Reed and R. Wellen (eds.), Special Issue on Universities and Corporate Responsibility, *Journal of Academic Ethics*, 2 (1): 43-61.
- \_\_\_\_\_, and W. C. Frederick. 2005. Denial and Leadership in Business Ethics Education, in O.C. Ferrell and R. A. Peterson (eds.), *Business Ethics: The New Challenge for Business Schools and Corporate Leaders*. New York: M.E. Sharpe.
- Willen, L., Kellogg denies guilt as B-Schools evade alumni lapses, *Bloomberg* CNP 08319200110 (March 8, 2004).

## NASBA PROPOSAL MISSES THE MARK

*By J. Clarke Price, CAE, President & CEO, The Ohio Society of CPAs, [cprice@ohio-cpa.com](mailto:cprice@ohio-cpa.com)*

The National Association of State Boards of Accountancy seemed to have good intentions when it issued an Exposure Draft of Uniform Accountancy Rules 5-1 and 5-2, but it missed the mark. The rule revisions were drafted by the NASBA Education Committee's 150-Hour Task Force to address the content of the 150-hour requirement, respond to state board concerns and propose rules that were contemporary, easy to understand and apply. All of these may be easy to accomplish in a perfect world.

But in reality, what NASBA is proposing would ultimately have negative results, including an adverse impact on the quality of accounting education and innovation and further reductions in the number of graduates sitting for the CPA exam at a time when we can least afford it. The revisions include increases in the number of semester hours required in accounting – from 24 to 30 hours – and in business – from 30 to 36 hours – and also specify hourly requirements for both accounting and business courses, including three hours of ethics in accounting and three hours of ethics in business. While it is important that accounting majors have a sense of uniformity in their course requirements, it shouldn't be so rigid that the goal of turning out graduates who can help the profession meet its public protection obligation becomes secondary to ease of administration and compliance.

I completely agree that an increased emphasis on ethics is merited. However, by dictating what comprises almost the entirety of the 150-hour requirement, colleges will end up with a one-size-fits-all curriculum approach, eliminating their ability to develop and implement flexible programs that best meet the needs of students and, ultimately, employers and the public. Under the NASBA proposal, educators would lose the ability to quickly respond to existing and future market demands and appropriate regional differences. In addition, it is unreasonable to believe that accounting departments can dictate the broader curriculum of the business school.

The proposed changes would also wreak havoc on colleges with quarter systems because they would dictate specific number of hours for specific courses, instead of allowing schools to create courses that can encompass the subject matter.

Not only that, if a student transfers to another school, the accountancy boards would have to be the deciding authorities on whether a course from one school would be the equal of the same course at the other school. It makes more sense to have required courses on specific topics instead of requiring a specific course.

In addition to increased costs, state boards of accountancy would incur increased workloads, responsibility and accountability in evaluating curriculum and comparing courses offered across different institutions. Most state regulators do not have the expertise to conduct such evaluations correctly or efficiently, they lack the funding to hire people who do have that expertise, and they can ill afford the distraction from their desired focus on ensuring practicing CPAs follow professional standards and comply with state laws.

The proposal's course requirements would also essentially eliminate any elective courses in a student's accounting education. Concurrently, the change would lessen any creativity on the part of the school's accounting program to take advantage of its unique strengths, creating "cookie-cutter" accounting programs at every school. Schools would lose their leverage to be able to market themselves with their own specialty areas or be able to "stand out" from other schools in the eyes of prospective students. With a more stringent accounting track, students may opt to select other majors, such as finance, that provide more flexibility in designing an acceptable program of study.

With a declining number of students sitting for the CPA exam and increasing demand for accounting students, adding more barriers to the "pipeline" that feeds the profession would have major repercussions across virtually every platform that relies on CPAs. If schools don't change their requirements to meet the new standards proposed by NASBA, they could choose to prepare students for other career opportunities available in the accounting field, such as corporate accounting, instead of public accounting. With fewer CPA candidates and more choices in accounting and finance careers for students, public accounting firms would have an even more difficult time finding qualified employees.

Though I recognize the good intentions of NASBA when it devised the exposure draft, we simply cannot afford the high cost -- to students, to employers, to colleges and universities and to taxpayers -- that would be incurred by such a change. I recommend that NASBA withdraw its proposal and work with all stakeholders in the profession to find something a little closer to the perfect world it seeks to attain.

## The Need for a New Framework of Accounting Ethics

By Albert D. Spalding, Jr., Wayne State University, [aspalding@wayne.edu](mailto:aspalding@wayne.edu)

Accounting ethics is not just about rules and theories: it is about conversations and dialogues. Boards of directors – and their audit committees – enter into discussions about disclosure, control, and assurance requirements with internal accounting professionals and with external auditors. Regulators interact with licensees, while state societies and the AICPA operate organizational ethics task forces. Individual accountants wrestle with the implication and consequences of their profession's ethical rules, and find themselves arguing about the outside parameters of disclosure, independence, and integrity. Even legislators and the courts enter into the foray. And in the midst of all of this discussion, the ethical soul of accounting – the *Zeitgeist* of the profession – is perceived, formed, and acknowledged. As educators, we must lead the discussion, follow it closely, or, as the saying goes, get out of the way.

By bringing forward its recent proposed revision to state licensure rules, the National Association of State Boards of Accountancy (NASBA) has provided accounting educators with a new opportunity to participate in this grand conversation. But the opportunity goes well beyond a critique of the regulatory proposal itself. The proposal creates for accounting educators a profound moment of reflection and resolve. If the new rule is adopted, what will the “framework of professional values, ethics and attitudes” look like? How can accounting educators articulate the moral foundation upon which the profession stands? Shall we be content to rely on glib formulations of utilitarian or Kantian aphorisms, or should we take on a comprehensive project of re-thinking the essence of accounting as an art and as a profession?

NASBA's recent proposal brings a tighter focus on ethics within the 150-hour regime. I strongly urge the adoption of this proposal, but with one caution. Accounting educators and ethicists must recognize the philosophical and cultural realities of these times, and address those realities in a process that results in the crafting of a new, 21<sup>st</sup> century *ethos* for the accounting profession. If this is not done, the entire effort of making accounting “more ethical” will, at best, fall flat, and, at worst, fail altogether.

What are some of these realities? First, nineteenth century modernistic ethical theories will not suffice. We are in postmodern times, and a new approach to ethics is required. Students today are not driven to sort out the rightness and wrongness of “gray area” ethical dilemmas by applying consequentialistic or deontological theories. What “works best for society” is seen as an interesting discussion or mind game, but hardly relevant to the immediate realities of building a professional career in accounting. Kantian admonitions to “use things and not people” sound large and wonderful and altruistic, but carry little personal appeal or relevance. Especially for students aspiring to a profession that is sometimes accused of “using” (if not abusing) CPA candidates while they are earning their required work experience. The experience of *being* an accountant, often has more impact than rationalistic theories about right and wrong.

Second, the recent accounting scandals have little to do with a lack of education about ethical theories, and much to do with character. Most of the corporate executives and accountants who have been convicted in connection with recent accounting scandals have had training in traditional ethical theories. They studied at business and accounting education programs that were sure to include the required dollop of ethics education. But, again, traditional approaches to ethical theories focus the rightness or wrongness of this or

that decision, and offer little in regard to the kind of person an accountant ought to be. In particular, qualities, habits, and impulses that increase the likelihood of a successful accounting career – such as trustworthiness, radical honesty, respectfulness, loyalty, and an unswerving commitment to truth and to justice – are assumed, alluded to, or entirely ignored. Mention of “virtue theory” is usually made in the opening chapters of ethics textbooks, but seldom fleshed out in a relevant manner that makes sense to a student. And yet most of the recent corporate scandals – with the Andersen conviction being a possible glaring exception – have involved more than the occasional violation of this or that law. They have involved habits – and entire lifestyles – of deception, fraud, and abuse of power. It may or may not be possible to convince a student of the rightness or wrongness of the nondisclosure of a particular contingent liability in a given case. But most students have ready access to the notion that a well respected, honorable accountant is a more attractive career model, than a liar or a thief. Virtue theory – and other ethical approaches that emphasize character, habits and integrity while not ignoring larger questions of rightness and wrongness – should perhaps be brought into the core of any reinvigorated accounting ethics education.

Third, accounting as a career is more diverse, more mobile, and more global than ever before. Accounting ethics, accordingly, is contextual. As the Healthsouth scandal demonstrated (wherein the whistleblower was an accounting student), there can be specific ethical questions faced by a new accountant. Questions about the tasks assigned; about the appropriateness of actions taken in the field by his or her immediate supervisor; about reporting (and billing) time and expenses; and about interactions with clients. These types of questions tend to be somewhat different than the questions raised, for example, in a management accounting environment, in an overseas business culture, or simply later in one’s career. The challenge to accounting educators is not simply to encourage students to have a generalized sense of ethical awareness, but to help them understand that “corner cutting” habits formed early on in specific contexts, can grow into a lifestyle of fraud and deception later.

Fourth, accounting students need to understand that their chosen profession is philosophically counter-cultural. In a society that favors, and often fosters, cultural relativism, the accounting profession rests upon idealistic notions of objective truth about, for example, financial statements as fair representations of business entities. In a culture that has in many ways grown increasingly cynical about the narratives offered by historians, religious leaders, and those who promote traditional values, financial accountants insist that their regime of financial reporting is relevant and reliable. And in a philosophical environment where language itself is deemed suspect, the accounting profession holds tightly to a mosaic of terms and concepts that comprise GAAP and GAAS. Meanwhile, the credibility of financial reporting has begun to crumble under the weight of an increasing number recent accounting scandals, restatements, and corrections of errors. To reestablish credibility in light of these trends requires a level of trustworthiness that cannot be achieved unless accounting ethics education is clear, poignant, and impactful.

Fifth, as noted at the outset above, accounting ethics is discursive. To confine accounting ethics to textbooks (or, for that matter, six semester credit hours of education), is to miss the point entirely. Accountants have always played a role in the accountability of business to its owners, to the government, and to other stakeholders. But in the wake of Sarbanes-Oxley and its state-level legislative cousins, accountants are now placed in the position of being the conscience of business. This, in turn, intensifies the importance and significance of auditor-client communications. And the record retention rules under Sarbanes-Oxley convert auditor-client communications (and intra-auditing-firm communications) into an evidential database. The *lo-*

cus of ethical decision-making, therefore, is no longer the classroom, the board room, or the auditor's conference room. It is within the very communications themselves. The decision of the Andersen jury had as much to do with the content of emails, than with the resultant shredding of documents. Other recent scandals, such as the Qwest accounting fraud, have revolved around letters and emails that provide signals and clues about the ethical soul of the people involved. And so it is not enough to teach about ethical theories. Accountants are now themselves accountable for their words as much as, if not more than, their actions.

Finally, the ethical guidelines offered by the accounting profession are not entirely helpful. The AICPA *Code of Professional Conduct* is in many ways both self-contradictory and self-serving. Members are required to be "free of conflicts of interest," but when members are sued for negligence, juries readily conclude that public accountants who are paid by clients have, in fact, a glaring conflict of interest. The *Code* neither acknowledges nor addresses this obvious fact. Members are also asked to avoid subordinating their judgment to others... except, of course, to the AICPA or the other authoritative bodies it recognizes. Even the notion of deception is addressed more strictly for advertising (where any form of misleading communication is prohibited) than for financial reporting (where only "misrepresentation" as such is prohibited). Accountants who withhold records from former clients are branded as acting discredibly.... unless the former client owes them money. As if credibility were not endangered so long as records are held hostage for pay. I would suggest that any educational effort to educate students about the ethical and professional responsibilities of CPA's that does not go well beyond the AICPA's *Code* (and that does not encompass judicial, regulatory, and stakeholder perspectives of the profession) would be inadequate.

In summary, I strongly urge the promulgation of NASBA's proposal. With one crucial caveat: accounting educators must lead the way in the development of relevant applied ethics. It will not suffice to dust off ethics texts – including the one I co-authored – that were written in the last century. In these post-Enron – and post-Andersen – times, there needs to be a freshness and a sense of urgency in the development of new ethics curricula. This is the moment. The very survival of the accounting profession may indeed depend on our response to this opportunity.



## Effectiveness Expectations for Ethics Education

by Wallace Wood, University of Cincinnati, woodwr@email.uc.edu

This paper reviews what Accountants already know about character, circumstances, and alternative types of ethics education. Being mindful of the fraud triangle and the deterrence equation, allows more reasonable *effectiveness expectations* for Ethics Education requirements. Decisions about changes in the Accounting curriculum should consider the interactions of psychology and philosophy on ethical behavior of future Accountants, as well as other goals for ethics education.

Moral Behavior= f (Character, and Circumstances)

Psychology warns us of the fundamental attribution error where we almost can't help thinking of other people's choices as driven by character and our own choices as driven by circumstances. We are tempted to describe our own lying, with the memory of its infrequency, relative to opportunity, as dependent on circumstances. We see less across the whole life and less inside the motives of others, thus they are liars if we catch them lying and they are not liars if we don't. People who do unethical things are virtuous in some areas and some periods of their lives. Those of us who didn't do all kinds of bad things.... yet, can't be completely sure we never would.

Circumstances= f (Opportunity, Motive, Rationalization and Deterrence)

The fraud triangle reminds us that good behavior is based on lack of opportunity or lack of desire or lack of an excuse. Conversely, immoral behavior requires a motive AND opportunity AND rationalization. When our needs are satisfied opportunities do not even tempt us. When opportunity and unmet needs are both frequent, resisting temptation becomes a constant challenge. Tempting opportunities are still rejected for lack of a rationalization (excuse). Rationalizations come in two types: "No Harm" and "No Fault." No Harm rationalizations might include "no one will notice" and "someone deserves promise breaking." No Fault rationalization could include "forced to" or "didn't mean to." Ethical reasoning undermines excuses but reducing unmet needs and/or reducing opportunity can be more efficient at reducing unethical behavior.

Remembering the importance of opportunity and unmet needs and rationalization is important in understanding business fraud and audit failures. Across the desk from even a million dollar auditor sits a multi-million dollar per year CFO. Unfulfilled needs to meet market expectations will pressure them both to find opportunities. When rationalizations like "we already did it last year (no harm)" or "the competition does it (forced to)" are available, those tempting opportunities are hard to resist. When Accounting standards allow opportunities for meeting the letter but not the spirit of transparency and when Auditors can rationalize allowing unfair disclosures, we ought to be surprised that opportunity, motive, and rationalization are ever resisted. Because pressures are enormous and opportunities are substantial, relying on ethical reasoning to undermine excuses is probably optimistic if not naive.

### Deterrence=f (Consequences x Certainty x Delay x Distance)

Artificial consequences such as professional sanctions and legal punishments are necessary for due process, to replace revenge and to provide a sense of justice, but they are weak at prevention. Either low risk percentage or small punishment size results in low expected consequences. Delay applies a present value discount to our expected consequences and effects of our choices on people we care less and less about have a similar “distance discount” rate. The deterrence equation is only as strong as its weakest link.

Fear of even small consequences does deter us from doing things with almost certain, almost immediate consequences, as you remember from speed bumps. Even large fines very poorly deter speeding because we know how rare it is to get caught and how long we have to pay off our fines. If smoking killed right away, instead of 30 years later, if smoking killed your children instead of yourself, if smoking killed 100% instead of only 33% of smokers, the natural consequences would be sufficient deterrence. When ugly painful death doesn't deter smokers because of substantial uncertainty and delay, we shouldn't be surprised that modest fines or humane prison sentences fail at deterrence because of their uncertainty and delay.

Law is based almost entirely on proof and punishment. One might say, “legally what can't be proven, never happened” and “what can't be punished doesn't matter.” That cynicism is an overstatement, because some people interpret the law as the consensus expectation of society and many people respect laws rather than fear expected consequences of breaking the law. Due process assures lots of delay and investigators, prosecutors, judges, and juries combine for substantial uncertainty. Threatening 50-60 year olds with up to 10 years of prison beginning after multiple years of trials and appeals will probably not scare CFOs or Accountants. Given that audit failure is only discovered when combined with business failure and that courts are clogged enough to offer plea bargains to some defendants, the fear power of legal deterrence is weak.

### Character = f (reasoning skills, habits, and emotions)

Even when tempted with opportunity and unmet needs and even with rationalizations available, some of us resist, at least some of the time. Ethical reasoning will undermine rationalizations but most of what we call character is our virtues or morally good habits. Some of our good habits become such deep parts of our personality that we do not even experience temptation. We take care of our moral duty to ourselves when we eat and sleep and exercise, when we buckle seatbelts, and when we drive defensively. We fulfill moral obligations to those we live and work with when we habitually keep our promises, tell the truth, and when we respect other people's autonomy over their property, their bodies, their privacy, and their decisions. Most of the time, most of us act the way we do in habits of duty, habits of fairness and habits of decency without moral deliberation. Character Education emphasizes developing virtuous habits, which can protect us from noticing unmet needs, from seeing opportunities, and from developing excuses.

Caring about what happens in the future and caring about what happens to other people is enhanced by certain experiences. Being around other people, and experiencing what we have in common, helps empathy grow. Empathy and patience can be enhanced by rigged service learning where Students get to know likeable people and engage in patience building projects where success rewards sustained effort. Coerced

volunteering or community service is thus a form of Character Education aimed at developing those two heart virtues of Patience (concern for long run) and Empathy (concern for other people).

Our Ethics are also changed by intense experiences, which include rehearsals of resisting temptation and dealing with ethical dilemmas. We learn from painful mistakes, and when we are lucky we learn from other people's mistakes before making the same mistake ourselves. When we resist doing something wrong, we do not just think it is wrong, we feel it physically. The emotions of feeling temptation and feeling dilemmas help retain ethical reasoning lessons, and if sufficiently rehearsed, with fire drills, we can face a real fire, by acting quickly, almost without the deliberation ethical reasoning implies. There is some evidence really heroic acts are taken before and without thinking through all the consequences or other ethical considerations. Rehearsal, like ethical peril can be uncomfortable. Many people hurt physically when they break their own rules and sometimes we literally feel each other's pain. Case Studies are employed in Ethics Education both to practice applying ethical reasoning and to supply the emotional aspects of experience: insight and retention. Even good case studies where students identify with the characters, do not accelerate ethical reasoning application as much or anchor ethical virtues as well as first hand experiences might.

#### Circumstances when moral behavior depends on ethical reasoning

Life includes two types of situations where ethical reasoning tips the balance determining moral behavior. The Josephson Institute refers to these situations as "moral temptation" and "ethical dilemma." Moral temptation happens a lot more than ethical dilemmas do. Moral temptation is where opportunity and motive tell you to do something but reason disagrees. Individuals and groups have to choose between rationalizations for doing something unjustifiable and doing what has better rationale. Ethical reasoning allows one to see, describe and weigh arguments and especially develops the ability to differentiate rationalizations and excuses from sound, fair, logical reasoning.

Ethical dilemmas are those rare situations when opportunity and motive suggest alternative choices. What makes an ethical dilemma different from moral temptation is that a dilemma requires deliberation about what ought to be done, before deliberation about whether to actually do, what ought to be done. Ethical dilemmas pit some ethical reasons against other ethical reasons and pretend dilemmas are good practice for seeing and weighing importance of different rationales.

#### Reasonable expectations for ethics education

Ethics Education is a lot better at helping people figure out what they ought to do, than it is at helping people actually do what they have figured out they ought to do. Most Ethics Education efforts involve developing ethical reasoning and imparting knowledge of ethical expectations. Some Ethics Education, especially service learning, character education, and some case studies employ rehearsal and emotional experience to enhance key virtues.

Both Character Education and Ethical Reasoning Education can help CPAs and CPA candidates when facing moral temptations and ethical dilemmas, but ethics education will not create impenetrable will power nor will ethics education replace intelligent application of the fraud triangle and the deterrence equation. Ethical Reasoning is essential for corporate temptations where undermining rationalizations and debunking excuses is the last refuge for ethical group decision-making. If moral behavior of other people is one's objective, prevention strategies of reducing opportunity, of reducing unmet-needs will generally be more efficient, than coerced ethics education. Likewise, at least sometimes, increased deterrence using larger consequences, and/or more certain consequences, and/or sooner consequences, and/or consequences falling on people closer to one's heart may be more efficient than compulsory ethics courses at changing behavior.

Beyond prevention and beyond deterrence, ethics education has a role to play, in self-actualization. Ethics Education develops critical thinking and enriches lives. Individuals and groups enjoy choosing, enjoy choosing well even more, and enjoy acting right, acting fair, and acting wisely most of all. Making CPA candidates take ethics courses to reduce their participation in unethical behavior is manipulative, treating them as means to our ends. Assuring all CPA candidates are provided with Ethics Education may be paternalistic, but also may be a kind and decent application of the Golden Rule.

## A Conceptual Model for Accounting Education: An Accounting Curriculum based on a Scientific Approach

By John J. Cheh, The University of Akron, [cheh@uakron.edu](mailto:cheh@uakron.edu)

### I. Introduction

I laud National Association of State Boards of Accountancy (NASBA) in creating the proposed changes to Uniform Accountancy Rules (UAR) 5-1 and 5-2. I particularly commend the organization's recognition that the accounting profession needs to pay attention to quality control and assurance of accounting education. The use of AACSB (Association to Advance Collegiate Schools of Business) accreditation status as the quality control filter for accounting education is a noble step towards motivating academic and professionally qualified faculty to continuously engage in scholarship and professional development

Considering the recent developments in Enron, WorldCom, and similar debacles of financial disclosure and reporting, NASBA's proposal to include ethics classes as required classes for accounting majors is a necessary addition to accounting education. Accounting graduates play a very special role in a capitalistic society. That includes maintaining an unbiased and independent role in auditing corporate data and attesting financial statements and annual reports prepared by management (Lander 2004).

In this paper, I propose a conceptual model for accounting education that provides an underlying structure for the accounting curriculum proposed by NASBA for the UAR 5-1 and 5-2. The conceptual model uses a scientific approach based on verifiable data collection and analysis as the foundation to accounting education. An auditor's attestation processes are similar to a scientist's quest for knowledge and truth. Considering this, accounting educators can adopt the science-based instructional processes as the basis to educate future accountants. In addition, I also propose additions and modifications to NASBA's exposure draft in order to strengthen the weaknesses in a traditional accounting curriculum.

### II. A New Conceptual Model Based on a Scientific Approach

As we examine the current accounting education environment, there is a mismatch between the accounting curriculum that the accounting profession wants and the focus of contemporary accounting education (Albrecht and Sack 2000; Calderon, Cheh, and Chatham 2002). The current accounting education is modeled on the premise that the double entry accounting system and its conceptual underpinnings are the cornerstone of accounting practice. This double entry accounting system is a manually driven conceptual model, and it is the fundamental building block of accounting education in traditional accounting programs. That model was based on the actual accounting practice prevalent in Venice at the end of 15<sup>th</sup> century (Fischer 2000). The double entry accounting system worked well over centuries, and is still useful in limited circumstances. Yet, the adequacy of this model in the post-modern businesses has diminished considerably. The emergence of globalized business and seamless business transactions that cut across geopolitical boundaries, enabled by information technology and distributed networks, imply that spatial, temporal, geographical, jurisdictional, risk, and organizational dimensions of transactions need to be captured and processed in a more integrative fashion than traditional double-entry bookkeeping allows. In this complex environment, models that subsume advanced computer systems with machine intelligence are better equipped to deal with processing and verifying accounting transactions than models that are based on a manual system that emphasize just two dimensions of a transaction.

Many accountants and auditors are not educated to take advantage of the innate processing efficiency

of information technology and the capacity to build and use machine intelligence in reporting and verifying transactions. The over emphasis on double entry systems that mimic 15<sup>th</sup> century business processes must be considered among the culprits. Accounting education should shift its emphasis from the old manual two-dimensional model to a more scientific multidimensional model in order to address the new reality of business, which is complex and spans many different dimensions. This new conceptual model, based on a scientific approach, opens doors to automation of information processing and audit processes that use machine intelligence, advanced modeling methodologies, and statistics. With this scientific foundation, accountants can focus on designing the underlying internal control structure, and audit computer systems that process accounting transactions.

I propose that a scientific approach to accounting education start in the undergraduate curriculum, and this approach permeate throughout all undergraduate and graduate accounting education, including Ph.D. programs. The complexity and sophistication may increase as students' learning matures and their capacity to use scientific tools expands. I propose that the scientific approach be the founding learning block and the most important design principle for new accounting curriculum. Accounting faculty could use the scientific approach in educational processes to make the discipline attractive to students with inquisitive minds and a need to solve complex problems. Not only would these professors respond to calls to make the learning process more active, they would also be making the domain of accounting education more proactive and more focused on strengthening the discipline and practice of accounting.

My proposed approach is similar to instructional approaches in other scientific disciplines such as biology and physics. Students observe nature, are curious about natural phenomena, and approach the mystery with scientific tools to discover the truth by forming a hypothesis, collecting empirical evidence, and testing the hypothesis based on the empirically observable data. If the data do not support the initial hypothesis, the students revise the hypothesis and form a new one. At an elementary level, this process is similar to Kuhn's revolution of theory (Kuhn 1996). An analogy can be drawn between this approach to knowledge discovery and discovery processes of audit attestation activities for financial disclosure and reporting. Accounting students observe the corporate data initially, and form a hypothesis on the voluminous corporate data stored in global databases about the level of the internal control, and the various properties of data, including accuracy. Then, the students collect empirical evidence to support their initial hypothesis, using database languages such as Structured Query Languages or knowledge obtained through data mining. Based on the verifiable empirical data, the students ascertain the initial hypothesis, using various statistical and machine intelligence tools. If the initial hypothesis is rejected, the students will revise the old hypothesis, form a new hypothesis, and go through another round of collecting data, and testing the second hypothesis.

Accounting students whose education model is based on this type of scientific approach will develop the inner capacity to incorporate into their accounting practice the advancement in information technology and other relevant areas. As a result, this new crop of accountants will be more productive than those who were educated in the old model.

### **III. Summary**

In this short essay, I propose that accounting education be based on a scientific approach, and suggest the basic elements for building such a science-based accounting curriculum. This scientific approach provides accounting students with rigor and open mental framework. This open mental framework allows accounting students to consider multi-dimensional perspectives in accounting practice. Based on this new men-



tal framework, accounting students can build and nourish multi-dimensional accounting contents and knowledgebase for future accounting practice.

Bennis and O'Toole (2005) advocate a good balance between rigor of the scientific approach in business education, and relevance of such education to business practice. The conceptual model I propose provides such rigor in accounting education, and NASBA's accounting curriculum provides this relevance. However, even with the additional classes proposed by NASBA, there remain significant weaknesses related to information systems in contemporary accounting education. Therefore, I would propose inclusion of a core set of accounting information systems classes that prepare students for the reality of contemporary business. Information security and control, information systems auditing, database systems, and systems analysis and design are logical candidates. Furthermore, I would propose forensic accounting classes to complement classes in ethics, auditing, and information systems.

Besides the courses mentioned in the NASBA's exposure draft and those that I have mentioned in this article, there are many courses that could legitimately be included in the accounting curriculum. Ultimately, schools must be the ones that make the necessary tradeoffs to obtain a reasonable balance between their goals, the needs of the discipline and the profession, their students' backgrounds, and the resources available to them.

### References

- Albrecht, W. S., and R. J. Sack. 2000. *Accounting Education: Charting the Course Through a Perilous Future*. Accounting Education Series 16. Sarasota, FL: American Accounting Association.
- AAA Task Force. 2005. Position Statement. American Accounting Association Task Force on NASBA Exposure Draft of Proposed Changes to Uniform Accountancy Rules 5-1 and 5-2. Available at: <http://aaahq.org/temp/NASBA/index.cfm>.
- Bennis, W. G., and J. O'Toole. 2005. How Business Schools Lost Their Way. *Harvard Business Review* (May): 97-104.
- Calderon, T. G., J. J. Cheh, and M. D. Chatham. 2002. An Examination of the Current State of Accounting Information Systems Education. *The Review of Business Information Systems* 6(2) (Spring): 29-42.
- Fischer, M. J. 2000. Luca Pacioli on Business Profits. *Journal of Business Ethics* 25: 299-312.
- Kinney, Jr. W. R. 2003. New Accounting Scholars—Does It Matter What WE Teach Them? *Issues in Accounting Education* 18(1) (February): 37-47.
- Kuhn, T. S. 1996. *The Structure of Scientific Revolutions*. 3<sup>rd</sup> Edition. Chicago, IL: University of Chicago Press.
- Lander, G. P. 2004. *What is Sarbanes-Oxley?* New York, NY: McGraw-Hill.

The author thanks Thomas Calderon for his helpful comments and suggestions.

As Kinney (2003) found, a typical doctoral program includes classes on research methods. .

## Identifying the Pedagogy of a Required Course in Accounting Ethics

*By Steven M. Mintz, Claremont McKenna College, [steven.mintz@claremontmckenna.edu](mailto:steven.mintz@claremontmckenna.edu)*

The National Association of State Boards of Accountancy (NASBA) proposes to revise Rules 5-1 and 5-2 of the Uniform Accountancy Act that specify educational requirements to become a CPA. The proposal requires three semester credit hours in “Ethical and Professional Responsibilities of CPAs” and three in “Ethical Foundations and Applications in Business.” This article addresses the accounting ethics course.

While the idea may seem sound on the surface especially following the recent accounting scandals and passage of the Sarbanes-Oxley Act, there are basic issues that should be considered before a university or college develops a course in accounting ethics. The purpose of this paper is to identify and briefly describe those issues including: the goals of the course; the instructional methods; the learning objectives; and the qualifications of the teacher.

The goals of an accounting ethics course should be:

- To sensitize students to their personal responsibilities and need for integrity;
- To describe the ethical obligations of accountants as embedded in the profession’s codes of conduct;
- To provide a philosophical framework for ethical analysis;
- To discuss situations in accounting that present ethical conflict and how to resolve such conflicts in a morally appropriate way; and
- To model ethical behavior in teaching the course and interacting with students.

An effective accounting ethics course should personalize behavior. Accounting students should understand that one’s personal and professional actions are interrelated. Ethical behavior is not like a spigot that can be turned on and turned off as circumstances seem to warrant. The role of an accounting educator is to consistently inculcate ethical behavior by emphasizing the personal and professional values that support good ethics including honesty, integrity, trustworthiness, fairness, reliability, and the pursuit of excellence.

The accounting profession relies on codes of conduct to express its obligations to the public, to employers, to clients, and to colleagues. The AICPA Code of Professional Conduct identifies Principles that express basic tenets of ethical and professional conduct. These Principles should guide CPAs in the performance of their professional responsibilities and include, for example, the public interest, integrity, objectivity and independence, and due care. Accounting educators should discuss these professional values and provide examples of how the ethics of accountants and auditors may be tested in the performance of professional services.

It is important to discuss situations that describe ethical dilemmas in the practice of accounting. Students should be expected to analyze the facts of a case using professional standards of behavior as embedded in the ethics codes and apply philosophical reasoning. Basic methods of thought exist that can enrich class

discussions including deontological ethics that emphasizes rights and duties as fundamental and teleology that recognizes the justification for certain rights and duties as contingent upon their utility in achieving a maximization of nonmoral value.

These philosophical reasoning methods provide a frame of reference for class discussions that apply to virtually all situations where there exists an ethical dilemma. Deontological ethics holds that: “What *you do in your action*, the nature of the action itself, determines its moral status.” Teleology supports the belief that: “What *you achieve by your action* determines the moral status of the action.

It would be disingenuous to teach an accounting ethics course without examining one’s own motives and behavior. This self-examination is important because accounting educators serve as a role model for students. For example, it would be inappropriate for an educator to teach a tax course that emphasizes the approach of playing the “tax lottery” in making tax decisions. That is, it would be wrong (unethical) for the educator to instruct students to take an aggressive tax position without clear-cut authoritative support because it is unlikely that the IRS will examine the client’s return. This approach fosters a pursuit of self-interest mentality to decision making rather than placing the public interest ahead of all other interests as required by the profession’s standards of ethical conduct.

The effectiveness of ethics education depends in part on the techniques used in the classroom. The Bedford Report in 1986 and the Accounting Education Change Commission Position Statement No. 1 in 1990 call for an emphasis on students’ learning to learn by “developing skills and strategies to [enhance life-long learning].” The most common method of ethics instruction adopted by accounting educators since those influential reports were issued has been to use case studies in an active learning environment. The idea is that an active learner best understands new information by doing something with it. We learn by doing as the ancient Greek philosophy of virtue points out.

Another effective classroom technique is reflective learning. Reflective learners prefer to think about new information before acting on it. This approach supports ethical decision making because it encourages ethical thought and reflection before acting in an unstructured situation. For example, if I were to pose a question in class about a tax situation and ask the students to reflect on the ethics of a “lottery” approach it may be that through reflection and discussion the students come to understand why it is wrong. By using reflective learning in accounting ethics instruction the educator helps students to internalize the values of the profession and develop a mental image of what action is required when faced with an ethical dilemma.

Students need to personalize case situations to learn best about ethics. There’s nothing quite like putting yourself in the position of someone with an ethical dilemma and then deciding on a course of action. However, techniques such as roleplaying can take the students only so far. Perhaps the University of Maryland and Pepperdine University have discovered a way to take them the rest of the way by incorporating a “scared straight” prison visit into their MBA programs.

At the conclusion of an accounting ethics course students should be able to identify ethical conflicts in accounting and know how to analyze ethical dilemmas in a morally appropriate way. Broadly speaking,

an ethical conflict exists in accounting whenever there is a difference of opinion on what the rules say can and can not be done and what one party or another believes should be done in a particular situation. Students should learn that there is a difference between what a person has a right to do and what is the right thing to do.

The learning objectives of education in accounting ethics also include fostering lifelong learning in ethics. The longstanding debate over whether there should be a separate course in accounting ethics or ethics should be integrated throughout the curriculum misses the point that students should be given the tools and perspective to incorporate ethics into both their personal and professional lives.

Learning takes place both inside and outside the classroom. For example, I recently walked into my accounting ethics class and declared that I did not feel like teaching that day so the students could go home early. It was one of the last classes of the semester so I was expecting to be cheered by the students. Much to my surprise and delight my statement was, instead, met with exclamations of disappointment. When one student called me a hypocrite and the others agreed, I knew the experiment worked. We went on to discuss situations in their lives where they had failed to follow through ethical thought with ethical action.

Another learning device that helps to meet the objective of lifelong learning in ethics is using a “teachable moment.” Sometimes this works best with individual students when they are faced with a choice between two alternative courses of action. For example, a student sent me an e-mail that she couldn’t participate with her group in a case analysis because she had an interview with a CPA firm that day. She asked if her group could present two days later. I said no because it would be unfair to her group members since they were prepared to present on the assigned day and it also would be unfair to the other groups to give her group the benefit of seeing all the other group first and then have two additional days to prepare. The student wrote back that she had an interview in the morning (the class was in the early afternoon) and was recently asked to join firm members for lunch. That created the conflict. I explained to her that if she had communicated with her contact why she could not stay on for lunch, the firm may have gained respect for her because she was putting her classroom obligations above a social engagement and one that was set up at the last minute. The student e-mailed me back that she had not thought about it in those terms and seemed moved by my explanation, although she still went to the lunch!

The report of the Committee of Sponsoring Organizations (COSO Report) talks about the role of the “tone at the top” in creating an ethical organization culture. Accounting educators have a similar obligation in the classroom. We should treat students with respect and fairness. I recall when I was a department chair one of the most common complaints against a particular faculty member was that he talked down to students and made them feel inferior. Nothing harms the potential to achieve the positive benefits of serving as an ethical role model more than to act unethically toward students. When this occurs students may become cynical and tune-out whatever the instructor says in class about ethical behavior. In short, it is very important to “walk the talk” of ethics in the classroom and when interacting with students outside of class.

This brings me to my final point. I’ll pose it in the form of two questions. First, should any accounting educator be allowed to teach the ethics class? Second, should a state board of accountancy care about

who teaches the course? That is, should there be a litmus test? Of course, it is impractical and, perhaps, a violation of academic freedom for a state board to dictate who should teach the accounting ethics course. Moreover, the content of the course is best left to the colleges and universities and should be determined based on environmental considerations that may be unique to each institution.

Maryland and Texas both have requirements that students in these states must complete a college course in ethics as a condition of becoming licensed CPAs. Other state boards may do the same following NASBA's call for "education in ethical and professional responsibilities." According to NASBA, this means a program of learning that provides potential professional accountants with a framework of professional values, ethics and attitudes for exercising professional judgment and for acting in an ethical manner that is in the best interest of the public and the profession."

What can or should be done by accounting educators in response to NASBA's call for required ethics education in accounting? First, committed members of the AAA should become involved in the deliberations. Perhaps the Teaching and Curriculum Section can initiate the process along with the Professionalism and Ethics Committee and form a subcommittee of accounting educator-members that would respond to the issues on a regular basis. The entire membership of AAA should become involved since NASBA's proposal, and the actions in Maryland and Texas, affect the curricula of all colleges and universities that offer accounting classes.

Next, the doctoral-granting universities should become proactive and incorporate ethics instruction into their curricula. These institutions send the message that ethics is not an important part of what we do as accounting educators when they ignore or even look down on ethics education and research. While ethics research may not be as rigorous as market-based studies, it does play an important role in testing theories of teaching ethics and the effectiveness of various methodologies. These have a critical role to play in ensuring effective classroom instruction in ethics.

Finally, accounting department chairs and administrators of accounting and business programs should support the effort by devoting time and resources to developing ethics courses. Also, groups such as AACSB International and the Federation of Schools of Accountancy should develop programs of interest to accounting administrators that might help them to understand the role and purpose of an accounting ethics class and related accreditation issues.

While I support NASBA's call for required ethics education in accounting, I feel it jumped the gun by failing to include the stakeholders in developing the proposal. Why didn't NASB contact accounting educators, many of whom are CPAs, prior to issuing its proposed edict? It is a major failing by an organization that supports ethics in the curriculum.

## ACBSP Responds to NASBA Exposure Draft on Rules Revision

By Douglas Viehland, Association of Collegiate Business Schools and Programs, [dviehland@acbsp.org](mailto:dviehland@acbsp.org)

The Association of Collegiate Business Schools and Programs (ACBSP) will be filing comments with the National Association of State Boards of Accountancy (NASBA) on May 19 in response to the *Exposure Draft on Revision of Uniform Accountancy Rules 5-1 and 5-2*. As this article is being prepared, a task force appointed to prepare a response has finished its work, and the final draft is being shared with ACBSP leadership and selected other groups for their comments. The final comments will be posted on ACBSP Gateway at <http://www.acbsp.org/download.php?sid=304> on May 20. While the exact wording may be slightly altered, we fully anticipate the major themes of our comments to be part of the final version. These major themes are the subject of this article.

### Association of Collegiate Business Schools and Programs (ACBSP)

First, some background for those not familiar with ACBSP. ACBSP is a specialized accreditation agency for business that is recognized by the Council for Higher Education Accreditation. The Association was created in 1988 to fulfill a need for specialized accreditation based on the mission of the institution and of the respective unit – an accreditation that acknowledged and emphasized quality in teaching and learning outcomes. The Association embraces the virtues of teaching excellence and emphasizes to students that it is essential to “learn how to learn.” ACBSP acknowledges the importance of scholarly research and inquiry and believes that such activities facilitate improved teaching. Member institutions are strongly encouraged to pursue a reasonable, mutually beneficial balance between teaching and research. Further, ACBSP encourages faculty involvement in the business world to enhance the quality of classroom instruction and to contribute to student learning. Additional information about ACBSP is available at <http://www.acbsp.org>.

### General Comments

ACBSP comments on NASBA’s proposal will be composed of two documents: a two-page letter and a copy of the proposed rules with specific wording changes. The letter references two general comments.

The ACBSP task force members were privileged to have access to the deliberations of task forces formed by the American Accounting Association and the American Institute of Certified Public Accountants. ACBSP concurs with comments of those task forces that the overall tone of the rules being proposed is prescriptive in nature. We concur the best course of action is for the proposed rules to be withdrawn. Regarding business program accreditation, ACBSP led the way in moving from a prescriptive-based accrediting process to one based on missions and outcomes. ACBSP offers our assistance to NASBA and others in anticipation of these rules being withdrawn and redrafted later this year.

ACBSP is also seeking a rationale as to why “Ethical and Professional Responsibilities of CPAs SCH requirements may not be integrated with Legal and Regulatory Environment of Business and/or Business Law subjects, but may be integrated with other content requirements.” This is an example of the prescriptive nature of these requirements. A discussion of legal issues would provide valued opportunities to explore ethical and professional responsibilities.



## Specific Comments

Most important, ACBSP seeks recognition by NASBA as a valid accrediting body along with AACSB. In the definitions of “Level 1 accreditation” and “Level 2 accreditation” in Rule 5-1(e) there is a specific reference to only AACSB. The rules have as their focus what occurs in the classroom. With our accreditation focus on teaching excellence, recognition by CHEA, and accreditation of accounting programs as part of the overall business program accreditation, ACBSP should be included as a valid accrediting body in the section on definitions of “Level 1 and Level 2 Accreditation.” Failure to include ACBSP in the first draft is an oversight that must be corrected.

In response to these proposed rules, the ACBSP Board of Commissioners has recently taken action to establish a separate specialized accreditation for accounting to enable select ACBSP schools to obtain Level 1 accreditation. Accounting programs are already accredited as part of the ACBSP business program accreditation. This would be an additional separate accreditation.

The second specific wording change requested would expand the definition of “lower division” courses to include certain courses taught in schools that offer an associate degree. Transfer of credit is an important issue at both state and federal levels. While the transfer of credit remains the prerogative of the individual institution, the proposed rules have the potential to create natural barriers at a time when legislative and regulatory actions are seeking to remove such barriers. The definition of “upper division” is not suggested for change by this action.

Another specific wording change is intended to lessen the burden on the state boards in review of transcripts from accredited and non-accredited schools by suggesting a decreased level of scrutiny for accredited programs than those contained in the proposed rules. In Rule 5-2(b)(1), the proposed rules outline the level of scrutiny required for the “purposes of determining the acceptability of the degree and the amount of detailed scrutiny required for compliance with the accounting and business subject matter requirements.” ACBSP anticipates state boards would prefer to allocate their scarce resources in review of subject matter at business schools and programs which do not have a valid accreditation process based on continuous improvement, peer review, and documentation of achievement of standards and criteria in place. ACBSP accreditation has these processes. The schools and programs that have obtained an accreditation status already have provided the financial resources to validate their programs so that other entities, including state boards of accountancy, do not have to allocate their resources for this purpose.

The final specific wording change other than suggested clarifications focuses on cost accounting courses and managerial accounting courses. The proposed draft requires 3 SCH of “Management Accounting” in proposed Rule 5-2(c)(2)(E). Our suggestion is the addition of the words “or Cost” in this provision to now read “Management or Cost Accounting.” Such a change would allow schools the flexibility to meet this requirement with either a cost accounting or a managerial accounting course.

## Conclusion

ACBSP is grateful to the NASBA for including our organization in a forum during their national meeting last fall in Chicago. We appreciate the opportunity to work with NASBA as they begin implementation of these and other rules. ACBSP will seek further involvement as members of various committees to be a positive force as we confront the challenges of the future.

## A Response to the NASBA Proposal

*By Kay Zekany, Ph.D., Ohio Northern University, k-zekany@onu.edu*

I have three significant problems with the recent NASBA proposal concerning the accounting curriculum: First is the fact that the proposed minimum course requirements are rigidly specified in terms of semester hours that are inconsistent with our quarter system course hours. Second, I believe this is not the time to codify a “Generally Accepted Accounting Curriculum” as the NASBA is proposing. Finally, is what I will call the “legalistic” tone of the proposal that is strictly regimented and more reactionary than visionary. For these reasons, I strongly object to the NASBA proposal and call for its withdrawal.

### **SEMESTER HOURS ARE NOT THE IDEAL MEASURE OF COURSE CONTENT**

While most universities today operate on the semester system, some excellent universities operate under the quarter system. So, while measuring the elements of your curriculum in semester hours is convenient, there is nothing magical about measuring course content in semester hours.

Each of our university’s standard courses is worth 4 quarter hours, which is equivalent to 2 2/3 semester hours – just short of the NASBA-proposed 3 semester hour minimum. At our university, we compensate for the fact that we offer courses in smaller increments by requiring our students take more courses to prepare themselves for their careers.

We believe we do a fine job preparing our students for careers as CPA’s, despite that fact that our program does not fit your 3-semester-hour mold. Thus, I object to defining the minimum size of a course as 3 semester hours since it would negatively impact our University.

### **THIS IS NOT THE TIME TO CODIFY A “GENERALLY ACCEPTED ACCOUNTING CURRICULUM”**

I am not sold on the concept of a “Generally Accepted Accounting Curriculum” (GAAC) such as that which is being promoted in this proposal. And I am especially concerned that a U.S.-centric GAAC will become counter-productive in our currently evolving global environment.

We operate more and more in a global environment. Thus, we are increasingly preparing our students for careers that may span country borders. If and when we move more and more into the international arena, will a U.S. NASBA-required curriculum be able to adapt appropriately? Or will be slow to innovate? Will American universities, then, fall behind the curve to foreign universities in our accounting curriculum?

To restate this in more concrete terms, will students in future years seek to become certified in public accounting by an American organization or a global organization? Perhaps the question should be *when* will students begin to seek a global certification, rather than an American-only certification? And, because of this, *when* will American accounting education begin to naturally innovate in the direction of preparing accountants for a global workplace? Will schools that follow your guidance be slow to innovate to a global market? How can they be anything but?

Whether the most important emerging trend will or will not be globalization, the broader issue is whether we should allow changes in accounting education to emerge based on a free market competitive approach of continuous improvement, or be imposed by regulators?

I do not believe it is in the best interest of University accounting education to support establishing a rigid set of courses that all future CPA’s must master before taking the CPA exam. CPA-bound students already know

how important it is to carefully select their coursework to prepare to take the CPA exam. Thus, codifying the set of courses required is not necessary, yet it is *risky* for the future of accounting education here in the United States.

### **A PROPOSAL SHOULD TAKE A VISIONARY RATHER THAN REACTIVE APPROACH**

Not only am I not sold on the idea of GAAC, I object to some of the components of the proposal. The legalistic tone of the proposal sounds too regulated and mandated. It not only discourages curricular innovation (as discussed above), it almost precludes it. For instance, if NASBA had designed a model accounting curriculum five to ten years ago instead of today, I doubt that two stand-alone ethics courses – one in business and one in accounting -- would be required. Instead, a “professional services” course might have been required. Would there have been enough flexibility for a unique “accounting ethics” course to evolve naturally? I doubt it.

By being accredited by the AACSB, colleges of business and schools of accountancy already have a strong system of continuous improvement set in place. Thus, I fail to see the need to regulate accounting coursework -- especially in AACSB schools.

In terms of ethics, there may be another way for NASBA and the AICPA to place a needed emphasis on ethics and professionalism at a more natural level. The culture of ethics and professionalism must be imbued in the profession from the top down. College courses provide students an education for the most part before they start their CPA careers. If their bosses don't cultivate an ethical and professional work environment, we accounting educators will only be scorned for not teaching them how to operate in the rough and tumble free-for-all competitive environment they will be marching into. We will again be charged with not understanding how the “real world” works. Focusing on improving ethics at the entry level only will not solve the profession's recent ethical problems. Perhaps, it might be better to require ethics CPE each year. The professional accountants that caused the accounting scandals were not at the entry level. CPE requirements place the ethics education at a more appropriate level.

With respect to soft skills such as research, analysis and communications in accounting, these skills are so critically important to the future careers of our accounting students that students need exposure to these topics throughout their college careers, including their accounting courses. I'm not sure, though, how you can measure the “credit hours” applied to this sort of activity. It's a measurement problem. For example, if a 3-semester hour intermediate accounting course includes a significant research/analysis/communication component, do you measure the fraction of the course devoted to these soft skills based on its weight in a student's course grade calculation or based on the amount of class time devoted to such activities or some other measure?

### **SUMMARY**

In conclusion, with all the changes occurring in regards to scandals, globalization and technology, now is not the time to try to set our accounting curriculum in stone as Rule 5-1 and 5-2 propose. Now is a time for all of us accounting educators to find our own vision of the future. A cookie-cutter approach is not best for the profession in the long run.

## The NASBA Proposal: Big Brother Redux

*By Mary-Jo Kranacher, York College, The City University of New York,  
mjcran@att.net*

The recently published NASBA proposal to change Rules 5-1 and 5-2 of the Uniform Accountancy Act has caused quite a commotion within the academic community. Although the goal of ensuring that future CPAs are better prepared to protect the public interest is noble and widely supported, the requirements set forth in Rule 5-2 for the 150-hour program are overly rigid and demonstrate micro-management at its worst.

### **Rule 5-1 – Educational Requirements – Definitions**

Clarity is always welcome with regard to defining terms that are commonly used. It is, however, unclear what is meant by the phrase "be of the highest quality" with regard to the additional 30 hours beyond the 120-hour requirement referred to in Rule 5-1(a)(3). Does this relate to the level of instruction or the concepts covered? Since quality is a relatively subjective value, interjecting this phrase seems to be counterproductive to the purpose of this Rule.

Integration of subject matter, as it pertains to the topic of ethics, makes sense. Although communications and research and analysis are an integral part of the educational process for accounting students, they do not embody subject matter, per se. Therefore, it is a misnomer to categorize their utilization within the academic program as "integration of subject matter." These skills are honed through practical application. The attempt by NASBA in Rule 5-2 to quantify the number of semester credit hours (SCH) that should be devoted to developing these skills inhibits the educational process, circumscribes teaching methodology, and obstructs faculty curriculum development efforts.

Furthermore, do we really believe that we may reasonably teach values with six SCH of ethics in accounting and business? While familiarity with written codes of ethical conduct may assist in raising awareness of the accounting profession's expectations of ethical behavior, they don't give students the tools they need to identify and analyze ethical issues. To get beyond simply covering philosophical concepts in an "ethics" course, ethics education and application should run like a thread throughout the curriculum and not just tacked on as an afterthought. For example, an auditing course should speak to the fiduciary responsibilities of the profession, and an information systems course should address privacy rights. Quantifying the number of SCH with this approach to inter-disciplinary involvement in ethics education brings a cumbersome bureaucratic rigidity into the classroom that would stifle all educational creativity.

### **Rule 5-2 – Education Requirements – Determining Compliance of the Applicant's Education**

Rule 5-2(c) should clarify that each of the requirements does not stand alone but rather the applicant needs to fulfill all of the conditions listed.

With regard to the specific education requirements cited, some State Boards of Accountancy, such as New York, currently require six SCH of Business Law including coverage of the Uniform Commercial Code. This proposed rule would cut three SCH of that Business Law requirement. In addition, a three SCH course

in Strategic Management has been added in this proposal, subject matter which may be covered at different institutions in courses with diverse scope and titles, including such titles as Principles of Management and Organizational Behavior. Yet Principles of Management and Organizational Behavior are included in NASBA's list of required courses.

The ultimate disappointment in these proposed rules is the failure to include fraud detection and deterrence education for our future CPAs. Sarbanes-Oxley, SAS No. 99, "Consideration of Fraud in Financial Statements," and our courts have made it perfectly clear that accountants are responsible for assuming the role of the public's financial watchdogs. We can no longer afford to be ignorant about fraud. Historically, the typical undergraduate auditing class has focused on teaching students how to identify errors and omissions that might materially affect the financials with only a cursory coverage of fraud. Since fraud usually entails concealment, a different set of skills must be developed to detect this crime. A basic understanding of criminology would help to explain why some individuals break the law and others do not when faced with a similar set of circumstances. This is essential to fulfilling the auditor's professional responsibility of assessing inherent risk and the risk of misstatements from fraud and, correspondingly, planning the audit. The public is depending on the accounting profession to help insure the integrity of financial information. If accountants are expected to be alert to fraud, they must learn what it looks like. Otherwise, they are going into battle blindfolded.

Although accounting education has traditionally been limited to commercial law, anti-fraud education should also include the laws related to fraud, such as mail and wire fraud, embezzlement, larceny, corruption and money laundering.

Moreover, when auditors encounter fraud while performing an audit, they should know how to assess the clues to deception when asking questions of managers and employees and be aware of the various schemes used by employees and executives to commit fraud.

Public accounting firms and accounting educators have wrestled with the dilemma of how to attract the best and brightest students into our profession. I think it's safe to say that we're not likely to do it by constructing inflexible barriers that would not achieve the stated goals and further exacerbate the problem of the declining number of students entering the accounting profession.

## A Response to NASBA's "Modest Proposal"

(with apologies to Jonathon Swift)

by Kate Mooney, [kkmooney@stcloudstate.edu](mailto:kkmooney@stcloudstate.edu), and Ray Hibbs, St. Cloud State University

In February of this year the National Association of State Boards of Accountancy presented an exposure draft of proposed revisions to Uniform Accountancy Rules 5-1 and 5-2. The revisions increase scrutiny of course content, increase content specification, and increase ethics education. It simply does not go far enough to assure adequate preparation of our students for the accounting profession.

The proposed revisions suggest that state boards of accountancy scrutinize course content at a level dependent on the type of accreditation held by the entity supplying the instruction. This is fine, as far as it goes. In addition, it seems only logical that the instructor be subject to scrutiny, too. Criminal background checks, bank overdraft records, credit reports, and IRS filing history are all relevant to guaranteeing that course content is delivered by proper instructors. As a final step to provide certainty about course content, the state board should hire student spies to verify that topics are actually covered. By examining the characteristics of course instructors and having on site verification of course coverage, the state boards would know that the vital topics are presented to students.

The proposed revisions also suggest increased content specification for the 150 semester credit hours comprising the accountant's education. This is needed because somewhere, some student may have taken the proverbial underwater basket weaving course as part of his or her program. That would be a terrible waste. However, NASBA's proposed courses are rather general and not focused on what accountants really need to know. Rather, focus groups of incarcerated business executives answering the question "What do you wish your accountants had known?" could provide relevant course topics with built in case studies to enrich the classroom. In addition to the usual financial accounting, assurance, taxation, managerial accounting, and so on, a class in whistle blowing and how to manage your career after doing so is a course that could assist our students in knowing what to do in an ethical dilemma. NASBA's proposed revisions to content specification need to be more specific and current topics based on real life situations are the answer.

Thirdly, the proposed revisions increase the number of ethics classes students would need to take the CPA exam. Counting inputs is the wrong approach. Instead, the temptation must be removed. Rules and procedures to eliminate greed, bad decision making, earnings pressure, and stock price pressure will do the trick. A statutory dollar limit on the amount of stuff each individual can buy in one year will go a long way to reducing greed. To eliminate bad decision making, each state board should establish a central decision committee that operates 24/7 to provide guidance to accountants with tough decisions. Earnings pressure for registered companies can be reduced by requiring an earnings forecast to be divided by two prior to announcement. Finally, when discounting cash flows to come up with a stock price, simply doubling the discount rate will result in a price that is much easier to achieve. These additions-- spending limit, decision consultants, halved earnings forecasts, and doubled discount rates, will modify the environment in such a way that fewer pressures will exist to tempt accountants to do the wrong thing.



Finally, we have three more suggestions to improve the accounting profession. First, change the CPA exam from a one time hurdle to a progression of hurdles, each higher than the previous one. That will keep us on our toes. Second, lobby for life imprisonment for accounting felons. That will serve as a deterrent and eliminate the bad ones from the profession. Third, rewrite accounting standards to be more specific. Less wishy-washy, interpretive stuff will remove the judgment and thinking that allow accountants to make mistakes.

NASBA's modest proposal for rule changes are a meek attempt to improve the profession. By extending those recommendations in the ways described above, the accounting profession will again be well regarded.

### Call for Papers for The Accounting Educator

I would like to invite you to contribute a short article or case (maximum 2 single-spaced pages, 12 point font) for publication in the spring 2005 issue of The Accounting Educator, the newsletter of the T&C Section. The final issue of the 2004-05 newsletter will focus on assessment. Articles and cases on this theme will describe how accounting departments define learning goals for their programs and courses, how they measure those learning goals, how they evaluate performance relative to the learning goals they establish, and how they use assessment information to improve programs and courses.

Submission Deadline: 5/31/05

Expected Publication: 6/15/05

Members are invited and encouraged to submit articles about the assessment theme to Wendy Tietz at wtietz@kent.edu. Articles and cases should not exceed 2 pages (single-spaced lines, 12 point font) and should be in Word format. Articles on that theme are preferred, but you may send an article on any topic that you believe would be of interest to Section members.

The deadline for receiving contributions is May 31, 2005. Send your article or case as an email attachment (MS Word format) directly to Wendy Tietz at wtietz@kent.edu. The newsletter should be published on the Section's web site by June 15, 2005.

Also, if you have any T&C committee reports or other information for the newsletter, please send them as an email attachment (Word format) to Wendy Tietz at wtietz@kent.edu by May 31, 2005.