The Commission on Accounting Higher Education:  
“Pathways to a Profession”  
Charting a National Strategy for the Next Generation of Accountants  
Established by the American Accounting Association (AAA) and the American Institute of CPAs (AICPA)  
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I. Context

The accounting profession broadly defined, produces, analyzes, interprets, and prepares reports on financial and operational information and provides assurance on a subset of that information. Such information is essential to serve the information right of those who place their place their property at risk in our free enterprise capital market system. As Walter Wriston has observed: “Information about money is almost as important as money itself.”

Accounting professionals’ skills are developed by the professors who educate them, those who regulate them, and the firms and entities that employ them through experience and on-going training. This experience and training are integral parts of a profession and system whose purpose is to meet the information needs of the public, organizations, lenders and the capital markets. In order to meet those information needs over the long-term it is important that the system produce and retain an adequate supply of the best skilled and diverse accounting talent.

As we approach the end of the first decade of the 21st century, it is clear there is no end in sight for the rapid pace of change the accounting profession has experienced since the turn of the new millennium. In recognition of the critical role accountants play in the delivery of information necessary to the economic success of the nation and world, the U.S. Department of the Treasury Advisory Committee on the Auditing Profession (ACAP) was formed in 2007 to study the sustainability of the profession.

As an essential element in its report of October 2008, ACAP documented many of the contemporary forces impacting the profession, emphasizing their effect on the broader accounting profession’s human capital requirements. Among its recommendations, the Treasury Committee called for the American Accounting Association (AAA) and the American Institute of CPAs (AICPA) to form a Commission to study the future structure and of accounting education.
Contemporary Forces Impacting the Profession

Reliable financial and operational information is vital to the equitable and efficient functioning of the world’s economic system. While the historical importance of accounting in the preparation and assurance of public companies’ financial statements is well-documented, the following developments have both challenged the accounting profession and amplified the importance of accounting and access to reliable financial and operational information produced and audited by accountants in recent years:

• Globalization of businesses and financial markets, the use of different accounting rules and measurement standards across the world, and increased global competition for financial capital.
• Lack of financial literacy by the general public, in spite of the high percentage of investors in the capital markets through the evolution of self directed retirement funds and mutual and bond fund investment vehicles.
• High profile frauds that have eluded detection and negatively impacted a broad spectrum of investors.
• Increased regulation (e.g., Sarbanes-Oxley) necessitating enhanced compliance activities by the private sector.
• Increased complexity of all businesses, elevating the need for reliable information to make operating, financing, and investing decisions.
• Increased use of derivatives and other complex financial instruments whose complexity and financial impact make appropriate valuation critical.
• Increased consolidation and volatility in investment markets, necessitating fair value estimates of all investment assets.
• Increasingly sophisticated information technology systems that generate financial information and are integral to the integrity of this information.
• Increasing information needs of regulators and stakeholders for reliable information about entities that comprise the growing not-for-profit and non-governmental organizations (NGO) sectors of the economy.

The social costs of not preparing to meet these challenges are potentially staggering. For example, according to the U.S. Department of Commerce 44 percent of small business only survive four years because of overexpansion, based in part on overly optimistic projections, poor cash flow management, and inadequate internal controls. These numbers are particularly alarming since small businesses represent 99.7 percent of all employers, employing just over half of all private sector employees, pay 44 percent of total U.S. private payroll, and have generated 64 percent of net new jobs over the past 15 years. In addition, the US government committed nearly $8.5 trillion, around 60% of its gross domestic product with its recent bailout, to rescue the collapse of its financial system (San Francisco Chronicle, 26 November, 2008). If we are to improve the likelihood that a financial crisis of this magnitude and the number of small business bankruptcies can be avoided in the future, better-trained accountants must supply more useful and timely information and risk assessments to meet the needs of all stakeholders.
Contemporary Forces Impacting Accounting Education

In conjunction with the above, several developments within the accounting profession threaten the ability to educate, attract and retain the best talent to meet the increasingly challenging information demands of our times, as well as advance the accounting profession through research inquiry:

• A shortage of doctorally qualified accounting educators, predicted to become more acute over time, has developed from demographic shifts and constrained resources at universities, especially for professors skilled in applied areas other than financial accounting

• This shortage increases teaching and administrative demands on accounting academics and limits research productivity. University budget constraints make it difficult to offer doctoral stipends that compete with private sector salaries, limit availability of affordable educational opportunities for aspiring academics, and cause universities to curtail the number of PhD candidates in educational programs

• Increasing cost of research resources and limits on access to data because concerns with litigation limits research necessary to advance the science and practice of accounting, as well as the research opportunities necessary to expedite the completion of PhD programs

• Increasingly competitive market for the high potential undergraduate students in other disciplines that may reduce the attractiveness of accounting as a major and profession.

• Increased diversity of the national population contrasts with the modest success of the profession to increase the participation of under-represented populations within accounting programs and the profession

• Increased demands of the profession challenge quality of life concerns important to younger professionals, which reduces the attractiveness of the profession, leads to unwanted turnover of talent, and increases the need to fill the pipeline into the profession from an increasingly competitive supply of talent

• Accelerating rate of change and increasing complexity of the global business world needs to be more rapidly reflected in curricula

• The increasing use of specialists in accounting roles requires increased levels of specialized training and education

II. Purpose and Objectives

The overall objective of the Pathways Commission is develop strategies and then structures to ensure that we have an adequate supply of the best, diverse talent to sustain the accounting profession, broadly defined, over the long-term. Further, we need to ensure that these professionals are prepared to meet the information needs of the public, organizations, lenders and the capital markets, thereby protecting the public interest. At a minimum this requires:
(1) Developing the interest of those students with the potential to excel in careers in the accounting profession;

(2) Incorporating a challenging higher education experience that leads to higher levels of financial literacy, with academicians who incorporate effective, practical and conceptual approaches, curriculum that evolves with the changing needs of the business world, and research vital to the progression of the discipline and practice of accounting;

(3) Including systems in the workplace dedicated to experiential learning and on-the-job training post graduation, as well as continuous learning models for all professionals; and

(4) Supporting professional employment practices that are dedicated to sustaining professionals for the long-term through world-class training and development, career opportunities and innovative workplace culture.

The work of the Pathways Commission will be to address each element of the system and to develop strategies to improve the likelihood that we will sustain a vibrant profession to meet the information needs of the public and the capital markets. The Pathways Commission will include representation from those involved in the training, education, employment, regulation and certification of accountants. The work of the Commission will include prioritization of the recommendations and input on the phasing of the implementation efforts to be undertaken in Phase 2 of the project.

III. Background for the Commission

A. Accounting profession definition and functions: Many individuals are engaged in the practice of accounting, filling a wide range of positions in the public, private, not-for-profit and government sectors of our economy. Accountants prepare a variety of reports involving financial information and attest to some of them. Many of the functions they perform are listed below:

**Some Functions Performed by Accounting Professionals**

- Accounting Education
- Advising Management
- Attestation, other than audit
- CFOs and Comptrollers
- Compliance
- Continuing education
- Design of Information Systems
- Financial Consulting
- Financial Regulation
- Forecasting
- Fraud and Forensic Investigation
- Government audits
- Input to FASB, IASB on Accounting standards
- Internal Audit
- Internal Control
- Investment Advising
- Litigation
- Not For Profit Audits
- Para-professional
- Preparation of reports to Management
- Preparation of reports to Stakeholders
- Risk Management
- Strategic Planning
• Preparation of Government Reports
• Private Company Audit
• Public Company Audit
• Tax Reporting and Planning
• Transactional Services (Mergers and Acquisitions, Due Diligence, etc)
• Treasury Function
• Valuation and Fair Value

The required mix of formal education, training, experience and certification differs for each of the above functions. In addition, certain of these functions are regulated by State and Federal laws. These functions contribute to our national financial literacy, to the body of financial information that enhances the operations of efficient capital markets, and to the operational information that supports informed management decision-making. The preparation and attestation to informative financial statements and the production of reliable operational data requires that all individuals involved in the information chain have an education commensurate with the responsibility inherent in their particular link.

While ACAP only emphasizes the public company auditing profession, the Treasury report does note that “It is essential that these professionals continue to be educated and trained to review, judge, and question all accounting and auditing matters with skepticism and a critical perspective.” This view of the profession is broader than just attestation to standards, but implies an active role in the development, improvement, and application of those standards. To achieve an educational system that incorporates the ACAP goal, the Pathways Commission recognizes that all functions involved in the preparation of accounting and operational information, including financial statements, are important to the quality of the information provided to stakeholders.

B. New Educational Pathways are Needed: The charge from the October 2008 ACAP provides members of the AAA and AICPA with the opportunity to consider how best to align the educational resources available for K-12, institutions granting associates, bachelors, masters and doctoral degrees and certificates to meet the challenges of the contemporary forces shaping our profession. New educational pathways to our profession should be explored and old pathways revisited to achieve the outcomes required in the coming global environment, recognizing that:

1) The breadth of professional accounting functions described above requires an educational system that prepares students with the basic skills required to participate in the profession at graduation. In addition, graduates should be prepared to obtain specialized skills either through graduate education, preparation to obtain various certifications, or on-the job training.

2) The basic skills common to most professional functions should be identified and form the foundation of the post K-12 educational system. The desirability and content of prerequisites should be considered as well as the role of general business course work required in the first two years of college.

3) The internet and expanded data processing capability has made significant amounts of information available. Accounting professionals need to possess the ability to process and analyze that data in order to produce meaningful
management information, extract the information that is important (data mining) and to anticipate the implications of the financial impact. This will also include use of the information to produce forward looking information and forecasts.

4) Appropriate skills for specialty areas should be identified so that the profession is prepared to discuss the potential advantages of college senior year or graduate level specialty curricula.

5) Other professions, including medicine and law, have developed a system where academic and practical experience develop simultaneously to include achievement of an advanced professional degree, professional and ethical socialization, and support for developing professional judgment. The current technical emphasis of accounting curricula creates the risk that accounting programs will be perceived as merely a trade or vocational training program directed toward certification requirements, obscuring the importance of accounting as a practicing profession, requiring professional judgment and commitment to protecting the public interest. The profession must identify greater opportunity for practitioners in business and industry and public practice to work together within the system to best advance our collective work.

6) Focusing on the achievement of 150 semester hours for certification misdirects attention toward credit hours versus an advanced professional degree entry education requirement.

7) Accounting practitioners must understand complex business models and their implications, and achieve the professional socialization necessary to produce data and information that are considered reliable and trustworthy. In order to achieve this level of competence, and to assure that accounting has sufficient capacity to achieve these outcomes, the Commission will be challenged to address all the relevant factors of the chain of supply and demand for human capital needs of accounting, broadly defined.

We must think differently and construct a long-term strategy that assures that members of the accounting profession possess an expanded set of capabilities and knowledge, along with the self-directed, lifelong learning skills necessary to sustain an innovative, vital economy and culture.

C. Risks Facing the Academic Discipline of Accounting and the Supply Chain for Entry Level Accountants:

 Despite long-established programs and accounting programs that prepare doctoral students, a significant risk to the supply chain of entry-level accountants is developing. As discussed earlier in this document, there exists a current and escalating shortage of educationally qualified educators to prepare the necessary entry level talent entering the profession. A recent series of reports [American Accounting Association 2007, Leslie 2008, Leslie 2009] by the AAA describes the circumstances leading to the shortage, discloses the potential
for insufficient numbers of qualified faculty for the future, demonstrates the demographic challenges and fiscal limitations of current funding models, and calls into question how future needs of accounting education and research will be met.

Other disciplines, including pharmacy and nursing, have recently advanced their educational preparation expectations. Recent supporting legislation for disciplines in Engineering and Science [National Academies 2005] indicate that accounting may have fallen behind in planning for the future. While accounting firms, in partnership with the AICPA Foundation and State Societies, have created the Accounting Doctoral Scholars Program (ADS) as one approach to addressing faculty shortages, this project must be part of a more comprehensive analysis and response strategy.

The Commission’s responsibilities include the development of a national education strategy for the accounting profession. Specific issues identified in the ACAP include the core elements in the preparation of accounting practitioners, such as curricula that evolves continuously to market changes, more rapid teaching material development and distribution, minority engagement, regular updates to certification examinations, ethical standards and the skills and knowledge necessary to serve an increasingly global capital markets, reliable data about the demographics/capacity/structure of education, and effective scenarios for developing and maintaining a sufficient supply of high caliber faculty and students.

Considering accounting information as a national strategic asset necessary for informed participation by all elements of our economy, capital markets, governments, non-profits, small businesses, and families alike ---suggests a need as well to adopt a comprehensive view of the educational process, including K through 12 and community colleges, while not losing focus on the need to address accounting higher education in particular.

References

American Accounting Association et al. (2007) Accounting PhD Program Information: A report of the Joint AAA/APLG/FSA Doctoral Education Committee


