

Larry R White, CMA, CFM, CSCA, CPA, CGMA, CGFM
Executive Director, Resource Consumption Accounting Institute
Member, IFAC PAIB Committee
2184 Isleworth Circle
The Villages, FL 32163
lrwhitecma@hotmail.com, 757 288 6082

12/24/2018

International Accounting Education Standards Board (IAESB)

Subject: Comment on IAESB Proposed Revisions to International Education Standard 2, 3, 4, and 8

I very much like the revisions you propose. I reviewed this document looking primarily for an over-focus on auditing and public practice, and an under-focus on the work of professional accountants in business. I found the document very balanced, and I was particularly pleased to see the change to the definition of Professional Judgement which had previously focused only on audit engagements. I found many other changes that make the standards more applicable to PAIBs and a forward looking accounting profession.

I have two comments. The first is not applicable to your proposed changes; except that I think it be something that should have been included. The second comment is on the Management Accounting area of IES 2.

Comment 1:

In regard to: 2017 Handbook of International Education Pronouncements - Glossary

“Professional competence—The ability to perform a role* to a defined standard.”

“Technical competence—Technical competence is defined as the ability to apply professional knowledge* to perform a role to a defined standard.”

Both terms refer to a “defined standard”. In the accounting profession the term “defined standard” is somewhat “loaded” because much of our profession is oriented toward accounting standards, and that was what I assumed when I initially read the definition. I would suggest changing the definitions to:

Professional competence—The ability to accomplish a role* to a defined standard of performance.

Technical competence—Technical competence is defined as the ability to apply professional knowledge* to accomplish a role to a defined standard of performance.

An alternative solution would be to add a definition of “defined standard” or just “standard” to the glossary.

These changes eliminate any confusion about the term “defined standard”. As I progressed in reviewing the entire document, the meaning of “defined standard” becomes very clear and I now know it has nothing to do with accounting standards...though it did take me a good while to get to the sections that provided that understanding. I strongly suggest clarification in the glossary.

Comment 2:

In regard to:

Table A: Learning Outcomes for Technical Competence

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|---|---|
| (b) Management accounting (Intermediate) | (i) Apply techniques to support management decision making, including product costing, variance analysis, inventory management, and budgeting and forecasting. |
| | (ii) Apply appropriate quantitative techniques to analyze cost behavior and the drivers of costs. |
| | (iii) Analyze data to provide meaningful information to support management decision making. |
| | (iv) Prepare information to support management decision making on topics including planning and budgeting, cost management, quality control, performance measurement, and comparative analysis. |
| | (v) Evaluate the performance of products and business segments. |

Statement (b)(i): This description is very traditional “cost accounting” and very manufacturing oriented as a result of the examples you have included. PAIBs are also often known as management accountants, and the tight connection to “cost accounting” is very limiting. “Cost accounting” has been defined in PAIB Committee literature as the costing applicable to historical financial reporting (IGPG: Evaluating and Improving Costing in Organizations, Section 1.4 and Figure 1). 3 of your 4 examples pigeon hole this item into traditional cost accounting which is primarily limited to manufacturing. This is not very forward looking or broadening for the knowledge area; and therefore, not in alignment with the forward looking focus in the rest of the document. Additionally, budgeting is also mentioned in (b)(iv). I would suggest:

Apply techniques to support management decision making, including product and service profitability analysis, forecasting, and operational improvement and optimization.

If you feel you need an item on manufacturing historical cost accounting, I would strongly suggest putting it in the financial reporting section.

My replacement language makes the statement useful to accountants in all businesses, governments, and not for profits.

Statement (b)(ii): This phrase is vague and reflects a very financial and activity-based costing orientation. Costs don’t have independent behavior, costs reflect resources and operations or other conditions. Additionally, the term “driver” has many meanings. Costs are driven by many elements from the greater or lesser use of resources to the improving or falling economy. Costs reflect cause and effect relationships of the factors being analyzed. I suggest:

Apply appropriate quantitative techniques to analyze the causal reasons for cost behavior.

I recognize that the points, as currently written in your statement, reflect common current and historical practices and perspectives; however, those perspectives limit the future vision of what accountants can do and accomplish in an organization in the future. The points I suggest changing currently reflect a very limited "cost accounting" view of management accounting rather than a forward looking business partner view.

Larry R White