

# International Handbook of Accounting Education and Certification

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# International Handbook of Accounting Education and Certification

Edited by

**KWABENA ANYANE-NTOW**

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Published in association with the  
International Association for  
Accounting Education and Research



**PERGAMON PRESS**

OXFORD · NEW YORK · SEOUL · TOKYO

UK Pergamon Press Ltd, Headington Hill Hall,  
Oxford OX3 0BW, England

USA Pergamon Press, Inc., 660 White Plains Road,  
Tarrytown, New York 10591-5153, USA.

KOREA Pergamon Press Korea, KPO Box 315, Seoul 110-603,  
Korea

JAPAN Pergamon Press Japan, Tsunashima Building Annex,  
3-20-12 Yushima, Bunkyo-ku, TOKYO 113, Japan

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First edition 1992

**British Library Cataloguing in Publication Data**

A catalogue record for this book is available from the British Library

**Library of Congress Cataloging in Publication Data**

International handbook of accounting  
education and certification/edited by  
Kwabena Anyane-Ntow.

p. cm.

Published in association with the  
International Association for Accounting  
Education and Research.

1. Accounting—Study and teaching.

2. Accountants—Certification.

I. Anyane-Ntow, Kwabena. II.

International Association for Accounting  
Education and Research.

HF5630.I65 1992 657'.071—dc20  
91-42895

0 08 041372 2

To

My family, Nanye Bank Anyane, Mini Amma Kolibea, Juanita, Amma, Afua and Kwadwo for their love and encouragement; and Dr. Paul Garner for his contribution to International Accounting Education

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He has served on various committees of the American Accounting Association, the Association of Government Accountants, the European Accounting Association and the National Association of Accountants. He is currently a member of the Association of Government Accountants' International Affairs Committee, a Director of the International Consortium on Governmental Financial Management, the International Committee of the American Accounting Association, and the International Committee of the National Association of Accountants.

Formerly Dr Enthoven was Director-Europe for Coopers & Lybrand (international certified public accountants) and a Senior Investment Officer with the World Bank, and he has been a consultant to the US General Accounting Office, Agency for International Development, the World Bank, the United Nations and the Ford Foundation on international accounting educational and structural developments. He has written several books and numerous articles on accounting and economic policy.

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In the current decade, he has effectively orchestrated the Innovation in Accounting Education Project at the Shanghai University of Finance and Economics. The accounting curriculum framework and new course textbooks produced therefrom have exerted and are exerting far-reaching influences in accounting education in China. He is author, co-author, and



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# Preface

MURRAY C. WELLS

Sombart's thesis is that economic development is dependant upon the widespread use of an effective accounting system.<sup>1</sup> That would also imply the emergence of an identifiable accounting profession with educational standards, admission procedures and some or all of the trappings that are the hallmark of professional bodies. The contributions to this volume provide clear evidence that the existence of a strong professional body of accountants is a characteristic of developed economies, and the absence of such a body is a feature of undeveloped economies. However, which is the cause and which the effect is not so clear as to provide support for Sombart's thesis.

There are also some contradictions. The People's Republic of China has a well developed profession of Accounting, represented by a number of provincial accounting bodies as well as a central accounting Society. The PRC would not, however, qualify as a developed economy although it is clearly well advanced in some sectors. Conversely, the Philippines has a well developed professional body, but an economy with serious problems. Thus, we may conclude, on the scant evidence presented here, that an economy is unlikely to develop without a reliable and widely used financial reporting system. More importantly, perhaps, a collection of papers such as those presented in this volume, if updated over time, gives us the opportunity to monitor the relationship between economic development and the professional status of accountants.

Except Switzerland and the Soviet Union, none of the contributors to the present collection describes the accounting system in use in the country under review. That is not the purpose of this book. The intention is to describe the educational and professional accreditation procedures in a representative sample of countries from various parts of the world. The countries surveyed are representative of the developed countries of North America (the USA and Canada), Europe (the UK, Germany, France and Spain), Africa (South Africa) and the Pacific Rim (Australia, Japan, Hong

<sup>1</sup> Sombart, Werner, *Modern Capitalism*, Munich, 1917.

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Kong and New Zealand); the “new” market economies of Eastern Europe (Poland); the newly industrialized countries (India, Philippines and Saudi Arabia); and emerging and underdeveloped countries (Botswana, China, Ethiopia, Ghana, Guyana, Kuwait, Pakistan, Peru and Zimbabwe).

Other surveys<sup>2</sup> have described the similarities and differences in accounting practices in different parts of the world. It is noticeable that those differences are, in the main, restricted to reporting methods and styles. There are, apparently, very few differences in the fundamental accounting methods used around the world. Where substantial differences are discernible is in the educational processes and in the relationship between the teaching institutions and the professional bodies (where they exist). Perhaps the best examples are the US with three bodies and the UK, where the six professional bodies exhibit significantly different attitudes to university study, professional coaching and examinations. For example, the Institute of Chartered Accountants of Scotland has traditionally recognized (and in effect, required) a university degree before applicants for admission embark on their professional examinations; the Institute of Chartered Accountants in England and Wales gives little credit for “relevant” university degrees; and the Chartered Association of Certified Accountants and the Chartered Institute of Management Accountants set their own examinations that do not require (and applicants are not expected to have) a university degree. Even where there is a close relationship between teaching institutions and professional bodies, differences are discernible. In the USA, the CPA examination is often attempted during or immediately following the final semester of the applicant’s baccalaureate degree whereas in Australia there is a forced interregnum of twelve to eighteen months between completing the degree and attempting professional examinations.

There are other commonalities. Several of the papers in this collection refer to the continuing difficulties in recruiting and retaining accounting faculty. In many countries there is a nationwide academic salary scale that takes no account of differences in the demand for disciplines. Because of the continuing demand for accountants in practise, the starting salaries of accountants going into practise are typically much higher than in academia. As a consequence, it is proving difficult in many countries to attract graduates into an academic career. Even those who are attracted to a teaching and research career and who obtain a research degree, are soon subject to strong pressures to seek a higher salary and a more appealing life style in the profession. This is a problem which is not going to go away. In a number of the papers presented here, the authors have identified the critical nature of the problem, especially in developing countries. There, the acute shortage of practising accountants is hampering economic development. Overcoming the short term problem of getting qualified accountants into the profession takes precedence over the longer term difficulty of ensuring

<sup>2</sup> Coopers and Lybrand, *International Financial Reporting and Auditing*, New York, 1983; AICPA, *The Accounting Profession in . . .*, New York, 1987–90.



that there are sufficient numbers of qualified academic accountants to maintain the supply of properly trained people for the profession. The widespread nature of the problem, as evidenced in this volume, should sound a serious warning to professional accounting bodies around the world. It is certainly high on the agenda of the International Association for Accounting Education and Research and has been identified by the United Nations Center for Transnational Corporations as a key element in the development of Eastern Europe.

Another feature of “accounting around the world” not previously recognized is the demand for change in the developed economies. Watanabe describes recent changes in Japan and Sundem gives a broad overview of the demand for change in the US which led to the establishment of the Accounting Education Change Commission. That development, more than any other, signifies a dramatic switch away from the traditional demand for a technical accounting education towards accounting degrees which prepare people for “life-long learning” and a greater emphasis on problem solving, presentation and communication skills and a greater awareness of the business environment. Similar concerns led to an enquiry into the accounting discipline in Australia and more widespread efforts to develop a set of defensible skills and competencies required of practising accountants. For example, the Chartered Association of Certified Accountants in the UK has prepared a statement of competencies required of auditors, and there is evidence of other professional associations and other countries following suit.

Difficulties within the educational sector are also evidenced by the pass rates in professional examinations achieved by candidates from developing countries. Many of the African nations still rely on British professional bodies such as the Chartered Association of Certified Accountants and the Chartered Institute of Management Accountants for professional training and accreditation. But the pass rates in the examinations of those bodies cited here in relation to Ghana, and the evidence of Zimbabwe’s inability to meet its target of qualified accountants highlight the urgent need for a better educational system in those countries. There is little point in providing access to internationally recognized professional accounting bodies if the local educational system is incapable of providing the support necessary to ensure a reasonable level of success in those examinations. Indeed the frustration that follows several unsuccessful attempts at foreign professional examinations is more likely to breed contempt and distrust that will hamper other efforts to provide educational support in those countries.

Another feature of the lack of properly trained accountants that has not previously been highlighted relates to the eligibility of third world countries to receive aid. Descriptions of conditions in some African countries point to the near impossibility of accounting properly for aid packages made available to those countries. Many aid agencies (such as the United Nations, World Bank, and the Asian Development Bank) require, quite properly, that there be a full accounting for aid dispensed by them. But

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countries with no real commercial infrastructure and a desperate shortage of trained accountants cannot meet that obligation. This is a classic case of “Catch 22”. The country cannot develop without aid — but the country cannot get aid because a critical function is not developed!

Highlighting the inadequate supply of qualified accountants is, perhaps, an unintended consequence, but the single greatest contribution of this volume. What the various national papers highlight is that the critical shortage of accounting teachers is a worldwide problem, while inadequate educational facilities is a feature of third world and emerging economies.

Another important area of difference in professional practise highlighted by the contributions to this volume is in the range of accounting and audit functions, and the various designations restricted by legislation. The most protected area of professional practise is, as we would expect, in auditing. All of the countries represented in this collection have legislated protection for the audit function relating to public institutions, whether they be public companies as in Europe and the USA, or government agencies as in China or the Middle East. In many countries, the right to offer accounting services to the public is controlled by a professional body that enjoys legislative support (for example, the Hong Kong Society of Accountants), or by some form of delegated responsibility, registration board or other government agency such as the Board of Trade in the UK or the Securities and Exchange Commission in the USA. Similarly, in a number of countries various designations are protected by legislation. “Public Accountant”, “Registered Accountant” and “Auditor” are designations that are commonly limited to those who have met some standard of professional training. Professional bodies also frequently have, by common usage or legislative backing, exclusive right to designations such as “Chartered Accountant” or “CPA”. But nowhere, it seems, is the generic term “accountant” protected. That is curious because in many countries there are restrictions on such designations as “doctor”, “lawyer”, “architect”, “nurse” and “engineer”. Why “accountant” does not deserve similar reservation is difficult to understand. The public needs protection from charlatans masquerading as accountants just as much as it needs that protection in the fields of medicine, law and engineering. Why that protection is not forthcoming, or why, in those instances where it does exist, it is always accompanied by an adjective such as “Chartered” or “Public” or “Registered”, remains a mystery.

Despite the importance of the various issues raised above, this volume is not intended to be a political document, nor was it produced with the intention of highlighting problems confronting the accounting profession around the world. Rather, the intention is for it to be a resource book. There are many circumstances in which knowledge of the educational and accreditation procedures of different countries are useful. Not only are those procedures constantly under review, but migration patterns, special assignments and general employment prospects suggest that easily accessible information about the structure and admission procedures of the accounting

profession in different countries is a valuable resource. Similarly, as education is now one of the most commonly traded international commodities, a ready source of information will be invaluable for intending students who are deciding where to study with the intention of joining the accounting profession.

The Editor of this collection is to be congratulated for bringing the project to fruition. The gestation period has been long and, I believe, somewhat frustrating. Nevertheless, Kwabena Anyane-Ntow persisted. He found authors, threatened and cajoled them into meeting his deadlines, and delivered the manuscript to the publisher. That is not the end of the project, however, as there is much work to be done. The coverage of the present volume is weighted towards Europe (nine countries) and Africa (five countries) with less emphasis on Asia and the Arab nations. Future volumes might expand the coverage provided here, especially with respect to the newly industrializing countries. If Sombart's thesis is correct, they more than other countries have an urgent need of a reliable financial reporting system. They are also facing the most rapid and demanding changes, which means that they are likely to require more assistance, and they are also the most interesting to observe. But even in developed countries the accounting discipline is changing at a rapid rate, and constant revisions will therefore be required to keep this work up to date.

## Acknowledgements

I express my sincere gratitude to my family for their patience and encouragement, and to my colleagues and friends at the Sixth International Conference on Accounting Education who encouraged me to go ahead with the project and promised to support it. My special appreciation goes to Professor Murray C. Wells of the University of Sydney who has contributed a great deal to this project through his constructive criticism, helpful suggestions and editorial comments on the manuscript; to Professor Adolf Enthoven of the University of Texas at Dallas for his encouragement and editorial suggestions, especially in the arrangement of the materials; to Professor Bhabatosh Banerjee of the University of Calcutta for his several letters of encouragement and suggestions; to Professor Khawaja Amjad Saeed of the University of the Punjab for his constant promptings, reminders, encouragement and willingness to help make the project a success; to Mrs Lorraine T. Ruffing of the UNO Centre of Transnational Corporations for her comments and recommendations; and to the following colleagues who served as reviewers for the papers: Dr James B. Gharthey of Southeastern Massachusetts University, Dr Andrews Oppong of Dalhousie University, Dr Robert Bloom of John Carroll University, Professor Carol Teal of North Carolina Central University and Dr Bhabatosh Banerjee of the University of Calcutta; to the members of the editorial advisory board for their helpful comments; to anonymous reviewers for Pergamon Press for their helpful comments and suggestions; to the president and the executive committee of the International Association for Accounting Education and Research for their support of this project; and to Mrs Iva Clapp who typed most of the manuscript, and Mrs Gwen Phillips who typed the final corrections.

The ideas expressed in this book are solely those of the authors. However, all remaining errors and/or omissions are my responsibility.

Kwabena Anyane-Ntow  
Editor

# Introduction

KWABENA ANYANE-NTOW

## **The Purpose and Methodology**

Several participants at the Sixth International Conference on Accounting Education which was held in Kyoto, Japan in 1987 agreed at an informal gathering that a volume such as this one would be useful to the accounting profession, and that they would support the project. I undertook to coordinate the activities that have resulted in this book. The central theme of papers included in this volume is “how accounting education and certification in each country relates to accounting practice, the needs of the economy and challenges presented by expected future developments”.

A major objective of this book is to serve as resources and reference material on accounting education around the world. It purports to study the sensitivity of accounting education and to some extent accounting practice, to the unique socio-economic needs of the environment. The material in the volume could be used as bases for comparative studies on accounting education and certification processes as well as helping policy makers in the area of accounting education.

The book can be used in international accounting courses as a supplementary text; and can serve as reference material for accounting academicians, students, practitioners, firms, libraries, conference organizers, continuing professional education seminar presenters and organizers, and economic policy makers around the world. It could be of interest to accounting related disciplines such as finance, economics, business law and taxation.

The International Federation of Accountants (IFAC) Committee on Education has issued a series of International Education Guidelines in an attempt to harmonize accounting education around the world in order to minimize national differences. At present not much is known about the nature of accounting education in different countries around the world. Accounting students of today are the practitioners and standard setters of tomorrow. If, as a result of knowing what the educational institutions are teaching the students today, some useful guidelines are proposed that could lead to future harmonization (however small), it is possible that

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this could have a positive impact on the international harmonization of accounting and auditing standards.

Several multinational organizations, including multinational CPA firms that “have common requirements, policies, and procedures”, hire local accountants and auditors in their host countries. Consequently, a knowledge of local educational system(s) is an important resource that could enhance optimal human resource allocation and management. Employment activities such as job assignments, wages and salaries administration, personnel training and development may be better served by such information.

The book has been compiled with the cooperation of a number of leading academicians, practitioners and accounting associations from various nations. These individuals and professional associations have authored original papers describing the current status and future challenges of accounting education/practice in their respective countries.

An invitation for papers was sent to several institutions and individuals around the world between January and October 1988. A partial list was developed from the list of participants at the Sixth International Conference on Accounting Education, and library resources including *The International Business Curricula: A Global Survey* by John Thanopoulos and Joseph W. Leonard, AIB, 1986. The following guidelines and suggested themes were provided to prospective authors:

- A brief description of the economy and the role of accounting within the socio-economic environment and may also include history of the accounting profession.
- Pre-college level education of accountants.
- College and university level education of accountants
  - undergraduate accounting education
  - graduate accounting education.
- Minimum level of education including accounting education required for professional certification.
- Training or education for professional certification.
- Professional examinations.
- Years of experience required to enter the profession.
- Continuing professional education requirements.
- Number of courses or credit hours required at each level.
- Nature and type of courses taught or offered at each level of accounting education and the sequence of courses taught at each level.
- How the present accounting meets the country’s socio-economic needs
- How the accounting education described meets the challenges of the future.
- Recommendations, if any.
- Other.

Two copies of each paper were forwarded without the authors’ names, to

colleagues for review and comments. Several authors were advised to revise their papers, while some papers were not recommended to be included in the volume. The first twenty-eight papers accepted were included in this volume. Upon the recommendation of the publisher, papers on Japan, Poland, the Soviet Union, and two additional papers on the United States were solicited and added to the volume.

Since it is not economically feasible to have the majority of countries in one volume, it was decided that a series of volumes, published at two to three years interval, would be desirable to ensure the currency of the material. Furthermore, accounting education and professional certification as well as other accounting related rules are constantly in a state of flux and change. The papers in this volume would therefore need updating periodically for the information to retain its usefulness. Thus, this is intended to be an ongoing project which will offer opportunities for country information to be revised periodically.

Great care was taken to ensure that the professional bodies in various countries were included in the discourse of the issues. They have played a major and important role in the development of several of the papers (in terms of sponsorship). Our colleagues from the academic community have worked closely and cooperated with the professional bodies on this project.

The task of compiling such a volume was not an easy one. It was time-consuming, professionally challenging and satisfying to all contributors to the volume. This book represents the joint efforts, hard work and determination of several leading accounting academicians, practitioners and professional organizations around the globe.

This first volume of the *International Handbook of Accounting Education and Certification* consists of articles by the following authors:

### **Part I: Africa**

1. Shabani E. Ndzinge describes the current and future accounting education needs of *Botswana*. He relates this to the economic development needs of the country.
2. James B. Ghartey bases his discussion of accounting education in *Ethiopia* on a United Nations study, and recommends measures for improvement.
3. James B. Ghartey provides a vivid account of the evolution of accounting education and practice in *Ghana*. He recounts the historical perspective, current problems and needs as well as future prospects of the profession in Ghana.
4. Kwabena Anyane-Ntow discusses accounting education in *Ghana* as a sequel to Ghartey's account. He provides a description of pre-college, college and graduate courses in Ghanaian accounting programs.
5. Sidney H. Weil and David B. L. Molteno writes about expected socio-economic changes in *South Africa* and relate that to manpower needs in the accounting profession and how a shift in accounting education policy would

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help the profession in that country. They give an account of some of the initiatives undertaken by the South African profession.

6. Andrews Oppong writes about economic development needs and appropriate focus on accounting education to enhance relevance and utility to *Zimbabwe's* economy.

## **Part II: Arab Countries**

7. Shuaib A. Shuaib describes accounting education and professional requirements in *Kuwait*. This study was written before the Iraqi invasion of that country. Significant changes have certainly occurred as a result of the invasion. The account in this study refers to pre-invasion conditions.

8. Abdullah M. Al-Faisal writes about the development of accounting education and certification in *Saudi Arabia*. He gives an account of how Western formal education has influenced contemporary education and accounting education in Saudi Arabia.

## **Part III: Asia and the Pacific**

9. Murray C. Wells gives a description of accounting education and certification requirements in *Australia*. He gives an account of problems facing academic institutions in the area of recruitment and retention of faculty and suggests measures to redress the problem.

10. Edward K. C. Chiu and Alfred V. H. Tran give a description of the courses needed for professional certification in *Hong Kong*, the major institutions with accounting programs in the country, and other professional bodies recognized in Hong Kong.

11. Bhabatosh Banerjee gives an account of present accounting education and future needs of *India*. He prescribes a general approach to educating accounting professionals for the future. He emphasizes teaching students how to learn as a prerequisite for lifelong professional growth and development.

12. I. Watanabe describes accounting education and certification requirements in *Japan*.

13. Khawaja Amjad Saeed describes the Pakistani accounting profession, education and certification requirements and relates the education process to the economic development needs of *Pakistan*. He suggests measures that would improve the process in Pakistan.

14. Fortunato B. Cruz writes about the accounting profession and educational requirements for certification in the *Philippines*.

15. Sonja Newby describes the *New Zealand* economy, accounting education and professional certification requirement in a succinct exposition.

## **Part IV: The Caribbean and America**

16. Alan J. Richardson's study of *Canada* is based on a research sponsored by the CGA of Canada. The author describes educational and



professional certification requirements in the various Canadian provinces and professional bodies.

17. Narainedat Balkaran writes about the socio-economic conditions, accounting education and British company law and educational influence in *Guyana*. He suggests measures to improve the accounting education and the profession in Guyana and the Caribbean.

18. Jose Luis Antinori describes the development of accounting education in *Peru*, which is closely tied to economics.

19. Gary Sundem provides a historical development of accounting education and professional certification requirement for the American certified public accountant (CPA). He describes the mission, work and proposals of the *Accounting Education Change Commission* on the future of accounting education in the *United States*.

20. Larry E. Rittenberg describes the educational and professional certification requirements for the *American Certified Internal Auditor* (CIA).

21. Keith Bryant, Jr. and James Bulloch describe the educational and professional certification requirements for the *American Certified Management Accountant* (CMA). They suggest areas of cooperation, reciprocity and joint or common examinations for future certification of CPAs, CMAs and CIAs. The Institute of Management Accountants has taken the initiative in exempting CPAs from the financial accounting part of the CMA examinations.

## Part V: Europe

22. Wolfgang Lücke writes about the professional education and certification requirement to become a CPA and an auditor in the *Federal Republic of Germany*. This paper was written before German reunification. New changes in the present requirements may have to be accommodated as a result of the reunification.

23. A. Burlaud provides a description of accounting education and certification requirements in *France*. A brief description of the unique French system and its rigor is alluded to.

24. Patrick McCabe and Gerard McHugh give an account of the accounting profession, education and professional certification requirements in the *Irish Republic*. The influence of the British professions and its company laws on Irish accounting education is referred to in this account.

25. Enrique Fernandez Peña writes about the accounting education process in *Spain*.

26. André Zünd describes accounting and auditing environments in *Switzerland*. He gives an account of the impact of Swiss legal provisions on accounting practice and financial information requirement and protection in Switzerland. Formal accounting education is provided in only one university (St Gallen) in Switzerland.

27. Ken Shackleton writes about the *Scottish accounting profession* and

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its relation to the British professions and the failed attempts to merge the professions.

28. Michael Sleigh writes about the education and professional certification requirement of the *Association of Certified Chartered Accountants (ACCA)* and its help and influence on other professional bodies around the world.

29. Jake Claret describes accounting education and professional training of the *British management accountant*. He gives an account of recent changes that have been implemented to accommodate current environmental, industrial, technological and economic changes taking place.

### **Part VI: Centrally Planned Economies**

30. Er-Ying Lou gives an account of accounting education development and its current structure in *China*.

31. Adolf J. H. Enthoven describes the accounting environment in the People's Republic of *China*. He gives an account of the unique nature of certain accounting provisions in China and relates it to accounting education in that country.

32. Maureen Berry and Gertruda Świdorska give an account of the current developments of the Polish accounting provisions that affect the educational process and professional requirements in *Poland*.

33. Fouad AlNajjar describes the accounting environment, development and practice in the *Soviet Union* since the communist revolution. He highlights some of the major differences between the Soviet accounting provisions and those of the western countries. This study neither describes accounting education in the Soviet Union, nor captures the current ongoing changes that have affected that country in recent months.

# The Accounting Education and the Certification Process in Botswana

SHABANI E. NDZINGE

## Country Profile

Botswana attained self rule in September 1966 after eighty years as a British Protectorate. This country, with a total land area of 582,000 km<sup>2</sup>, is slightly larger than France and a little smaller than the American state of Texas. Botswana is a landlocked country bordering South Africa to the south and the east, Zimbabwe to the north east, South West Africa (Namibia) to the west, Zambia and the Caprivi strip to the north. Most of the western half of the country is covered by the Kalahari desert. Though a multi-party democracy, the same party has won each of the five-yearly general elections to date.

The country's population, which grows at the rate of about 3.4 per cent a year, is estimated at 1,357,600 in 1991 and just under 2,000,000 in the year 2001 (Ministry of Finance and Development Planning 1985:9). The population is therefore small relative to the size of the country.

## The Economy

At independence in 1966, Botswana was one of the poorest African countries. More than 90 per cent of the population lived in rural areas, and depended mostly on subsistence agricultural and cattle farming. Over 30 per cent of Botswana (citizens of Botswana) men between the ages of 20 and 40 worked in South African mines and farms (Ministry of Finance and Development 1985: 13). There was very little by way of infrastructure, except for a 600 km railway track running along the eastern side of the country from South Africa to Zimbabwe (then Rhodesia). There was only five kilometers of tarred roads. The country lacked the resources necessary to bring about rapid economic development. The government even depended on foreign aid to subsidize its recurrent expenditures. Apart from mine and farm labor, beef was the only other export, fetching about Pula 10 million (about US\$5.5 million at 1988 exchange rates) in 1966.

Botswana has an open market economy, and encourages foreign investment. Over the years the government devoted substantial sums of money to the development of the country's infrastructure, in order to facilitate business investment and to improve the living standards of Botswana. The country now has thousands of kilometers of tarred roads linking it with its neighbors and continues to improve on the national road network. The country has recently developed one of the world's best telecommunications networks. There has been considerable investment in electric power and water supply. The discovery of mineral wealth opened up opportunities for rapid economic growth and development never before imagined. Diamonds, Botswana's main export since the mid 1970s, were first discovered in 1967 in Orapa, and a few years later in nearby Letlhakane. In 1982 a third diamond mine at Jwaneng, in southern Botswana, was brought into full production. In 1986 the combined output of the three mines was 13.09 million carats, making Botswana the world's third biggest diamond producer (B & T Directories 1988: 56). Other minerals include copper and nickel mined at Selebi Phikwe, and coal mined at Moruple. Botswana's mineral wealth turned a bleak future into a very prosperous one. In 1986, twenty years after independence, diamonds constituted 76.5 per cent of total exports earning the country US\$653.9 million, with copper/nickel constituting 6.2 per cent (US\$53 million), beef constituting 7.8 per cent (US\$67.2 million) and other exports earning the country US\$8.14 million (9.5 per cent) (Bank of Botswana 1987: 20-21). The estimated export percentages for the above items for 1987 were 84.8, 4.9, 3.8 and 6.5 respectively (ibid).

Table 1.1 shows Botswana's gross domestic product (GDP) at current prices for the period 1971-72 to 1980-81 in millions of Pula (P). Table 1.2 shows the country's GDP for the period 1981-82 to 1986-87 at current

TABLE 1.1 *Gross Domestic Product (GDP) (P million at current prices)*

GDP by Type of Activity	1971/72	1973/74	1974/75	1975/76	1976/77
Agriculture	33.1	62.4	61.2	65.7	74.4
Mining and Quarrying	11.2	16.0	18.0	33.6	42.0
Manufacturing	5.1	10.1	15.5	20.9	25.3
Electricity and Water	1.3	3.3	6.9	11.1	9.2
Construction	10.0	20.1	20.1	18.8	15.3
Wholesale, Retail Trade	17.5	27.9	34.3	42.5	55.5
Transport & Communications	3.8	7.5	7.5	12.5	11.9
Financial Institutions	6.1	13.3	14.6	18.2	24.6
General Government	11.8	18.2	24.9	36.1	48.0
Household, Social & Community Services	3.5	6.8	8.8	13.1	12.5
Dummy Sector	-0.8	-0.7	-3.3	-2.7	-7.9
GDP at Market Prices	10.26	184.9	208.5	269.8	310.8

*The Accounting Education and the Certification Process in Botswana*

TABLE 1.1 (continued)

GDP by Expenditure					
Public Consumption	16.0	28.3	37.0	50.6	71.4
Private Consumption	58.1	105.7	128.1	155.3	193.7
Gross Fixed Capital Formation	53.1	79.6	57.3	79.1	77.8
Export of Goods	39.8	76.4	93.8	135.2	155.5
Import of Goods & Services	-65.7	-121.8	-147.6	-187.5	-209.0
Increase in Stocks	1.3	17.8	44.4	35.9	20.9
Net Errors and Omissions	-	-1.1	-4.5	-1.2	-
GDP at Market Prices	102.6	184.9	208.5	269.8	310.8

GDP at Factor Cost	91.8	170.7	190.8	246.9	281.6
Indirect Taxes, Net	10.8	14.2	18.1	22.9	29.2
GDP Market Prices	102.6	184.9	208.5	269.8	310.8

GDP by Type of Activity	1977/78	1978/79	1979/80	1980/81
Agriculture	71.7	78.1	75.3	82.0
Mining and Quarrying	55.8	117.4	217.6	208.8
Manufacturing	24.4	42.8	29.2	49.3
Electricity and Water	10.0	11.5	15.0	19.3
Construction	17.1	21.4	36.4	38.3
Wholesale, Retail Trade	71.9	102.4	157.0	175.0
Transport & Communications	15.0	13.4	13.6	16.6
Financial Institutions	29.9	46.4	70.5	68.3
General Government	52.5	70.2	81.6	110.7
Household, Social & Community Services	15.2	18.2	20.9	27.2
Dummy Sector	-9.3	-17.6	-27.7	-33.1
GDP at Market Prices	354.2	504.2	689.4	762.4

GDP by Expenditure				
Public Consumption	85.2	96.0	129.7	178.9
Private Consumption	224.6	290.6	350.3	401.3
Gross Fixed Capital Formation	110.1	162.9	248.8	306.6
Export of Goods	161.1	275.9	357.8	398.0
Import of Goods & Services	-259.2	-355.9	-446.6	-565.7
Increase in Stocks	32.4	37.4	49.0	43.3
Net Errors and Omissions	-	-	-	-
GDP at Market Prices	354.2	504.2	689.4	762.4

TABLE 1.1 (continued)

GDP by Type of Activity	1977/78	1978/79	1979/80	1980/81
GDP at Factor Cost	313.3	442.6	587.4	691.8
Indirect Traces, Net	40.9	62.6	102.0	120.6
GDP at Market Prices	354.2	504.2	689.4	762.4

Source: Central Statistics Office — National Accounts of Botswana 1981/82.

TABLE 1.2 GDP by Type of Economic Activity at 1979/80 Prices (P million)

Type of Economic Activity	1981/82	1982/83	1983/84	1984/85	1985/86+	1986/87*
1. Agriculture	71.8	60.1	50.9	46.8	54.6	48.8
2. Mining	222.4	393.6	533.9	560.2	668.1	815.7
3. Manufacturing	45.8	42.4	44.0	35.8	43.7	48.5
4. Water and electricity	15.9	15.7	19.5	23.5	31.8	33.1
5. Construction	37.2	26.2	38.7	35.6	38.9	45.4
6. Trade, Hotels	150.7	162.1	182.2	205.7	206.6	232.8
7. Transport	18.1	23.8	23.1	28.6	36.0	35.9
8. Bank, Insurance, Business Service	55.6	58.9	65.2	82.2	101.0	104.5
9. General Government	123.8	136.1	150.5	172.5	182.3	201.2
10. Social Services Dummy Sector	29.2	35.0	34.9	42.9	47.7	49.1
	-17.0	-19.9	-22.4	-22.3	-30.1	-31.1
GDP at Constant Prices	753.5	934.0	1 120.5	1 211.5	1 380.6	1 583.9
GDP (excluding mining) at constant prices	531.1	540.4	586.6	651.3	712.5	768.2

Source: Central Statistics Office

+ Preliminary

\* Flash estimates

prices. Though narrowly based, the economy of Botswana is today one of the world's fastest growing and healthiest in Africa.

A major concern is the almost stagnant growth of the manufacturing sector. The manufacture of capital products is almost non-existent. The government has designed several schemes to stimulate growth in agricultural and manufacturing sectors, but has met with limited or no success at all, particularly in manufacturing. Reasons for this state of affairs relates mainly to the historical integration of the economy of Botswana into that of

South Africa. Overall, Botswana offers one of the most attractive investment climates in Africa. The country is politically stable, has ample foreign exchange reserves, offers liberal exchange control regulations which provide guaranteed repatriation of investors' foreign capital brought into the country, personal remittances, and transfer of profits. Goods manufactured in Botswana have duty-free access to a number of countries in southern Africa (including South Africa) and to the European Economic Community markets. Economic indicators suggest that Botswana's economy will continue to grow and prosper into the foreseeable future.

## **The Education System**

The pre-university education system of Botswana is modelled after that of Britain. Prior to 1986, primary (elementary) education was seven years, followed by three years of junior certificate and two years of Cambridge school certificate at the secondary level. The Ministry of Education started reviewing the country's education system in the late 1970s. As a result, in 1986 the junior certificate program was reduced to two years and the Cambridge school certificate program increased to three years. This is only a transitional stage leading ultimately to six years of primary education, three years of junior certificate education and three years of Cambridge school certificate education in the early 1990s. Though a completely new primary school curriculum is to be implemented, the secondary school system will remain largely the same with students still sitting for the UK's University of Cambridge school certificate examinations.

With a Cambridge school certificate, students can enter university education for a four-year first degree program. However, in 1980 the government introduced one year of national service for secondary school graduates before they are able to proceed with higher education. To date, less than a quarter of secondary school graduates actually undergo national service because of a variety of practical problems. University education in Botswana has more in common with that found in the USA than that found in Britain. Many disciplines, particularly accounting and management, use mostly American textbooks. Though advanced level school certificates (A levels) are not required for university entrance, there is one private school in the country which offers a program leading to A levels. Many graduates of this school travel abroad for higher education. English, which is one of the two official languages (the other is Setswana), is taught right from grade one of primary school and is a medium of instruction from the fifth grade of primary school.

At independence, in 1966, there were 351 primary schools in Botswana, and these had increased to 528 in 1988 with a total of 231,397 pupils (B & T Directories 1988: 89). The five secondary schools that existed in 1966 increased to 121 by 1988 with a total of 39,484 students. After several years of free education at primary school level, in 1988 the Government abolished tuition fees for secondary school education. Government offers hundreds of

scholarships every year for university and other post-secondary school education. Certain university level programs are not available locally, and students have to be sent abroad for such programs. To this end, Botswana continues to receive generous financial assistance from several international donors.

Over the past few years, increasing secondary school enrollment and the ever increasing pass rate has meant that only those who obtain a first class pass in Cambridge school certificate stand a good chance of pursuing first degree studies in disciplines such as accounting, law and the natural sciences. This situation offers the accounting profession young capable Batswana accountants in the near future, provided their education and training are handled properly.

### **Demand for Accounting Skills**

On attaining political independence (majority rule) in 1966, Botswana had a negligible number of citizens with tertiary education qualifications. The rapid economic growth experienced by the country a few years after independence created a demand for qualified personnel in several sectors of the economy. Since locals could not be trained overnight to take up senior positions in commerce and industry as well as in the government sector, the country had to rely on expatriate staff.

There were no fully qualified professional accountants in Botswana at independence. At the time of writing (22 years later), there are six fully qualified local professional accountants, in a country where the total is estimated at 200. The country's sixth national development plan forecasts the demand for accountants at 748 (Ministry of Finance and Development 1985: 159) by 1991. There is no indication, however, of the level of qualifications the planners had in mind. A World Bank report (1985) estimated the country's accounting training needs for the same period at 3,900 broken down as follows:

Professional: Chartered	100
Semi-professional: Registered	200
Technician: Licensed	600
Pre-Technician/Bookkeepers	3,000
<hr/>	
Total:	3,900

Several factors have contributed to the current state of affairs. The major factor has been the non-existence of an act of parliament establishing the legal framework for the certification of accountants. This has meant that citizens could only qualify as professional accountants by either travelling abroad to study for such qualifications or through correspondence courses. Given the colonial background of the southern African region, professional qualifications highly sought after are of British origin. The Government, which until recently trained citizens almost exclusively for jobs in the civil



service, did not seem to see a need to train professional accountants. Accounting education did not become a priority until the current development plan, which extends from 1985–86 to 1990–91. The high cost of studying overseas prevented accounting firms operating in the country and other interested organizations from sending Botswana to study in the UK or the USA. These problems are discussed in more detail in subsequent sections of this paper.

## **The Profession**

The accounting profession in Botswana is dominated by international public accounting firms, which include some of the Big Six firms (Coopers and Lybrand; Deloitte, Haskins and Sells; Peat Marwick; Price Waterhouse). The major accounting firms listed above have their regional head offices in South Africa. There are numerous small accounting firms staffed by semi-professional accountants and technicians. These small accounting firms provide accounting services mostly to small businesses which cannot afford to pay the fees charged by big accounting firms. From the tax point of view, these small accounting firms provide an invaluable service, since the small businesses in Botswana far out-number the big ones and on aggregate are of a sizeable economic value.

## ***The Association of Accountants in Botswana (AAB)***

The Association, a non-statutory body, was founded in 1972. To become a member of the AAB, one has to be a member of a professional body of accountants in England and Wales, Ireland, Scotland, South Africa or Rhodesia (now Zimbabwe). The AAB Council may accord membership to someone who “possesses such qualifications and/or experience as the Council deems necessary” (AAB 1972: 81).

Among the objectives outlined in section 3 of the Association’s by-laws (AAB 1972: 2–3) are the following:

- (a) to keep or cause to be kept a register of persons entitled to practice publicly in Botswana as accountants;
- (b) to conduct examinations or to take such other steps as may be necessary to ascertain whether persons are qualified to be admitted to the register;
- (d) to encourage the study of accountancy by the members of the Association; and for that purpose to promote information and education on accountancy matters by lectures, classes, discussions, books, correspondence, examinations and otherwise, and to make donations, and to give certificates, bursaries, scholarships and rewards upon such terms and conditions as may from time to time be prescribed by the Council of the Association;
- (m) to promote or assist in promoting legislation which may be deemed to be of advantage to the Association, and to oppose any legislation which may be considered prejudicially to affect the interest or status of the Association or its members;

In the absence of a statutory accounting body, the AAB performs the vital role of being the watchdog of what goes on in the profession and monitors the activities of all those in public practice. The Association is, however, a temporary body to be dissolved when the Botswana Institute of Accountants (BIA), established by an act of parliament in 1988, is set up. The Association has played a major role in the developments that eventually led to parliament passing the Accountants Bill. At the time of writing, steps were being taken to set up the Institute, whose expected principal objectives and functions (Accountants Bill 1988: 4–5) are:

- (a) to advance the art of accountancy, financial management, taxation and allied subjects as applied to all or any of the professional services provided by accountants whether engaged in public practice, industry and commerce or in the public service;
- (b) to preserve and maintain the integrity and status of the profession and take such lawful steps as may be thought necessary to promote the highest standards of competence, practice and conduct among members;
- (c) to determine the qualifications of persons for admission as members;
- (d) to provide for the settlement of disputes relating to the profession between members of the Institute or between members of the Institute and other persons;
- (e) to represent the views of the profession;
- (f) to promote the international recognition of the Institute;
- (g) to provide for the education, training and examination of persons practicing or intending to practice the profession of accountancy;
- (h) to promote or assist in promoting legislation which may be deemed to be of relevance to the Institute, and to make representations on any legislation which may be considered prejudicially to affect the interest or status of the Institute;
- (i) to establish and support or aid in the establishing and supporting of associations, funds, trusts and conveniences calculated to benefit the members or their dependents or employees of the Institute or their dependents, and from any special fund accumulated thereby to grant pension and allowances to members or their dependents or to employees of the Institute or their dependents;
- (j) to do the foregoing and such further lawful acts in a manner consistent with the provision of this Act as may be incidental or conducive to furthering the interests of the Institute.

There is no doubt that the accounting profession in Botswana will continue to be dominated by expatriates for some time to come. The years to come should, however, see the indigenization of the profession with more citizens qualifying as professional accountants in their own country. The BIA is scheduled to take over from the AAB during 1989.

### **The Regulatory Framework**

The country's 1959 Companies Act provides detailed yet flexible guidelines on the presentation of financial statements — the balance sheet and the

profit and loss account — and stipulates the minimum amount of disclosure that is required. These guidelines are contained in sections 112–127 and the sixth schedule of the Act. The Act calls for a wide range of disclosure without, however, prescribing the methods to be followed in the treatment of numerous accounting items that form part of or generate data incorporated in financial statements. The Act, therefore, does little for standardization of financial reporting. The bottom line is that the balance sheet and the profit and loss account should give “a true and fair view” of the state of affairs and of the profit or loss of the company, respectively (CAP.42:01, section 114, subsection 1).

The Act does not require the auditing of private companies except when “the number of shareholders in such a company exceeds ten, at least one of the shareholders is a company, or where the articles of the company require an audit” (CAP.42:01, section 122, subsection 7). The Act disqualifies as auditor any person who is not a member of a body of accountants established by statute in any part of the Commonwealth, save that the Minister of Commerce and Industry can designate as auditor a person holding membership of a body of accountants established by statute in any country outside the Commonwealth. The minister can authorize a person found to have adequate alternative qualifications or who has obtained adequate knowledge and experience in the course of employment under articles, to act as auditor. A member of a body of accountants established in the UK and who is recognized by the UK Department of Trade and Industry for auditing purposes, qualifies to work as an auditor in Botswana (CAP. 42:01, section 124, subsection 1).

The Companies Act also specifies the contents of the auditor’s report and requires the auditor to state, among other things:

whether, in his opinion and to the best of his information and according to the explanations given him, the said accounts (financial statements) give the information required by this Act in the manner so required and give a “true and fair” view . . . (CAP.42:01, section 125, subsection 1, para. d(ii)).

Overall there is a striking resemblance between the country’s Companies Act and UK’s 1948 Companies Act, which indicates the degree of influence the UK has had on Botswana. The Act is now outdated and needs to be reviewed. It is understandable that Botswana adopted the British Companies Act at independence in 1966 without any material adaptation. At independence the country hardly had a private sector upon which an appropriate companies act could be based. Private business was mostly in the form of sole trading retailers, most of which were located in three small towns. The country has since achieved remarkable economic growth and development. Its socio-economic patterns have defined themselves well enough for the Act to be made more relevant to them. There is no point in having legislation which centers mainly on public companies when the country is characterized by mushrooming private companies. In a country

where the Government engages in economic planning, reliable and relatively standardized accounting information is essential. The current Act is too flexible on the contents of financial statements for the resultant accounting information to be reliable for purposes of macro-economic planning. The Act makes use of conceptual terms such as “true and fair view” which are not even defined and whose interpretation is still a subject of debate in the UK, from where they originate. Ironically, the outdatedness of the Act offers considerable flexibility for harmonization of company law with the other Southern African countries. An up-to-date Act in tune with the country’s socio-economic environment invariably makes compromise in regional harmonization of company law more difficult to achieve.

Parastatals, which comprise a sizeable sector of the country’s economy, are governed by the specific statutes creating them. The statutes contain provisions for annual audits of all parastatals.

The financial and banking sector comprising commercial banks, development banks, building societies and other financial institutions, is governed by the Financial Institutions Act of 1986 and the Building Societies Act of 1961. In each case annual audits are required. The Bank of Botswana does keep a close eye on the activities of financial institutions operating in Botswana. All financial institutions operating in the country are required to submit annual accounts to the Bank of Botswana.

The Co-operative Societies Act of 1964 requires that co-operative societies be audited annually. The registrar of co-operative societies is vested with the responsibility of ensuring that co-operatives operating in the country are audited annually as stipulated in the Act.

### ***Ethics***

For the years since political independence in 1966 until 1972 when the AAB was founded, the country had to do without any organization responsible for ethical matters of the accounting profession. The establishment of the AAB was, therefore, a very welcome development in a country where the government had adopted a do-it-yourself attitude. The AAB, through its Council, could by constitution, enforce some of the provisions of the Companies Act and screen applicants who sought membership of the AAB in order to practice in the country. One of the pre-requisites for membership of the AAB is that one should be “a fit and proper person” (AAB 1972: 8). The AAB Council issues rules from time to time regarding professional conduct or practice with which members should comply. The constitution of the AAB contains provisions for dealing with members who may be found to be jeopardizing the integrity and status of the profession.

The BIA is expected to continue the work of the AAB, and should be in a better position to execute its duties, given that it is a statutory body with material backing from the Government.

## **IFAC and FASR Membership**

The AAB was admitted to membership of the International Federation of Accountants (IFAC) in 1984. In October 1985, the AAB was one of the seven founding members of the Federation of Accountants — SADCC Region (FASR).

As a member of the IFAC, the AAB is expected to promote the adoption and utilization of international accounting standards (IAS) set by the International Accounting Standards Committee (IASC). The AAB's affiliation to the IFAC is aimed primarily at the creation of international recognition of the accounting profession in Botswana. As in many developing countries, some of the IAS could not be utilized in Botswana either because of technical problems or the non-existence of issues addressed by the particular IAS. The AAB is, however, a firm supporter of the IASC and its activities. The BIA is expected to continue the IFAC membership when it succeeds the AAB.

As a member of the FASR, the AAB is expected to co-operate with the other six founding members of the FASR (accounting bodies from Lesotho, Malawi, Swaziland, Tanzania, Zambia and Zimbabwe) in co-ordinating "the development and harmonization of the accounting profession in the region, and to promote the observance of internationally accepted standards and guidelines" (FASR 1985: 2). The impact of the FASR is yet to be felt in Botswana, or, for that matter, in any part of the southern African region. It appears, however, that the AAB at this stage is much more concerned with the development of the profession in the country than with the regionalization of it.

## **Accounting Education and Training**

The country's demand for accountants at all levels is enormous, as already indicated in earlier sections of this paper. The acute shortage of qualified local accountants is attributable in part to the country's education system whose curricula does not include commercial subjects throughout its primary and secondary stages. For the best part of the past two decades accounting did not feature in government plans as a priority area. This lack of vision led to a couple of attempts by the Ministry of Commerce and Industry to establish a legal framework for regulating the accounting profession, in 1976 and 1984, failing to make headway. However, the second attempt eventually led to a breakthrough almost four years later, when a draft Accountants Bill was put before Parliament.

To date, the country's accounting needs in most of the government sector and part of the parastatal and private sectors are met by graduates of tertiary education institutions, notably the University of Botswana, the Botswana Institute of Administration and Commerce (BIAC) and, to a lesser extent, the Institute of Development Management (IDM).

The University offers a four-year bachelor of commerce degree program.

The syllabi of the program consist of selected accounting and management courses as well as a few other related courses. The University also offers a two-year part-time certificate course and a three-year part-time diploma in accounting and business studies. A four-year bachelor of arts double major (accounting and economics or accounting and public administration) degree program is also offered.

The British Chartered Association of Certified Accountants (CACA) offers the following exemptions to those wishing to sit for the CACA examinations:

- (a) A bachelor of commerce degree holder with a minimum overall pass classification of 2.2 is exempted from all papers of level 1.
- (b) A holder of a diploma in accounting and business studies is exempted from papers 1.1 Accounting and 1.3 Economics.
- (c) A holder of a certificate in accounting and business studies qualifies for registration as a student.

However, very few graduates of the University ever register with the CACA, and more than half of those who register give up along the way. The problems candidates for the CACA and the Association of Accounting Technicians (AAT) face are discussed in subsequent paragraphs of this section. The CACA exemptions serve mostly as a gauge of the standards of the University's accounting programs. These programs were, however, designed with a variety of job opportunities in mind, of which accounting is only one. Beginning with the 1988–89 academic year, the University offers a redesigned bachelor of commerce degree program which permits specialization in accounting in the third and fourth year. It is hoped that this new redesigned program will better prepare students for careers in accounting. Details of the bachelor of commerce degree program prior to 1988–89 and as of 1988–89, as well as those relating to the diploma and the certificate program are found in Appendices 1.1, 1.2, 1.3 and 1.4 respectively.

The BIAC offers two one-year full-time programs in accounting and business studies at certificate and diploma levels. The two programs are broadly similar to the University's certificate and diploma programs. In addition, the BIAC offers a one-year full-time higher national diploma programme "considered by BIAC to be equivalent to the first part of a full professional qualification" (Stokes Kennedy Crowley 1987: 49).

Exemptions accruing to the BIAC's diploma and certificate holders from the CACA and ICMA are shown below:

<i>CACA</i>	<i>ICMA</i>
Diploma holders: Papers 1.1, 1.2, & 1.3	Foundations A
Certificate holders:	Qualifies to register as a student.

Those who obtain a credit or distinction in either the diploma or the higher national diploma program are exempted from level 1 of the CACA.

Judging from the exemptions accorded graduates of BIAC's programs, it appears that the BIAC is achieving good standards in training for the technical level accounting needs of the country.

The IDM is concerned mainly with management and public administration programs. The Institute caters for the training needs of Botswana, Lesotho and Swaziland, and has training facilities in each country. The few accounting and finance programs offered range in duration from three to ten weeks. Some of the IDM's accounting and finance programs prepare participants for the different levels of the AAT examinations. The IDM's contribution to meeting the country's accounting needs is negligible, and in any case, accounting is not a priority area for the Institute.

In 1982 the AAB established the Accountants Training Institute (ATI) with the aim of preparing citizens for professional examinations in accounting. The Institute has concentrated on preparing students for the AAT and CACA examinations, with the coverage of only the first and the second level of the CACA examinations. Students, all of whom are in full employment, attend one or two classes a week, but otherwise study at home using UK correspondence study materials. A shortage of staff and other resources has meant that tuition in certain papers of the above-mentioned AAT and CACA levels is not offered.

There are several problems emerging from an arrangement such as the one outlined above. First, there are the usual correspondence study problems such as study materials not arriving on time, lack of readily available assistance in relation to problems one may encounter with study materials, and poor study facilities. The sitting of foreign examinations invariably means studying certain aspects of accounting which are of no relevance to the students' practical needs, such as tax law, company law and even some of the issues relating to the accounting system of an economically developed country.

For the years since the attainment of political independence in 1966, the only other alternative citizens had of obtaining professional accounting qualifications is by undertaking full-time studies abroad. Notably this meant studying in the UK for reasons already stated in an earlier section of this paper. This has not been without problems as well. For one, it is expensive. In 1987, the estimated annual cost of sponsoring a Botswana (citizen of Botswana) student in the UK was estimated at P30,000 (about US\$15,000) (Stokes Kennedy Crowley 1987: 67). The other problems are associated with the hardships of being far away from home for extended periods of time. It also means that students are denied the chance of studying and at the same time gaining practical experience. The absence of those sent abroad from their place of employment usually puts a considerable strain on those left behind to fill the gaps created by those on study leave. To the employer, who may be sponsoring employees studying abroad, it may mean additional expenses if temporary assistance has to be sought. It is also worth noting that in Botswana it is usual to pay the salaries (usually full salary for the first twelve months and half a salary thereafter) of employees on study leave.

Given that it is difficult for one to qualify as a professional accountant in a distant country, and given the cost of full-time studies and a host of other problems associated with a foreign qualification, government departments, parastatals and the private sector have been very reluctant to send locals abroad for professional accounting qualifications. It is more appealing in many instances to employ fully qualified expatriate accountants. While South Africa and Rhodesia (now Zimbabwe) had a reasonably well developed accounting profession for years, Botswana could not send students to study in these two countries because of their racist policies. In any case, it would have been difficult in most cases for black students to have easy access to study facilities. This is evidenced by the overwhelming domination of the accounting profession by white citizens in both these countries in spite of a very high population ratio in favor of black citizens.

The problems discussed above have meant that for the 22 years since self-rule, the country had to rely heavily on expatriates in filling the top level accounting positions at an estimated annual cost of P12–15 million (about US\$6–7.5 million) (Stokes Kennedy Crowley 1987: 3). For the 22 years of self-rule, only 6 citizens qualified as professional accountants (3 CACA and 3 ICMA), and only 11 obtained the AAT qualification.

The passing of an Accountants Act is a welcome development indeed. In a few years to come, Botswana will have the opportunity to qualify as professional accountants and accountant technicians in their own country. The Bill lays down criteria for membership to the BIA, when it is eventually set up. Persons admissible to membership of the BIA will on application be admitted either as fellow, associate, registered or licentiate members. Associate membership of the BIA can be gained by any person other than a body corporate who is at least 21 years of age, resident in Botswana, and has passed such examination(s) as may from time to time be prescribed by the Council of the Institute; is, in the opinion of the Council, a fit and proper person; is a member in good standing of such other institute or professional body of accountants as the Institute may recognize; or is resident in Botswana and has satisfied the Council that he has adequate knowledge of the laws of Botswana. A partner of a member resident and in public practice in Botswana, who is a member in good standing of such other institute or professional body of accountants as the Institute may recognize, is also admissible as an associate member of the Institute (Accountants Bill 1988: 9).

A member who has been an associate of the Institute continuously for a period of five years or of such other institute or professional body of accountants as the Institute may recognize, shall become a fellow member of the BIA (Ibid).

Any person other than a body corporate, who is not otherwise eligible for admission as an associate member of the BIA, shall be eligible for admission as a registered member on passing the examination(s) prescribed by the Council and has had three years relevant practical experience (ibid).

Any person other than a body corporate who is not otherwise eligible for



admission as a registered member of the BIA, shall be eligible for admission as a licentiate member on passing the examination(s) prescribed by the Council and on having had two years relevant practical experience (ibid).

At the time of writing, details relating to the education and training of students of the BIA were not available. Candidates for the associateship may be required to undertake a year of study beyond the bachelor of commerce degree program at the University of Botswana. There is, however, still a lot of work to be carried out before Botswana can qualify as professional accountants and technicians in their own country. There is also the question of standards and the overall status of a young profession. Interested parties will obviously monitor qualifications obtained in the country for many years to come before they can have full confidence in the work of the locally qualified professional accountant.

## **The Future**

This paper sought to outline the nature and development of the accounting profession, accounting education and training in Botswana, as well as to create an awareness of the typical problems a young profession in a developing country faces. The accounting education programs at the University of Botswana and other post secondary school educational institutions should continue to be developed further and made more appropriate to the country's accounting needs. The University of Botswana is due to introduce a master of business administration degree program in 1989–90 or soon after. The program is planned initially to offer four specializations (accounting, finance, marketing and general management). The profession still has a long way to go before it can firmly establish itself. Positive steps have at least been taken to indigenize the profession in a country with one of the fastest growing economies in the world. The challenges are immense. The country now has to set up an institute of accountants which will guide the development of the profession in the years to come. This is a very challenging task in a field where integrity, status and international recognition are the cornerstones. At the same time, the Institute will have to contend with the problems of regionalization of the profession as a member of the FASR.

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## APPENDIX 1.1

# BCom Degree Programme

Students pursuing the BCom Degree Programme are required to take and pass the following courses in years 1, 2, 3 and 4.

### Year 1

E101	Communication Skills and Introduction to Literature (6hrs)
MS101	Mathematics for Social Sciences (3hrs)
ST101	Introduction to Statistics (3hrs)
EC101	Basic Economics (3hrs)
AM100	Introduction to Accounting (3hrs)
AM101	Introduction to Commerce (3hrs)

### Year 2

AM200	Intermediate Accounting (3hrs)
AM201	Cost Accounting (3hrs)
AM202	Principles of Management (3hrs)
AM203	Quantitative Methods for Business Decisions (3hrs)
AM204	Mercantile Law (3hrs)
EC204	Micro-Economics (3hrs)
EC205	Macro-Economics (3hrs)

### Year 3

AM300	Financial Accounting—I (3hrs)
AM301	Management Accounting (3hrs)
AM302	Financial Management and Project Analysis—I (3hrs)
AM303	Organization Theory (3hrs)
AM304	Marketing (3hrs)
AM305	Business Data Processing and System Analysis (3hrs)
AM306	Company Law (3hrs)

### Year 4

AM400	Financial Accounting—II (3hrs)
AM401	Auditing (3hrs)

***Shabani E. Ndzinge***

**AM402      Financial Management and Project Analysis—II (3hrs)**  
**AM403      Taxation (3hrs)**  
**AM404      Business Policy and Decision Making (3hrs)**  
**AM405      Personnel Management (3hrs)**

**Note: All courses are year long.**

## BCom Degree Programme

Students pursuing the BCom Degree Programme are required to take and pass the following courses in years 1, 2, 3 and 4.

### Year 1

E101	Communication Skills and Introduction to Literature (6hrs)
MS101	Mathematics for Social Sciences (3hrs)
ST101	Elements of Statistics (3hrs)
EC101	Basic Economics (3hrs)
AM100	Introduction to Accounting (3hrs)
AM101	Introduction to Commerce (3hrs)

### Year 2

AM200	Intermediate Accounting—I (3hrs)
AM201	Principles of Cost Accounting (3hrs)
AM202	Quantitative Methods—I (3hrs)
AM203	Computer Applications (3hrs)
AM204	Mercantile Law (3hrs)
EC204	Micro-Economics (3hrs)
EC205	Macro-Economics (3hrs)

### Year 3 — Accounting

AM300	Intermediate Accounting—II (3hrs)
AM301	Advanced Cost Accounting (3hrs)
AM302	Principles of Management (3hrs)
AM303	Systems Analysis and Design
AM304	Company Law (3hrs) and either
AM305	Managerial Economics (3hrs) OR
AM306	Quantitative Methods—II (3hrs)

(An outstanding good student may, with the permission of the department, take all seven courses).

**Year 3 — Management**

- AM300 Intermediate Accounting—II (3hrs)
- AM302 Principles of Management (3hrs)
- AM304 Company Law (3hrs)
- AM305 Managerial Economics (3hrs)
- AM307 Marketing Management  
and either
- AM303 Systems Analysis and Design (3hrs)  
OR
- AM306 Quantitative Methods—II (3hrs)

(An outstanding good student may, with the permission of the department, take all seven courses).

**Year 4 — Accounting**

- AM400 Advanced Accounting (3hrs)
- AM401 Management Accounting (3hrs)
- AM402 Auditing and Investigations (3hrs)
- AM403 Taxation (3hrs)
- AM404 Business Policy (3hrs)
- AM405 Financial Management (3hrs)

**Year 4 — Management**

- AM404 Business Policy (3hrs)
- AM405 Financial Management (3hrs)
- AM406 Production Management (3hrs)
- AM407 Personnel Management (3hrs)
- AM408 Organization Theory (3hrs)
- EC411 Money and Banking (3hrs)  
OR
- EC406 Public Finance (3hrs)  
OR
- EC410 Industrial Economics (3hrs)

(An outstanding good student may, with the permission of the department, take seven courses selecting not more than two Economics courses).

Note: All courses are year long.

APPENDIX 1.3

## Diploma Program

Students pursuing the diploma program are required to take and pass the following courses in years 1, 2 and 3.

### Year 1

DABS 101	Financial Accounting—I (3hrs)
DABS 102	Cost Accounting (3hrs)
DABS 103	Auditing (3hrs)
DABS 104	Economics (3hrs)

### Year 2

DABS 201	Financial Accounting—II (3hrs)
DABS 202	Business Administration (3hrs)
DABS 203	Business Statistics (3hrs)
DABS 204	Public Finance (3hrs)

### Year 3

DABS 301	Financial Accounting—III (3hrs)
DABS 302	Taxation (3hrs)
DABS 303	Business Law (3hrs)
DABS 304	Data Processing (3hrs)

Note: All courses are year long.

APPENDIX 1.4

## Certificate Program

Students pursuing the certificate program are required to take and pass the following courses in years 1 and 2.

### **Year 1**

CABS 101	English (2hrs)
CABS 102	Bookkeeping (2hrs)
CABS 103	Commerce (2hrs)
CABS 104	Commercial Arithmetic (2hrs)

### **Year 2**

CABS 201	Accounting (2hrs)
CABS 202	Economics (2hrs)
CABS 203	Business Law and Taxation (2hrs)
CABS 204	Office Organization and Management (2hrs)

Note: All courses are year long.



# Education and Training for the Accountancy and Auditing Professions in Ethiopia<sup>1</sup>

JAMES B. GHARTEY

## Introduction

Ethiopia's accounting and auditing performance has been unsatisfactory in recent years due to a critical shortage of accountants at all levels, lack of recognized and accepted accounting and auditing standards, inadequacy of accountancy training and education, and the lack of focus in Ethiopia for accounting development.

The weakness of available accounting and auditing services in Ethiopia is mainly attributable to lack of appropriately trained personnel, from book-keepers to senior accountants to accounting managers. There is a great scarcity of certified public accountants in the country. In addition, the accounting and control systems of most of the public enterprises are in need of varying degrees of improvement. Many of the public enterprises were previously family-held businesses with rudimentary accounting systems. Those which had reasonable accounting systems were often operated by expatriate staff who, along with the owners, left the enterprises upon nationalization. They were mostly replaced by new financial staff who lacked adequate training and experience, or by existing junior staff who did not have adequate exposure and skills for the supervisory roles with which they were entrusted.

The development of the accounting and auditing profession is important because of the critical role the profession must play in the formulation, implementation, and evaluation of policies and development projects in the

<sup>1</sup> This paper is based on consulting missions for the United Nations Economic Commission for Africa (ECA) and The World Bank between 1976 and 1987. Financial support of both institutions in the interest of accountancy development is gratefully acknowledged. Kind cooperation and hospitality of Ethiopian officials during the missions are also appreciated and gratefully acknowledged.

country. Furthermore, the nationalization in the 1970s and the establishment by the Government of new enterprises increased considerably the need for organized accountancy and auditing systems.

### **Historical Overview of the CIPFA Study**

The most comprehensive and exhaustive study undertaken on Ethiopia's accountancy manpower, and education/training needs is a study by CIPFA Services Limited.<sup>2</sup> The original terms of reference of the CIPFA Study of Accounting and Auditing Services in Ethiopia were prepared as part of a Report and Recommendation of the President of the International Development Association (IDA) to the Executive Directors of the World Bank. The Report, No. P-3873-ET was dated August 16, 1984.

Concurrent to the IDA President's August 1984 Report, Professor R. Lewis had been commissioned to prepare an assessment of the accounting and auditing profession in Ethiopia. Professor Lewis's assessment was prepared as part of a more comprehensive project funded by UNESCO in cooperation with the World Bank to review and help develop tertiary education facilities in Ethiopia. Professor Lewis's report was published by UNESCO in April 1984.

Meanwhile, persistent concern has been expressed by major funding agencies that inadequate accounting systems thwart effective monitoring and the success of ongoing and prospective development projects. Based on the reports of the World Bank, UNESCO and other studies, coupled with concern expressed by funding and other institutions, discussions were held between the Government of Ethiopia and the World Bank to agree on the original terms of reference of the CIPFA project. These terms of reference of the CIPFA project were revised where appropriate to ensure that a realistic approach was suitably adapted to local Ethiopian needs.

### **Terms of Reference and Scope of the CIPFA Report**

The CIPFA project commenced in October 1985. The terms of reference for the CIPFA project provided for the study of accounting and auditing services within Ethiopia to be undertaken in two phases. The first phase required an assessment of the existing state of accounting and auditing standards in Ethiopia. The second phase required the provision of an implementation strategy which would define a coordinated program of action to develop accounting and auditing services for the 10-year period, 1986 to 1995.

<sup>2</sup> CIPFA means Chartered Institute of Public Finance and Accountancy. It is one of the legally recognized professional accountancy bodies in the United Kingdom.

Both the Phases 1 and 2 Reports comprised three separate volumes as follows:

- Volume 1 — Executive Summary
- Volume 2 — Main Report
- Volume 2 — Appendices

The Phase 1 Report was submitted to the Ethiopian Ministry of Finance in February 1986. The preparation of both reports was undertaken by a team of Ethiopian personnel, together with consultants of CIPFA Services Ltd., under the overall guide of the Vice Minister of Finance and Chairman of the Project Steering committee

In addition to the two sets of reports (six volumes), nine technical annexes were prepared by the project personnel during the study phase. The following are the technical annexes:

1. Memorandum of Association of the Ethiopian Professional Association of Accountants and Auditors.
2. Compilation of Laws Pertaining to Finance and Government.
3. Manpower Survey of Accounting and Audition Positions.
4. Employers Training Needs Survey.
5. Graduate Tracer Surveys.
6. The Educational Guidelines of the International Federation of Accountants.
7. Consultative Document of Ethiopian Accounting Standards.
8. Consultative Document of Ethiopian Auditing Standards.
9. Consultative Government Accounting Systems Manual.

Draft reports of both phases of the CIPFA project were circulated for review, and comments by the Project Steering Group were established to provide overall policy guidance and monitor progress of the project. In addition, a series of seminars were held in Ethiopia to present the CIPFA Report conclusions and recommendations to ministry departmental heads responsible for the accounting function, the audit agencies, and personnel from the academic institutions providing accounting training and education.

The CIPFA Final Reports incorporated where appropriate, the comments received both from the steering group members and the seminar participants. The Phase 1 Report reviewed the following areas:

1. Government Budgeting and Accounting.
2. Public Enterprise Budgeting and Accounting.
3. National Auditing Arrangements Including Private Auditing Firms.
4. Manpower Resources.
5. Training Facilities.
6. Alternative Options for Organizing the Profession.

The Phase 2 Report which studied the long term strategy to help develop the accounting and auditing services reviewed the following areas:

1. Framework for the Implementation Strategy to help develop the Accounting and Auditing Services.
2. Education and Training for the Accounting and Audit Profession.
3. Role of employers and In-Service Training Units.
4. Accounting Standards.
5. Auditing Standards.

This chapter focuses on education and training for the accounting and audit profession in Ethiopia. The components for the accountancy education and training could broadly be classified into three:

1. Formal education and training.
2. In-service and on the job training.
3. Institutional Arrangements.

### **Formal Education and Training**

Accountancy and auditing are subjects taught in the tertiary and secondary education sectors. There are three relevant institutions providing formal education and training in the tertiary educational sector:

1. Addis Ababa University.
2. Asmara University.
3. Junior College of Commerce.

The Commission for Higher Education (CHE) is the agency that is charged with coordinating the tertiary education sector. The Ministry of Education oversees the running of education in the secondary sector.

### **In-Service and On-the-Job Training**

The Ethiopian Management Institute is charged with the responsibility of coordinating all in-service training activities in the country. However, various organizations in the country also provide their own in-service training and on-the-job training.

### **Institutional Arrangements**

There is no effectively organized professional accounting body in the country to provide leadership in accounting practice, research and education.<sup>3</sup>

<sup>3</sup> An Ethiopian Professional Association of Accountants and Auditors (EPAAA) does exist. However, it is still in its rudimentary stages. It does not have its own Secretariat or staff, provide training or local examinations, or exhibit most of the characteristics outlined in the following paragraph.

The professional quality of the services of accountants is based upon the requirements of a professional certificate. The professional certificate is evidenced by education, experience and examination, and upon the ethical standards established and enforced by the professional body. Accordingly, the major recommendation in the CIPFA Report, with which this paper concurs, is the establishment of an effective accountancy body in Ethiopia.

### **Need for an Effective Professional Body**

Seven characteristics have been used to identify the accounting profession.<sup>4</sup>

1. A body of specialized knowledge.
2. A formal education process.
3. Standards governing admission.
4. A code of ethics.
5. A recognized status indicated by a license or special designation.
6. A public interest in the work that the practitioners perform; and
7. Recognition by the members of the profession of a social obligation.

In 1987, there were nearly 8,000 positions for accounting and auditing staff in Ethiopia at the professional and sub-professional levels. However, there was no effective, single coherent professional accountancy organization providing a focal point representing the profession with authority to coordinate the training and education provided by the various institutions in the country, and provide an informed approach to accounting and auditing methods on a national scale.

Both technical and political leadership are required in the socio-economic development process in Ethiopia. The two types of leadership are complementary. However, it is desirable to keep their identities distinct and separate.

The proposed accounting body is intended to provide technical leadership for the accounting profession. It is also hoped that it would have international respect and recognition. To maintain the desired independence and the required public confidence, it is recommended that the proposed professional body be kept separate and distinct from the Workers Party of Ethiopia.

The CIPFA Report provides for the establishment of a separate secretariat for the Professional Accountancy Association. The Report also recommends the strengthening and expansion of existing institutions to accommodate the formal education and training requirements of professional accountants. This paper concurs with these two recommendations. Accordingly, subsequent sections will appraise existing accountancy education and training facilities.

<sup>4</sup> Cary, John T., *The Rise of the Accounting Profession from Technician to Professional 1896–1936*. New York: The American Institute of Certified Public Accountants, 1970, p. 3.

## **Addis Ababa University**

Addis Ababa University (AAU), established in 1961, is the foremost tertiary sector educational institution in Ethiopia. The Department of Accounting is located within the Faculty of Social Science.

The Accounting Department offers a four-year Bachelor of Arts degree in accounting. The degree course is offered on both a regular full-time and a part-time (extension study) basis. In addition, the department offers service courses to other departments in the university, and offers by extension study only, a course leading to the award of a diploma in accounting.

Proposals have been made to provide a master's degree program in accounting, and a professional accounting program to prepare candidates for final professional examinations in accountancy. Also, it is envisaged that if the professional accounting program is introduced, AAU would be required to teach the academic courses for the professional program. The CIPFA Report recommends that when postgraduate programs are introduced at AAU, the university should discontinue the diploma program. This would release staff to concentrate on degree programs. The author of this chapter concurs with the CIPFA recommendation.

In 1987 staff of the Accounting Department at AAU totalled 12. Of this number, two held a PhD (one of whom was an expatriate), seven held master's degrees, and three held bachelor's degrees. The BA holders had just commenced further studies abroad for their MAs and two vacancies existed. There was no professionally qualified accountant on the staff.

The CIPFA Report has in concurrence with the Commission for Higher Education suggested a revision of the current undergraduate and diploma programs. In addition, a proposed syllabus had been prepared for the professional program. Further staff and facilities, quantitatively and qualitatively, would be needed to accommodate the revisions suggested to the current curriculum and the teaching of the professional courses. In projecting for staff needs for the professional program, it would be desirable to recruit experienced staff with both internationally recognized professional qualifications and postgraduate qualifications. For the master's degree program, it would be desirable to recruit staff with terminal academic qualifications (PhD, or equivalent) plus a publication and teaching record.

For staff development purposes, it would be desirable to encourage candidates to enroll on PhD programs that involve both course work and a dissertation. For this option to be feasible, a conservative estimate for completing the PhD program would be four to five years after the master's degree.

The CIPFA Report makes an estimate for three years. This estimate would need to be revised to at least four years. The estimate is especially justifiable for candidates who may need additional time to improve on their English proficiency. Furthermore, if the proposed master's program is introduced, there would be no need to provide overseas fellowships for master's programs. Instead, funds could be conserved to send candidates overseas for their PhD programs after completing their master's programs in Ethiopia.

## **Asmara University**

Asmara University (AU) was granted its Charter in 1968 having been founded as a private College in 1968. The Department of Accounting is within the Faculty of Social Sciences.

The Department of Accounting offers a four-year degree program leading to the qualification of Bachelor of Arts in Accounting. It also offers a two-year course leading to the award of a Diploma in Accounting. Both the diploma and degree programs can be studied on a regular full time or extension basis. The department also provides service courses for other departments in the University.

In 1987 the full time staff of Asmara University was 12. Of this number eight had bachelor's degrees and four had master's degrees. There was no professionally qualified or terminally (academically) qualified person on the accounting faculty.

As with Addis Ababa University, a proposal had been made for a revision of both the degree and diploma syllabi. In addition it was envisaged that day release programs would be introduced to teach the professional accountancy courses proposed in the CIPFA Report.

Additional quality staff and facilities would be required to accommodate the revisions suggested to the current curriculum, to strengthen the practical elements of courses already offered, and to teach the proposed professional day release programs.

There would be no need to provide fellowships for master's programs outside Ethiopia. Candidates could complete their master's programs at AAU. Subsequently, they could be provided with fellowships to study for their PhD programs with both course work and dissertation requirements. Also, the qualification for Assistant Lecturer should be raised from AA to MA degree holders (or equivalent).

## **Junior College of Commerce**

The Junior College of Commerce was originally established as the Addis Ababa Commercial School in 1943. In 1979, the Commercial School came within the responsibility of the Commission for Higher Education and was subsequently renamed the Junior College of Commerce (JCC).

The JCC provides education for middle level managers in commercial professions. The JCC is organized into six departments:

1. Accounting.
2. Secretarial Sciences and Office Management.
3. Managerial Training.
4. Languages and Business Communication.
5. Mathematics.
6. Social Sciences.

The Department of Accounting offers a course leading to the award of a

diploma in accounting. The course can be studied on a regular full time basis for two years, or by extension over a three-year period. The Accounting Department also provides service courses to other departments.

In 1987 the JCC had an accounting staff of 12. Of this number, four had master's degrees and eight had first degrees. The CIPFA Report justifiably made recommendations for the strengthening of both the physical and manpower resources of JCC.

### **Technical Teachers Education**

The Technical Teachers Education (TTE) was originally established to provide diplomates who would be assigned as teachers for the 9th and 10th grades. However, diplomates were also assigned to teach 11th and 12th grades.

To rectify this anomaly, between 1978 and 1986, TTE advocated the establishment of a degree level course. Approval has been received and a degree level course in business education commenced in September 1986. With the introduction of the degree course, the regular diploma course was phased out with the final batch graduation in 1987.

### **Secondary Education**

Accounting and auditing education in the secondary education sector is undertaken in both technical and vocational (TV) and non-vocational schools. The secondary sector provides entry level qualifications for bookkeepers.

There were 15 TV Schools. The Office of the National Committee for Central Planning (ONCCP) has issued a directive that 26 TV schools be established, primarily by conversion of existing comprehensive schools. A major constraint to the expansion of TV schools sector is the non-availability of qualified teachers. Furthermore, the CIPFA Report notes that newly qualified teachers from the Technical Teachers Education (TTE) degree program will not be available until 1989.

### **Distance Learning**

Overseas distance education has customarily been linked to attempts to obtain overseas professional accountancy qualifications through correspondence studies. The success rates on these attempts are extremely discouraging. Also, the course content tends to be partially irrelevant to local Ethiopian conditions.

Accordingly, the CIPFA Report makes specific proposals for the provision of domestic distance educational facilities. The proposals include the appointment of an experienced accountant/lecturer, who would edit manuscripts, ensure the maintenance of standards in texts, and grade assigned papers. Provision has also been made for additional facilities to store educational materials and administer the course.



**Publications**

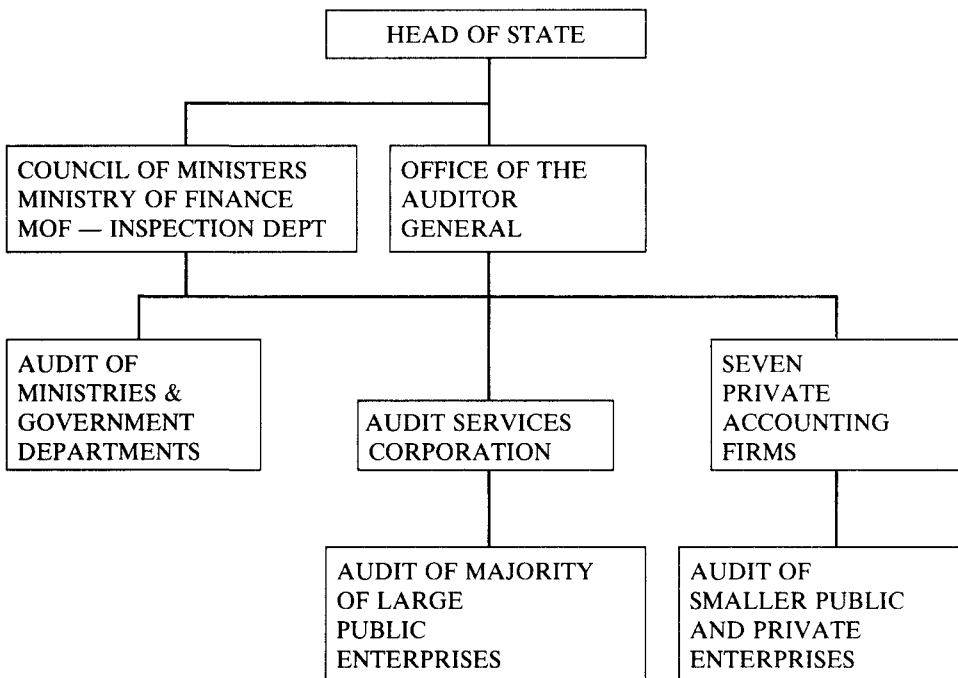
The establishment of the standardized diploma, degree and professional education and training courses will require the support of adequate teaching materials and textbooks. Currently, accounting courses are taught mainly from foreign textbooks supplemented by lecture handouts.

Local production of textbooks would reflect Ethiopian experience and environmental subtleties, save foreign currency, and help avert the problem of the acute shortage of textbooks. Consequently, the CIPFA Report provides proposals to encourage and promote efforts to produce local quality textbooks and educational materials.

**Ethiopian Management Institute**

Employers recognize a major role for in-service training to complement the other activities of the education and training systems for accountants and auditors. The Ethiopian Management Institute (EMI) is the organization that has been given the mandate and responsibility to coordinate the national in-service training efforts. In 1987, EMI negotiated with the International Labor Organization (ILO) for a five year project for institutional strengthening. This project was estimated to require \$5.0 million funding through the UNDP. In addition, EMI was in the process of negotiating further assistance from CIDA (Sweden).

TABLE 2.1 *National Audit Framework*



## **Office of the Auditor General and Audit Services Corporation**

The National Audit Framework provides for independent audit services. This framework includes a number of public and private sector organizations which is illustrated in Table 2.1 (reproduced from Table 8.1 of the CIPFA Report).

Each organization and government ministry also has its own divisions undertaking internal audit and inspection work. In some cases these two functions are combined. An Audit Commission exists to review the operation of the Workers' Party of Ethiopia (WPE) and working people's control committees also exist with power to initiate audits.

Both the Office of the Auditor General (OAG) and the Audit Services Corporation (ASC) have been assisted in their in-service training activities by a UN expert. The expert was with the ASC from 1982 to mid 1984, when he was transferred to his present project at the OAG.

The training position of the ASC, made vacant by the transfer of the UN expert in 1984, had not been filled in 1987. Consequently, there had not been any in-service training in the ASC since mid 1984.

At both the OAG and ASC it is envisaged that it would take about three years to be self-sufficient in their in-service training efforts. Accordingly, expert technical assistance is required in training methodology and specialist audit issues. The specialist audit issues to be addressed include value for money audit and computer audit.

## **Ministry of Finance**

In-service training at the Ministry of Finance is provided by three separate independent units. The units are the Organization, Management and Training Services, the Inland Revenue Administration, and Customs and Excise Administration. Training resources and achievements vary considerably within the three separate units.

The Inspection Department of the Ministry of Finance is responsible for auditing all ministries and government departments (see Table 2.1). The Ministry of Finance—Inspection Department (MoF) reports directly to the Council of Ministers.

The MoF has immense audit responsibilities. Yet it is provided the least resources, compared to the other external audit organizations (the other two are Audit Services Corporation and the private accounting firms). The Inspection Department does not have a training unit. Apart from a short induction course for new entrants, no in-service training scheme exists. Reliance is placed solely on the on-the-job training for the development of staff.

The absence of a training unit in the Inspection Department is considered a major deficiency in the public sector auditing and performance evaluation system. Accordingly, the CIPFA Report makes specific recommendations

for the establishment of a training unit for the Inspection Department. In addition, the CIPFA Report makes recommendations for the restructuring, strengthening, and integration of the training functions and activities of the Ministry of Finance.

## **Conclusion**

Ethiopia does not have an effectively organized professional accountancy association or locally established professional examination and certification boards. Proposals for the establishment of an effective local professional accountancy body and the strengthening and expansion of local education and training institutions are yet to be implemented.

# Evolution, Problems and Challenges of Accountancy Education and Certification in Ghana

JAMES B. GHARTEY

## Introduction

The need for professional associations to join together and regulate their activities was recognized in the Gold Coast by the turn of the nineteenth century.<sup>1</sup> The 1911 census report classified occupations into three groups — professional and clerical; commercial and industrial; and manual and unskilled. The percentage composition of the groups in the labor force was 9.4, 25.5 and 54.1, respectively. Seventy-nine per cent of those belonging to the professional and clerical group were clerks. The remaining members of this group were six surveyors, three doctors, 27 lawyers, 26 ministers (priests), 24 photographers and one nurse. Of the manual and unskilled workers, 91 per cent were fishermen, farmers and laborers. Of the industrial and commercial group, 47 per cent were traders. Among the rest in the industrial and commercial group, blacksmiths, carpenters, goldsmiths, masons, tailors, and butchers appeared to be the most popular trades.<sup>2</sup> Some of these trades had organized professional associations:

Some of the trades possessed organizations termed guilds which were similar in objects to a modern trades union. The goldsmith's guild was the most powerful and of the greatest prestige. It was ruled by a Chief and Councillors, and possessed a tribunal.<sup>3</sup>

The associations of carpenters and masons were not very active by 1911, and those of the blacksmiths and coopers were said to be practically

<sup>1</sup> *Gold Coast Colony, Census of Population 1890* (1891). Government Press, Accra: p. 28.

<sup>2</sup> *Census of Population, 1911*, p. 35.

<sup>3</sup> *Ibid.*

defunct. The professed goals of the various guilds were to regulate wages, to make laws concerning apprentices, to guard against unfair competition, and to settle disputes among craftsmen. The regulations were enforced by fines and by methods of peaceful persuasion. The relation between master and servant was governed by native custom and this was recognized by the Courts.

By 1948, the composition of the professional and clerical group had changed significantly. There was no African accountant but there were 29 British accountants and one German accountant. The number of African doctors had increased from three to 38, lawyers from 27 to 57 and ministries from 26 to 435.<sup>4</sup>

Thus, by 1948 the number of African lawyers and doctors had increased to such an extent as to make their importance and existence felt in the society. Their number had also increased so as to warrant a need for the Africans in those groups to form themselves into local organized professional societies. As the importance of these professions became known to the Africans, an increasing number of Africans became interested in these professions, and apparently neglected other professions. The explanation to this development is provided by the 1921 Census Report [pp. 160–161] as follows:

The African is a practical man, and naturally wishes to know from the educational theorist what the financial prospects of his educated children would be. One must frankly admit that the opportunities in the Gold Coast for an African, of even the present day standard of education, are few; he is in fact limited to two avenues, either the civil service or trade. Both of these employments require young men of usual clerkly attainments. . . . Neither are there facilities for training professional men, so their education must necessarily be obtained in Europe or America.

The African educational theorist knew at that time that there was practically no demand for the services of the educated African in any organization, except for those under European control. Professional services that were in demand at the time were law, medicine, and cocoa brokerage. Until the end of the Second World War, the Gold Coast was a supplier of raw materials only and had no local manufacturing industry to provide professional or technical opportunities for her citizens. The period after 1945, however, marked by the growing confidence of African nationalism, the massive expansion of African education, and the emergence of a worldwide interest in the Gold Coast, provided favorable conditions for rapid development in the interest in accounting education. In 1947, the Gold Coast Government awarded a number of scholarships to Africans to train at British institutions as professional accountants. The first African accountant in the Gold Coast qualified in 1950. Since then the number of African trained accountants has been increasing year by year.

<sup>4</sup> *Census Report, 1948*, p. 84.

## Evidence of Account Keeping Before 1950

Although there was no African professionally qualified accountant in the Gold Coast until 1950, there is evidence that the significance of accounting and auditing was duly acknowledged by the Gold Coast Africans.

An account from the log book of one of the first English explorers, John Lok, in 1553, for example, confirms that the inhabitants of the Gold Coast were very cautious about their transactions. They had devised a method of accounting for their goods and had a high sense of commercial morality before the settlement of the Europeans (Sarbah 1906: p. 3).

Casely Hayford's (1903: pp. 95–96) account suggests that apart from encouraging trade in the community, the King of Ashanti made it mandatory for his subjects (traders) to keep proper accounts of all their activities. The King's treasury served as the central bank and the main financial institution of the community. On occasion, the King lent money to his subjects for the purpose of trade and rewarded such subjects only after they had submitted a faithful account of their trade to him.

Before the turn of the nineteenth century, there were several inhibitions against the acquisition of individual wealth. The Chief was the person who accumulated most of the wealth in the society and utilized the funds in the interest of the society (Arhin 1970: pp. 363–372).

Notwithstanding that money did not play a significant role in the predominantly subsistence economies at the time, and notwithstanding that the mass of the population could neither read nor write, the accounting consciousness of the population compelled the Chief's administration to keep centralized accounts, institute effective internal control measures, and have periodic external audits of the funds. Reaffirming this development, Rattray (1929: p. 110) stated:

This [Indirect Rule] I believe, cannot be satisfactorily introduced unless based upon such principles as would ensure to the Stools for the Paramount Chiefs a steady and adequate revenue for the maintenance of their administration and dignity. . . . I believe that they (the Ashantis) would willingly undertake their obligation to finance the Stools by some form of light taxation. *They would do this more readily if they knew that all these contributions would be subject to an audit and strict control* [emphasis mine].

As the Gold Coast economy became more developed and cash oriented, it became necessary for individuals in society to accumulate private wealth, devise means of keeping their accounts, and utilize the services of professional accountants.

## The Association of Accountants and the Society of Practicing Accountants and Auditors

In 1954, although most of the trained accountants in the Gold Coast were expatriates, it was considered essential for all professional accountants to

group together. Thus, an Association of Accountants was formed. Membership of this Association was open to accountants who possessed qualifications recognized by the Council for the Association. The composition of the Association was drawn largely from members of those overseas bodies of accountancy which were considered to have established competent standards of training.

Another group of accountancy practitioners who might have had some practical knowledge and/or experience, but who did not qualify for membership to the Association of Accountants, formed themselves into the Society of Practicing Accountants and Auditors. The two accounting bodies — the Association of Accountants and the Practicing Accountants and Auditors obtained registration independently under the Companies Ordinance.

The two accountancy bodies had among their objectives the promotion of the sense of importance of accurate and reliable accounting and to provide for the local training and examination of people for the profession. The great need for trained accountants in the Gold Coast was evidenced by the number of scholarships that were provided by the Government for the training overseas of accountants after the late 1940s.

### **Antecedents of University Business Education in Ghana**

The beginning of university business education in Ghana dates to 1952, when the Kumasi College of Technology was established. Among the departments of the College was a Commerce Department. The Commerce Department prepared students for the examinations of the Association of Certified and Corporate Accountants (ACCA), the Chartered Institute of Secretaries (CIS) and the Corporation of Certified Secretaries (CCS), all of London. The ACCA course was a five-year program. The number of students that entered the program in the College of Technology between 1952 and 1962 was 195. Of these, only eight had successfully completed the ACCA final examinations by 1962. Fifty-eight were still at various stages of preparation of the course. These results were found very discouraging. Furthermore, the students who graduated were prepared for the foreign content of overseas-based examinations: they knew very little about the laws and practice prevalent in their own country. The fact that this system of training was not satisfactory to the growth of the accounting profession in Ghana became a problem of grave concern to accountants, politicians and businessmen.

### **The School of Administration**

In 1960, a decision was made by the Government that the Commerce Department of the Kumasi College of Technology be moved from Kumasi to Accra to form the nucleus of a new independent educational institution, established for the training of accounting and management personnel for

industry, commerce and the public service. The new institution was named the College of Administration.

The College of Administration continued the work of the Commerce Department of the Kumasi College of Technology. In addition, it mounted new courses for the training of local government functionaries of all grades, hospital administrators, and middle grade statisticians.

The College of Administration was urged to develop its own plans and schemes for the accelerated development of accounting and management personnel, the demand for which was steadily increasing in Ghana. The College decided that the courses that it was offering, which prepared candidates for overseas examinations, were not appropriate for the training of persons required to work in Ghana.

On the recommendation of the International Commission on University Education in Ghana, the ACCA course and the secretaryship and administration courses were replaced by a BSc (administration) course in 1962. From October 1, 1962, the College of Administration became an integral part of the University of Ghana and was redesignated the School of Administration of the University of Ghana.

Between 1960 and 1964, eight of the 58 candidates who were transferred from Kumasi successfully completed all sections of the ACCA examinations. The School of Administration produced its first batch of accounting graduates in 1965, and has continued to do so since then.

The BSc degree course in accounting at the School of Administration was introduced, among other things, to provide candidates with the breadth and depth of university education which is considered desirable of accountants, and to attract the best students to the profession. The BSc course is a three-year program. Candidates with BSc degrees from the School of Administration are normally granted exemption from the Institute's intermediate examinations.

The accounting profession has so far not been very successful in attracting many of such "best students" into the local accounting profession. Most of the top students in the graduating accounting classes were offered scholarships overseas for postgraduate studies. Most of these students never returned to Ghana on completion of their studies.

Only about 25 per cent of the other graduates that remain in Ghana have attempted the Institute's professional examinations. The reasons assigned for the unwillingness to take the professional examinations include the following:

- (a) The high rate of failure at the examination is by itself a great disincentive.
- (b) There are virtually no training facilities available to students to assist them to prepare for the professional examinations.
- (c) Students believe it is too great a sacrifice to undergo the internship program in Ghana. The average salary paid to interns is approximately one-half of what their colleagues in regular employment receive. Students go through the internship program and realize that they are neither



obtaining the professional qualification nor receiving the regular salaries commensurate with their qualifications. The demand for BSc accounting grades is high and the remuneration is also high. The social demands and pressures on the graduates are high. To satisfy such social responsibilities, the graduates find it more convenient to take regular employment than to go through the highly uncertain and risky internship programs.

- (d) Overcentralization of activities in Accra makes it difficult for graduates living outside Accra to prepare for the examination. A candidate wishing to study for the examination would necessarily have to stay in Accra where he/she will have access to the limited educational and qualifying practical training facilities in the country.

A fourth year program introduced at the School of Administration in 1973 to help mitigate the above problems had only marginal success; an average of one successful candidate per year between 1975 and 1978. In 1978, the Fourth Year Accounting program was abandoned because of lack of teaching personnel and other logistic problems. An MBA program that included an option to concentrate in accounting, has similarly had to be abandoned.

### **Establishment of the Institute of Chartered Accountants**

The Gold Coast gained independence from Great Britain on March 6, 1957 and the name of the country was changed from the Gold Coast to Ghana on March 6, 1957. In that same year, a sub-committee of the Association of Accountants was appointed to advise on the desirability of establishing a local examining body. The Committee invited views on the subject from all the members of the Association president in Ghana. After considering these views, the Committee issued an interim report in April 1958.

The Committee established the following reasons for establishing a local institute:

- (a) The new status of the country (independence) makes the establishment of an independent professional accountancy examining body desirable and inevitable.
- (b) A local examining body will be better able to frame an examination curriculum and a general educational policy suited to the particular needs of the country.
- (c) Only one recognized accountancy body in the United Kingdom, the ACCA, opens its gates for local examinations in Ghana.
- (d) The syllabus of the United Kingdom bodies (whose examinations were the principal ones taken by Ghanaians) covers certain subjects, such as executorship law and accounts, which have little relevance or practical application in Ghana.

Thus, the Committee found that a local examining body would confer the following advantages on Ghana:

### *Accountancy Education and Certification in Ghana*

- (a) It would encourage useful research and original thought in the field of accountancy in Ghana and in Ghanaian law.
- (b) The high standard to be set for the local examinations would inevitably enhance the standing of the accounting profession in Ghana.
- (c) The local Institute, conscious of the general educational, economic and business conditions of the country, would be in a better position to help in the general development of the country, by gearing its examination policy towards the needs of the country.

When the sub-Committee issued its interim report in 1958, it was found that the time was not opportune to establish a local examining body because:

- (a) There were no facilities for practical training. All the professional firms then in the country were training the maximum number that they could take. Also, there were not sufficient posts in the Government and Commercial offices to enable students to acquire the necessary qualifying service.
- (b) There were not enough competent people in the country to prepare examination papers for a local accounting examination.
- (c) The necessary international recognition deserved by an Institute of that nature had not been acquired.
- (d) The facilities and incentives needed to attract students for training had not been established.

Very spectacular and important developments took place in the economy after 1958. These changes established the preconditions for the establishment of a local institute. Among such developments were:

- (a) Review of the Company Law of Ghana.
- (b) The establishment of an Overseas Accountancy Examination Advisory Board jointly with the three institutes of accountants in Britain.
- (c) The establishment of a School of Administration which would offer training in Accountancy and allied subjects; and
- (d) The creation of a School of Law in Ghana.

These preconditions, among others, paved the way for the establishment of a central organization of accountants to provide facilities for the examination and qualification locally of students in accountancy, and to identify and keep improving standards of professional etiquette and practice in Ghana. It became necessary to consolidate the two accountancy bodies into one body.

The Government of Ghana readily agreed to establish an institute to which it would delegate all its responsibilities for regulating all matters concerning the accountancy profession, including the provision of local examinations. By the Chartered Accountants Act, 1963 (Act 170), the Institute of Chartered Accountants of Ghana was established.

## **Membership of the Institute**

The initial membership of the Institute immediately following its establishment was 142. Of the members, 119 belonged to the liquidated Association of Accountants in Ghana, and 13 belonged to the erstwhile Society of Ghanaian Practicing Accountants. To avoid excessive hardship on persons practicing accountancy with reasonable competence but without the requisite qualification for admission into the Institute, the Act which created the Institute provided for the admission of any other persons practicing as accountants and whose applications for membership, submitted within three months of the coming into operation of the Act, were approved by the First Council of the Institute.

On July 29, 1963, the President of Ghana, by a legislative instrument, empowered the Council of the Institute to commence to perform the functions conferred upon it. The Institute then began its work.

Apart from the provisions of the Act relating to the first enrollment of members, membership of the Institute is open to:

- (a) Persons who pass the qualifying examinations for membership of the Institute conducted by the Council under the Act, and complete practical training of such description and for such period as may be prescribed by the Council.
- (b) Persons who are members of any society or institute of accountants by whatever name called and approved by regulations made by the Council as being, in the opinion of the Council, an association of equivalent status to the Institute; and
- (c) Persons who are eligible to be registered as practicing accountants and who have paid their prescribed fees.

To date, the following associations have been approved as being each an equivalent in status to the Ghanaian Institute:

- (a) The Institute of Chartered Accountants of England and Wales.
- (b) The Institute of Chartered Accountants of Scotland.
- (c) The Institute of Chartered Accountants of Ireland.
- (d) The Chartered Association of Certified Accountants; and
- (e) The Chartered Institute of Management Accountants.<sup>5</sup>

No reciprocal arrangements have as yet been made for the above Institutes to admit members of the Ghana Institute.

The present (as at December 31, 1985) membership of the Institute

<sup>5</sup> Members of the Chartered Institute of Management Accountants cannot enter into public practice until they have passed the Ghana Institute's final examination papers in Accounting IV, Auditing and Investigation, and Taxation III. They must also serve attachment with a member in public practice for a period of not less than two years or provide evidence of such training elsewhere to the satisfaction of the Council.

stands at 395, of whom 342 are resident in Ghana and 99 are in public practice. These statistics, compared with the present level of socio-economic development in the country, clearly indicated that there is still a shortage of professionally qualified accountants in Ghana.<sup>6</sup> It is for this reason that the Act of Parliament establishing the Institute of Chartered Accountants underlined the need for the training of suitable candidates and maintenance of high professional standards and ethics in the accountancy profession in Ghana. The body charged with these duties under the Act is the Council of the Institute. There are 11 members, 7 of whom are directly elected by members of the Institute and 4 are appointed by the minister responsible for higher education.

Members of the Council hold office for a term of two years. Various committees appointed by the Council include the Disciplinary Committee specifically charged under the third and fourth schedules of the Act to look into all cases of misconduct properly brought and established before the Institute.

### **Functions of the Council**

The Council is charged with the administration and management of the Institute, the responsibility of implementing the provisions of the Act and the functions conferred upon it by the Act. The Act confers the following duties upon the Council:

- (a) to conduct or provide for the conduct of the qualifying examinations for membership of the Institute or for registration as a registered accountants under the Act and to prescribe or approve courses of study for such examinations;
- (b) to supervise and regulate the engagement, training, and transfer of articulated clerks;
- (c) to specify the class of persons who shall have the right to train articulated clerks and to specify the circumstances in which any person of that class may be deprived of that right;
- (d) to maintain and publish a register of chartered accountants and of practicing accountants;
- (e) to secure the maintenance of professional standards among persons who are members of the Institute and to take such steps as may be necessary to acquaint such persons with the methods and practices necessary to maintain such standards;
- (f) to maintain a library of books and periodicals relating to accountancy and to encourage the publication of such books; and
- (g) to encourage research in the subject of accountancy and generally to secure the well-being and advancement of the profession of accountants.

<sup>6</sup> A few qualified accountants with foreign professional qualifications have not registered as members of the Ghana Institute. However, no qualified accountant can practice as an accountant in Ghana unless the person is a registered member with a practicing certificate from the Ghana Institute.

## Examinations and Admission to Membership

The Council of the Institute has prescribed examination syllabus and regulations for practical training for membership. The Institute's examinations consist of the Intermediate and Final Examinations.

The Intermediate Examination consists of two parts. Each part is made up of three papers. The final examination consists of three parts. Each part is made up of four papers. The minimum qualification required to take the Intermediate Examination is the General Certificate of Education, Advanced Level (GCE, A Level). This is equivalent to the qualification that enables entry to a university degree program or equivalent tertiary education course in Ghana. This pre-qualification requirement conforms with the first International Educational Guideline (IEG 1) published by the International Federation of Accountants (IFAC) in 1982.

Secondary/commercial schools, polytechnics and the Institute of Professional Studies provide the academic preparation required to write the Intermediate Examination. There are no formal educational institutions that provide the required academic preparation for the Final Examinations.

Candidates with degrees in administration, commerce or business from universities approved by the Council, may be eligible for exemptions from the entire Intermediate Examination or parts thereof. However, all candidates must successfully complete all the requirements of both parts of the examination (or be granted the appropriate exemptions) before they become eligible to write the Final Examinations.

It was hoped that the Institute could conduct examinations twice yearly, but this was not possible between 1966 and 1970, when the Institute conducted yearly examinations. There were no examinations in 1968. Within the past 20 years from the commencement of the Institute's local

TABLE 3.1 *Table Showing Number of Candidates Passing C.A. Examinations: 1966-1985*

	1966-1970	1971-1975	1976-1980	1981-1985	Total 1966-1985
Intermediate	13	133	388	823	1,357
Final Part I	17	39	163	140	359
Final Part II:					
Old Syllabus	5*	13*	27*		45*
New Syllabus			56	116	172
Final Part III	-	-	3*	48*	51*
Total	35	185	637	1,127	1,984

Source: Compiled from data provided by the Institute of Chartered Accountants of Ghana.

\* = Candidate completing all the examination requirements of the Institute of Chartered Accountants of Ghana, total 45 + 51 = 96.

examinations, only 96 candidates have successfully completed all the final examinations of the Institute (Table 3.1).

Table 3.1 shows the number of candidates passing the Institute's examinations between 1966 and 1985. Table 3.2 shows the number of candidates taking the examinations, and Table 3.3 shows the number and percentage of candidates taking and passing the examinations between 1966 and 1985. As at December 31, 1985, membership of the Institute stood at 395.

Success at the Final Examination cannot be taken as an automatic qualification for membership of the Institute. Candidates must complete the full period of qualifying service, which is a period of five years, subject to a reduction of two years in the case of graduates from approved universities. Qualifying service in the context of the membership regulation means an attachment to a firm of accountants, who are members of the Institute, or approved service in industry or commerce.

There is no explicit requirement on continuing professional education for members of the Institute.

### **Appraisal of the Institute's Examination Results**

The Ghanaian Institute started conducting professional examinations in 1966. By the end of 1975, the Institute had produced 45 terminally qualified professional accountants. In 1975, the Head of State declared that compared to the needs of the country, the Institute had to aim at producing 200 terminally qualified accountants each year within the 1976–1985 decade: a total requirement of 2,000. However, within the 1976–1985 decade only 51 terminally qualified professional accountants were produced. This represents 2.55 per cent of the projected requirement for the decade.

Within the first twenty years (1966–1985) of providing local examinations, less than ten (of 96 candidates) have successfully completed all sections of the professional examinations. The entire twenty year production of qualified accountants represents less than 50 per cent of one year's estimated requirement of qualified accountants. To state that the results are discouraging would amount to an understatement.

The results of a field study conducted by the writer indicate the following principal reasons for the discouraging results:

- (1) *Absence and/or inadequacy of training and educational facilities for candidates.* There are no full-time institutions to assist students to prepare for the final examinations of the Institute. The universities, the Institute of Professional Studies, some secondary schools and polytechnics provide accounting education facilities up to the intermediate stage of the examination.
- (2) *Lack of education and adequate preparation on the part of the applicants.* The first Educational Guideline (IEG 1) outlined by the International Federation of Accountants (IFAC) makes a recommendation on the minimum educational standard required for a person to commence a

TABLE 3.2 Table Showing Number of Candidates Taking C.A. Examinations: 1966–1985

	1966–1970	1971–1975	1976–1980	1981–1985	Total 1966–1985
Intermediate	42	559	1,712	2,863	5,176
Final Part I	33	166	512	870	1,581
Final Part II	16	96	331	530	973
Final Part III	–	–	7*	244	251
Total	91	821	3,562	4,507	7,981

## Notes:

1. Source: Compiled from data provided by the Institute of Chartered Accountants of Ghana.
2. \* = Part III examination was introduced in 1980.

course of study leading to membership of an accountancy body. The guideline suggests that the pre-qualification requirement must be equivalent to that which enables entry to a university degree program or equivalent tertiary education course. The Institute of Chartered Accountants fulfills this requirement. The minimum pre-entry requirement is the GCE (A Level). However, recent trends in accountancy education weigh heavily towards requiring at least a bachelor's degree as a pre-entry qualification to the profession. In the United States, for example, a fifth year university study would be a requirement for taking the CPA exams as from the year 2000. In Ghana, over 80 per cent of the 96 candidates who have passed all parts of the Institute's examination possessed at least a bachelor's degree. This also confirms that an educational background equivalent to at least a baccalaureate degree would improve candidates' chances of success.

- (3) *Nature of the examinations.* The Institute provides the syllabus, sets the questions and grades the examinations. In the absence of adequate training and educational facilities, candidates rely on the limited available foreign, and sometimes, obsolete textbooks and correspondence material to study for the examinations. Private tuition for advanced courses in accounting is not the most effective method of preparing for professional examinations. Furthermore, the foreign material the candidate studies for the professional examinations are not suitable for the local examinations, which are reasonably well adapted to suit local law and prevailing circumstances.
- (4) *A monopolistic intention on the part of the examiners to minimize competition within themselves.* This is a popular belief within students and other members of the Ghanaian community. However, there is no substantive evidence to support this allegation or assertion.

Nonetheless, there should be a serious concern on the part of the Institute over the appalling results of the professional examinations. The

TABLE 3.3 Table Showing Number and Percentage of Candidates Taking and Passing C.A. Examinations: 1966-1985

	1966-1970			1971-1975			1976-1980		
	No. Presented	No. Passed	Per cent Passed	No. Presented	No. Passed	Per cent Passed	No. Presented	No. Passed	Per cent Passed
Intermediate	42	13	31%	559	133	24%	1,712	388	23%
Final Part I	33	17	52%	166	39	23%	512	163	32%
Final Part II	16	5*	31%	96	13*	14%	331	83**	25%
Final Part III	-	-	-	-	-	-	7	3*	43%
Total	91	35	38%	821	185	23%	2,562	637	25%

	1981-1985			Total 1966-1985		
	No. Presented	No. Passed	Per cent Passed	No. Presented	No. Passed	Per cent Passed
Intermediate	2,863	823	29%	5,176	1,357	26%
Final Part I	870	140	16%	1,581	359	23%
Final Part II	530	116	22%	973	217	22%
Final Part III	244	48*	20%	251	51	20%
Total	4,507	1,127	25%	7,981	1,984	25%

Notes:

1. Source: Compiled from Tables 3.1 and 3.2.
2. \* = Number of students successfully completing all the examination requirements of the Institute.
3. \*\* = The 22 students who successfully completed the Part II examinations between 1976 and 1979 were deemed to have completed all the examination requirements of the Institute. However, only five of the 61 who passed the Part II examinations in 1980 did so under the old regulations. The remaining 56 had to take Part III to complete the Institute's examination requirements. See 1976-1980 column of Table 3.1.
4. The total number of candidates that successfully completed all the examination requirements of the Institute is 96, i.e., 1966-70 (5), 1971-75 (13), 1976-80 (30), and 1981-85 (48).



profile of employment in the country shows a particularly small proportion of employment in the managerial, technical and supervisory grades. Yet these are the elements in the total labor force on whom the economy largely depends for leadership and guidance to achieve productive efficiency and sustained growth.

### Organization of Accounting Firms in Ghana

There are 50 accounting firms in Ghana. Forty-three of these firms have their main offices in Accra. Four have their main offices in Kumasi, one has its main office in Koforidua and two have their main offices in Takoradi. Only four of the 50 firms are foreign owned. Of the 46 firms owned by Ghanaians, 30 are sole practitioners. The names of firms with more than two practitioners are shown in Table 3.4.

TABLE 3.4 *Name and Origin of Accounting Firms with More than Two Partners*

Firm	No. of Partners	Origin
*Peat Marwick, Okoh & Co.	9	Foreign
*Coopers & Lybrand	9	Foreign
Pannell Kerr Forster & Co.	8	Foreign
*Deloitte Haskins & Sells	6	Foreign
Ayew, Agyeman, Turkson & Co.	4	Ghanaian
Tetteb Usher & Partners	4	Ghanaian
Oduro Adiyiah, Osei & Co.	3	Ghanaian

Notes:

1. \* Represents a "Big Eight" firm.
2. Almost all of the resident partners of the foreign firms are Ghanaians.
3. Of the 50 practicing accounting firms, only seven (14 per cent) have more than two partners. Four of the seven have a foreign origin. Each of the foreign firms in Ghana has at least six partners.
4. Of the 46 Ghanaian owned firms only three (6.5 per cent) have more than three partners. 65.2 per cent (30) of them are sole practitioners. 28.3 per cent (13) of them have two partners.

The way the Ghanaian-owned accounting firms organize themselves — sole practitioners — does not give room for much specialization, nor does it enable the firms to undertake large-scale engagements. The result is that the accounting market has been for a long time, and is still being dominated by the four foreign accounting firms with relatively large numbers of partners, international connections, and large amounts of capital. Ghanaians cannot forever rely on foreign accounting firms to execute most of their large-scale accounting duties for them. Ghanaian accountants must seriously consider pooling their resources and talents so as to enable them to

undertake some of the large-scale accounting engagements. Some foreign firms have accepted Ghanaian accountants as partners. This is a healthy attitude towards the development of accounting in Ghana, and it should be encouraged.

There seems to be an extreme centralization of accounting activities in Accra. This means most of the business firms outside Accra do not have direct access to professional accounting services. The few firms outside Accra that employ professional accounting services have to pay prohibitive expenses for the services. This is because, in spite of having to pay the normal professional accounting fees, the business firms must pay the cost of transportation, lodging and all other incidental expenses normally incurred when professional accounting staff leave their main cities of residence for other cities.

There have been instances where large numbers of accounting staff have been sent from Accra to Ashanti, Brong Ahafo, Volta Region and the Northern and Upper Regions to render professional accounting services at very high cost. These prohibitive expenses may discourage rather than encourage the public to seek accounting services and advice.

The acute shortage of qualified accountants in Ghana makes it difficult to have accounting firms in the other important cities in the country. One solution to this problem is to train the required number of people for the profession so that some qualified accountants can establish offices in the other important cities in Ghana. The extremely small size of accounting firms, however, makes it almost impossible for most accounting firms in Ghana to provide the training and educational facilities for their employees' professional development.

### **Problems and Repercussions of Shortfalls in Manpower Requirements**

The subject of accountancy education and training has been a major issue of concern for some of the governments in Ghana since independence. Amongst the most notable ones are the Nkrumah (1957 to 1966) and Acheampong (1972 to 1978) eras.

The Chartered Accountant's Act, 1963, gave formal legal recognition to accounting as a professional discipline. The Department of Commerce at the Kumasi college of Technology, and the School of Administration ushered in the era of recognizing accountancy as a subject for formal tertiary education in Ghana.

On May 24, 1974, the Government appointed a Committee to examine measures necessary for the establishment of a school for training accountants and allied professionals. The Committee recommended that a separate autonomous institution should be established in Accra starting in January 1974. This institution has not as yet been established.

The front page of the January 22, 1974 issue of one of the major government-owned daily newspapers in the country, *The Ghanaian Times*,

had the following headline "Train More Accountants." The first statement beneath the headline read:

Ghana needs an intensive recruitment of experienced professional accountants into the high echelon of the Public Services to redress the unduly late submission of accounts of state enterprises some of which are three or four years in arrears.

The above quotation was cited from general recommendations contained in a Report to the Government submitted by the Public Accounts Committee in January 1974. The Report recommended that a crash program be evolved for the training of more accountants in the country.

On January 31, 1975, the front page of *The Ghanaian Times* and the other government-owned major daily newspaper, *The Daily Graphic*, reported the Head of State's expressed concern for the need for a strong audit system in the public services. The Head of State, the late General Acheampong, asserted that a strong audit system was a prerequisite to ensuring effective financial control and administration in the country.

*The Legon Observer*, a bi-weekly journal published by the Legon Society on national affairs in Ghana, provided lengthy articles and discussions on the problems of accountancy education and development between 1973 and 1978.

Between 1966 and 1981, there were seven changes of government, two civilian (Busia and Limann), and five military (Kotoka/Afrifa, Acheampong, Akuffo, Rawlings and Rawlings). These frequent and erratic changes in governments have generally been accompanied by changes in government policies and priorities.

What has remained unchanged from 1966 to date (1989) is the inability to provide substantive solutions to the list of perennial accounting problems that has plagued the economy since independence. The problems include: shortage of qualified and competent accounting personnel; lack of integration of accounting systems with planning and budgeting systems; delayed preparation and auditing of accounting reports; use of methodologies which are not based on enacted financial administrative laws and regulations; absence of accrual and cost concepts in government accounting, absence of accounting standards and serious deficiencies in accounting education for development.

In addition to the above problems, there is a dire need for: research in accounting to adapt foreign accounting principles, practices and educational/instructional materials to suit local needs, the provision of adequate resources and facilities for accountancy education and training, measures to avert the problem of the brain drain of qualified accountants, and measures to recruit and retain qualified accountants in the public service.

A study in 1988 of the national expenditure monitoring and control systems in Ghana provided the following revelations. The Controller and Accountant General's Department is expected to be in charge of all

government accounts in the country. The Department had only one professionally qualified accountant on its staff, the Accountant General. The Auditor General's Department for the country had only two professionally qualified accountants — the Auditor General and one Deputy Auditor General. The Ministry of Finance and Economic Planning in the country did not have a single professionally qualified accountant on its staff.

As is to be expected, the quality of financial and economic management in the country provides as much room for improvement as has been the situation since independence.

### **Summary and Recommendations**

The Ghanaian economy experienced a protracted decline in the 1970s to the early 1980s. To arrest the precarious economic situation, a set of policy reforms, intended to reverse the economy's steady deterioration, was launched in April 1983 (Economic Recovery Programme). The key measures of the program include restoration of fiscal and monetary discipline, and encouragement of private savings and investment.

To achieve overall development, resources should be safeguarded, properly allocated and accounted for, and utilized efficiently. This requires the design, implementation and maintenance of effective and efficient accounting systems. It also requires research to adapt and establish accounting and auditing standards to cope with the subtleties of the Ghanaian local environment. These accounting and auditing systems, in turn require qualified and competent accounting personnel to operate, monitor and manage them.

Accounting provides financial and other information essential to efficient conduct and evaluation of activities of organizations. The information accounting provides is essential for effective planning, control and decision making, and for discharging the accountability of organizations to investors, creditors governmental agencies, tax authorities and the general public. Many of these may involve information and control techniques such as budgeting, cost control, profit planning, internal reporting and control, and making constructive suggestions on financial, tax, and other policy and operating matters.

Accountants have a distinctive role in examining financial statements submitted to investors, creditors and other interested parties, and in expressing independent opinions on the fairness of such statements. This distinctive role encourages a demand for the opinions of certified accountants on a wide variety of representations, such as compliance with rules and regulations of governmental agencies, compiling industrial and economic statistical data, management auditing, and on factual issues involved in litigation and accounting issues. The areas of attestation include furnishing reliable information to control government units, local government units, banks, insurance companies, charitable organizations, and providing information that would protect against dissipation of public funds.

The contributions expected from the accounting profession define the vast opportunities and responsibilities that lie ahead of the profession in Ghana. These opportunities and responsibilities require a special type of education/training for prospective accountants. The type of education/training needed has been identified and discussed by various government committee reports and the news media. However, most of the major recommendations have not been acted upon.

Accounting discipline and practice have assumed an extremely broad perspective and become highly conceptualized and interdisciplinary in nature. Current accounting practice involves more policy and managerial issues and interaction with other professional disciplines than used to be the case a generation ago. These trends reinforce the need to sharpen and consolidate higher education and training policies in accounting in Ghana.

Accountancy education is currently provided by secondary/commercial sector, polytechnics and the universities in Ghana. None of these institutions or levels provides terminal professional education/training in accounting. Students in major professional disciplines, such as law, medicine, and engineering, have specially established professional institutions devoted entirely to providing such students with terminal academic qualifications required for professional certification. Furthermore, these professions require a university degree as the minimum entry qualification.

If the Ghanaian accounting profession wishes to sustain its claim as being comparable to other major professions, then the minimal pre-entry formal education requirements must be revised to conform with those of comparable professions. This implies that the Ghanaian Institute should aim at making a university degree the minimum pre-entry qualification to the profession. It also indicates the need for the revision of curricula and syllabi at the professional level, and incorporating formal requirements on continuing professional education.

Finally, in fairness to the accounting profession, and in the interest of Ghana, the recommendation is reiterated that the Government seriously considers establishing an autonomous educational institution to provide accounting personnel with terminal academic qualifications required for professional certification.

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# Accounting Education and Certification in Ghana

KWABENA ANYANE-NTOW

## Section I: The Economy of Ghana

The Republic of Ghana lies almost in the center of the countries along the Gulf of Guinea on the west coast of Africa. From the coast the country extends inland to about latitude 11 degrees, north, covering a distance of 420 miles or 840.42 kilometres from south to north. The distance across the widest part from east to west measures about 335 miles or 501.05 kilometres, and the coastline on the south stretches for a distance of about 350 miles or 571.55 kilometres. The country covers a land area of 92,100 square miles or 239,460 square kilometres.

The population of Ghana has been increasing over the years. The population as indicated by the 1970 Population Census was 8.5 million, an increase of 27.7 per cent over the 1960 figure of 6.7 million. The current population of Ghana is estimated at 12 million.

A substantial sector of the economic activity in Ghana is agricultural. This is broadly defined to include livestock, fisheries and forestry, and accounts for more than 40 per cent of the gross national produce (GNP). It provides employment for 60 per cent of the labor force, and accounts for 70 per cent of export earnings. Cocoa is by far the most important crop in the country.

Since the attainment of independence from British Colonial rule on March 6, 1957, Ghana has been transforming the foundation of its economy from traditional agriculture and trade into modern industries. The industrial sector produces a wide range of raw materials and finished consumer and capital goods. Some of the major manufacturing plants include automobile assembly plants, steel plants, aluminum processing plants, milk processing plants, textile manufacturing plants, breweries, boat yards and an oil refinery. The manufacturing sector of the Ghanaian economy comprises the private sector, the joint private and public sector, the public sector and the cooperative sector. Several of the manufacturing plants are privately owned.

## **Marketing and Distribution Services**

Distribution is one of the most important aspects of the Ghanaian economy. Most agricultural products, with the exception of cocoa and lumber, are mainly distributed by small scale private farmers who, after harvesting, transport them to local agricultural markets. In most rural markets the sellers are the direct producers of the crops, and the buyers are the ultimate consumers. Practically all Ghanaian small farmers keep all the accounts of their operations up to the point of sale in their heads, and most of the accounting is strictly on cash basis. Very few, if any, keep any form of bank accounts. It is presumed that a major factor promoting this "non-recorded" cash accounting is the inadequacy of banking facilities in the agricultural sector of the Ghanaian economy.

Most of the urban middlemen keep bank accounts. However, it is doubtful whether they keep any system of accounts other than in their heads and on cash basis.

Locally manufactured goods are usually shipped to wholesalers or bulk dealers such as the Ghana National Trading Company, the United African Company and the Union Trading Company in Ghana. The ultimate consumers in urban areas may obtain their goods from department stores or the market women. However, the consumers in the rural sectors are served predominantly by middlemen who obtain their goods from market women. Like the local farmer-distributor, most Ghanaian market women keep their accounts on cash basis and in their heads. They have the unusual ability to recall complicated accounts from memory at will and on demand. Very few of them, including those in the urban areas and in the cities, keep any regular bank account.

## **Sociological Aspects of Business in Ghana**

Retail distribution is largely in the hands of Ghanaians. There is, however, a problem of continuity of operations. The Ghanaian distributive concern is usually unincorporated and tends to exist for only a generation, with the stock-in-trade being divided amongst family members on the death of the founder. Thus an otherwise prosperous or flourishing business may be prematurely liquidated (Gower, 1961). This and the inability or unwillingness to keep proper accounts are major obstacles in the development of Ghanaian distributive enterprises.

Another relevant aspect of Ghanaian business enterprise is the acute shortage of accountants. Perhaps the most important sociological factor that ought to be borne in mind is that most business affairs are generally conducted in secrecy in Ghana. Rather than relying on their clients' financial statements in which they have little confidence, financial institutions emphasize other factors, such as reputation and personal knowledge of the managers of borrowing enterprises, substantial security pledged in the form of personal property and credit investigations in the granting of loans.

## **The Accounting Profession in Ghana**

The present Chartered Accountancy body in Ghana requires a very high level of accounting competence for admittance to membership. Only a few Ghanaians have qualified as chartered accountants since the inception of the professional body in Ghana. There is a great need for accounting education to be geared towards national needs. Local manuals and texts, based on requirements and needs in Ghana, still have to be developed. The professional body in Ghana does not publish material to help either the public or their members. It does not provide leadership in the areas of accounting pronouncements or the discussion of procedures that are considered beneficial to the various sectors of the economy. The main function of the body seems to be that of setting examinations, without providing the necessary educational materials that lead to successful completion of these examinations and the adequately functioning of qualified accountants.

## **Accounting Education in Ghana**

Accounting training and practice in Ghana are largely patterned after British concepts. Accounting in Ghana is companies code-oriented, dating back to the 1948 British Companies Act. In 1961 a report was prepared to deal with the administrative law in Ghana; and this report has become the basis for company law activities in Ghana.

There are four main means of attaining the status of an accountant in Ghana:

1. Through promotion on the job to the post of an accountant. Most people in this category have had no formal educational or professional qualification in accounting.
2. Through courses in foreign institutions and by serving an articleship (apprenticeship) with overseas firms.
3. Through correspondence courses overseas while working in Ghana and subsequently passing the examinations of the overseas professional accounting bodies or the Ghana Chartered Accountants Examinations; and
4. Through formal education at the University of Ghana's School of Administration, and other professional accounting schools, and passing the examinations of the overseas professional accounting bodies or the Ghana Chartered Accountants Examinations (only the final part is required at this level).

At present the Auditor-General's department and many technical institutes in Ghana offer training for sub-professional groups of bookkeepers, and accounting and auditing assistants. Beginning and intermediate accounting courses are offered in the commercial and technical schools by



private firms in Ghana that train students to serve as accounting clerks in these firms, and by educational institutions, government agencies and departments.

### **Accounting Education at the Secondary School Level**

Accounting is taught at both the General Certificate of Education (GCE) Ordinary and Advanced levels in Ghanaian Secondary Schools. The main objective of Accounting education at this level is to equip candidates with a knowledge of the principles of accounts and their application in the preparation of accounting information needed in modern business. The School Certificate/GCE Ordinary level accounting course is a prerequisite for the Advanced level course. The courses are categorized into: 1) theory of financial accounting and costing and 2) financial accounting. (See Appendix 4.1 for detailed syllabus). Students have to pass a general examination in accounting, administered by the West African Examination Council.

### **Undergraduate Accounting Education in Ghana**

Between 1952 and 1962, undergraduate accounting education was offered by the Commerce Department of the University of Science and Technology in Kumasi. The department mainly prepared students for the examination of the Association of Certified and Corporate Accountants (ACCA), the Chartered Institute of Secretaries (CIS), both of England. The course was of five years' duration. The success rate was very low. There were eight passes out of 195 candidates.

The Department of Commerce of the University of Science and Technology was replaced with the School of Administration at the University of Ghana, Legon, in 1962.<sup>1</sup> A three-year bachelor of science degree in business administration (BSc) was offered (see Appendix 4.2 for degree syllabus). Holders of the BSc (Administration) degree are eligible to sit for the final part of the professional accounting examinations (see Appendix 4.3 for examination breakdown). Reasons for transferring accounting education to the University of Ghana include the following:

1. to integrate accounting education into the University curriculum;
2. to provide accountancy students with sound broad university education; and
3. to enable students to adequately prepare for the professional examinations of the Institute of Chartered Accountants within three years.

<sup>1</sup> There is a Department of Commerce at the University of Cape Coast. The purpose of establishing this department was to produce teachers to teach accounting and other business related subjects in second cycle institutions.

The BSc (Administration) Degree is awarded to candidates who obtain the necessary standard in the degree examination and complete the 3-year full-time study at the University or satisfy such residential qualification as the Academic Board may consider appropriate.

The course is divided into three parts, leading to the following major examinations:

- (a) First University Examination in Administration (FUE Administration)
- (b) BSc (Administration) Part I
- (c) BSc (Administration) Part II

### ***First University Examination in Administration***

1. Unless exempted, all students who wish to pursue courses leading to the BSc (Administration) Degree examination are required to pass the First University Examination in Administration.
2. Before admission to the First University Examination in BSc (Administration), a candidate must:
  - (a) have satisfied the minimum entry requirements for admission to the BSc (Administration) Degree course, and
  - (b) have subsequently pursued an appropriate course of study at the University extending over not less than one academic year.

The minimum entry requirements are as follows:

- (i) Five General Certificate of Education (GCE) 'O' Level passes including English Language and Mathematics; and
- (ii) Three GCE 'A' Level passes and a pass in General Paper on Africa.
3. Successful completion of the First University Examination is a prerequisite for admission into the BSc Part I program.

### ***BSc (Administration) Part I***

1. To be admitted to Part I of the BSc (Administration) Examination, a candidate must:
  - (a) have passed the First University Examination in BSc (Administration) or its approved equivalent, and
  - (b) have subsequently pursued an appropriate course of study at the University for not less than one academic year
2. ***Reference from Part I Examination***

A candidate who fails to satisfy the Examiners in one subject in the Part I of the BSc (Administration) Examination may, at the discretion of the Examiners, be referred in that subject, and be permitted another examination in that subject when taking the Part II Examination.

3. A candidate who has completed an appropriate course of study at the University and who has failed to satisfy the Examiners in the Part I

Examination may be re-admitted to the Examination at the end of the following academic year.

At the discretion of the Academic Board, such a candidate may or may not be permitted to remain in residence while preparing for the examination.

### ***BSc (Administration) Part II***

To be admitted to Part II of the BSc (Administration) Examination, a candidate must:

- (a) have passed the Part I Examination, or have been referred and
- (b) have subsequently pursued an appropriate course of study at the University extending over not less than one academic year.

A candidate who fails to satisfy the Examiners in the Part II Examination may, with the approval of the Academic Board, be re-admitted to the Part II Examination at no more than two of the four subsequent examinations.

### ***Exemptions from Professional Examinations***

#### ***1. ACA (Ghana)***

BSc (Administration) degree graduates who have taken certain specified electives in the Accounting area may be exempted from the Intermediate examinations of the ACA (Ghana).

#### ***2. ACCA (UK)***

The ACCA may also exempt students who have taken certain electives in the Accounting area, from Sections A and B of their foundation examinations.

### ***Graduate Education in Accounting***

The master in business administration (MBA) program at the University of Ghana offers a concentration in accounting. To be admitted into the program a candidate must have an undergraduate degree from a recognized university. In addition, candidates are expected to have adequate quantitative background since several of the courses are quantitatively biased.

The MBA Program is a flexible two-year program offered in two parts to three categories of students, defined as follows:

#### ***1. Students without Business and/or Management Related Background***

Part I will cover courses which deal with fundamental concepts, tools, skills and concerns of management.

Part II is made up of two core courses and of four other courses in an area of specialization. Students are examined in 12 courses, six at the end of each year plus a thesis in the second year.

2. *Students with Business or Management Related Background Interested in Pursuing Careers in Industry or Commerce*

Exemptions are granted from the Part I course described above for students with Management or related background. Such students are required to substitute some Part II courses for Part I courses in order to fulfil the examination requirement.

Part II is made up of two core courses and four *other* elective courses from an area of specialization.

Students are examined in 12 courses. Six at the end of each year plus a thesis in the second year.

3. *Business or Management Related Background with Academic and Research Career Interest*

Part I is made up of two core courses and four other courses from an area of specialization in Part II. Students are examined in six courses at the end of the first year.

Part II is devoted to research and thesis, the length of the latter is prescribed in the General Regulations of the university.

The courses in Accounting concentration are as follows:

***MBA Part I***

***A. CORE COURSES***

1. Administrative Science and Business Law.
2. Financial Accounting and Quantitative Methods.
3. Micro/Macro Economics and Behavioral Science.

*Accounting Option*

1. Auditing and Taxation.
2. Cost Accounting.
3. Marketing.
4. Business Finance.

***MBA Part II***

***A. CORE COURSES***

1. Advanced Business Policy and Strategy.
2. Management Information Systems and Research Methodology.

*Accounting Option*

1. Advanced Accounting.
2. Management Accounting.
3. Accounting Theory.

4. Auditing and Investigations.
5. Public Sector Accounting.
6. Financial Institutions.
7. Investment Fundamentals.

### ***Accounting Educators***

A majority of Accounting educators in Ghana have Master's degrees from either Britain or the United States. Only a few are either certified public accountants (CPAs) or chartered accountants (CAs). Those with professional certification usually either work in industry or practice on full time basis and teach only part-time. One usually finds one or two PhDs in accounting in Ghana in any one academic year. Research and publication are minimal and need encouragement and support. There are few accounting or accounting-related journals in Ghana, and few textbooks that are based on local socio-economic and industrial environments.

### **Continuing Professional Education**

#### ***Accounting Publication and Research***

The accounting profession in Ghana has one professional journal. The Ghanaian Institute publishes a limited number of educational materials to help candidates to prepare for the professional examinations. The academic community in Ghana does not have a specialized accounting journal at the present time.

There is minimal ongoing research in Ghana. The outlet for most research results are presented in the Journal of Management Studies, published by the University of Ghana. Almost all textbooks are foreign.

There is no formal professional continuing education in Ghana for accountants once they have completed their formal accounting education. The Ghana Institute of Chartered Accountants plays a major role in the education and certification of accountants in the country.

To practice as an accountant in Ghana, professional certification, designated as the Ghana chartered accountant, is required. The professional examinations in Ghana are conducted by the Ghana Institute, which basically prepares the syllabus for the examinations, proctors and grades the examinations, and publishes the results twice a year (see Appendix 4.4 for previous examination results.)

### **The Challenges Facing the Future Accounting Education and Certification as well as the Profession in Ghana**

Until the 1970s, accounting education in Ghana was a carbon copy of the British (ACCA/CA) models, mixed with small doses of American

accounting principles. Most of the textbooks were and still are written by British and American authors. Thus accounting concepts being taught in the Ghanaian educational institutions relate more to British and American economies than the Ghanaian one.

Because of the low faculty-student ratio, coupled with inadequate research funds and support, faculty research output has been very low. The Ghanaian accounting student is therefore intellectually malnourished in terms of relevant accounting knowledge. This is evidenced by the fact that only 145 out of a total of 9,636 candidates have passed all parts of the CA examinations and have become certified in Ghana since 1966 (see Appendix 4.4).

The future of the accounting profession in Ghana depends upon relevant accounting education, and adequate professional training for its members and prospective members. For accounting education to be relevant and adequate enough to support the professional responsibilities required in the environment there must be adequately qualified accounting educators in the educational system. At present, the Ghanaian institutions do not offer terminally qualified education in accounting. The Ghanaian universities should consider offering terminally qualified accounting programs to increase the supply of accounting educators in the country. This will require the injection of additional resources into the educational system.

The accounting practitioners and those in academia should corroborate to encourage their colleagues to produce more textbooks with local emphasis. The accounting profession in Ghana should assume a leadership role in publishing educational materials, accounting publications on relevant local accounting related issues and providing continuing education programs for its members. It should develop and publish adequate up-to-date study materials to enable prospective CA examination candidates to pass the examinations.

Perhaps the single most important challenge facing the accounting profession and the education of accountants in Ghana today is to adapt the educational process to respond to the unique environmental needs of the Ghanaian economy by producing locally trained educators with terminal qualifications and materials (e.g., textbooks, journals, etc.) that emphasize local conditions.

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# General Certificate of Education (GCE)

## **Accounting (Advanced Level) for Ghanaian Secondary Schools**

### ***Detailed Syllabus***

#### ***Paper 1: Theory of Financial Accounting and Costing***

Accounting theory: accounting equation; generally accepted principles of accounting; net profit (income) concepts; valuation of stock and work-in-progress; theory of price-level changes and the impact on accounting statements. Depreciation and goodwill. Interpretation and analysis of accounts including ratio analysis and funds flow statement. Accounting business/information systems: knowledge of various accounting processing systems-manual, mechanical and electronic data processing. Cost Accounting: Basic principles of cost accounting-elements of costs, various costing methods. Budget-uses and limitations.

#### ***Paper 2: Financial Accounting***

Partnership accounts: the law relating to partnership accounts (Partnership Act, 1890 as amended in the respective country of the candidate); admission of partners; appropriation of profits and dissolution of partnership.

Joint stock (limited liability) companies; law relating to the accounts of joint stock (limited liability) companies; formation; profits prior to incorporation. Classes of shares and debentures; issue of shares; premiums and discounts on shares; shares of no par value; treasury shares; reserves and dividends. Redemption of redeemable preference shares; redemption of debentures. Correct form and presentation of company accounts. Treatment of taxation in company accounts. Purchase and sale of business by a company.

Miscellaneous accounts: departmental and branch accounts; accounting for hire purchase transactions and instalment sales. Treatment of bills of exchange in accounting; consignment and joint ventures; royalties. (Questions involving the use of foreign exchange will not be set.)



APPENDIX 4.2

## Syllabus for BSc (Administration degree (University of Ghana))

### Year One

		No. of Credit Hours
<i>1st Year BSc (Administration) [F.U.E.]</i>		
<i>Core Courses</i>		
ADM 100	Economics: (a) Elements of Economics (b) Introduction to the Economy of Ghana	6
ADM 102	Fundamentals of Accounting	6
ADM 103	Commercial Law	6
ADM 104	Principles of Management and Business Communication	6
ADM 105	Introduction to Public Administration	6
		<hr style="width: 100%; border: 0; border-top: 1px solid black; margin-bottom: 5px;"/> 6
		36
 <i>2nd Year BSc (Administration) Part I</i>		
<i>Core Courses</i>		
ADM 200	Managerial Economics	6
ADM 201	Human Behavior in Organization	6
ADM 202	Quantitative Methods and Statistics	6
ADM 203	Introduction to Computer Science and Research Methods	6
Plus 2 (Two) Electives/Concentration		<hr style="width: 100%; border: 0; border-top: 1px solid black; margin-bottom: 5px;"/> 6
		24
 <i>3rd Year BSc (Administration) Part II</i>		
<i>Core Courses</i>		
ADM 300	Policy Analysis	6
Plus 5 (Five) Electives/Concentration		<hr style="width: 100%; border: 0; border-top: 1px solid black; margin-bottom: 5px;"/> 6
		12

### *Core Courses*

The Core Courses are compulsory to all students regardless of their area of intended specialization.

*Accounting Education and Certification in Ghana*

*Elective Courses in Accounting*

A minimum of five elective courses are required for Accounting specialization.

ADM 401	Intermediate Financial Accounting	6
ADM 402	Advanced Financial Accounting	6
ADM 403	Auditing Principles and Standards	6
ADM 404	Taxation	6
ADM 405	Cost and Managerial Accounting	6
ADM 406	Public Sector Accounting	6
ADM 407	Health Care Accounting and Control	6
ADM 433	Company Law	6
ADM 418	Business Finance	6

Required = 30

Students wishing to major in accounting must take ADM 401 and 433 as Part I.

Students are expected to obtain a minimum of C in every subject to pass any part of the course.

## Chartered Accountants Examination of the Ghanaian Institute

- Part I: Entrance Examination
  - Elements of Accounting
  - English
  - Logic and Elementary Business Mathematics
  - General Commercial Knowledge and Economics
- Part II: Intermediate Examination
  - (a) Accounting
    - Accounting and Elements of Income Tax Law
    - Cost Accounting
    - Auditing
  - (b) Mercantile Law, Company Law and Industrial Law
    - Business Mathematics and Statistics
    - Organization and Management
- Part III: Final Examination
  - (a) Advance Accounting
    - Financial Management
    - Auditing
  - (b) Company Law
    - Direct Tax Laws
    - Economics and National Accounting

APPENDIX 4.4

## Number of Candidates Taking and Passing the Ghana Chartered Accountants Examinations 1966–1989

Date	Intermediate Exam		Final Exam Part I		Final Exam Part II		Final Exam Part III	
	Total Candidates	Candidates Passing	Total Candidates	Candidates Passing	Total	Passing	Total	Passing
1/89	889	189	314	35	181	4	46	1
7/88	1,009	285	324	56	161	10	43	7
1/88	757	248	270	88	102	15	44	12
7/87	701	234	290	45	85	7	50	11
1/87	416	142	236	43	67	15	48	18
7/86	489	167	200	34	53	20	52	24
1/86	199	106	126	26	48	13	54	21
1966–85	5,176	1,357	1,581	359	973	217	251	51
<b>Total</b>	<b>9,636</b>	<b>2,728</b>	<b>3,341</b>	<b>686</b>	<b>1,670</b>	<b>301</b>	<b>588</b>	<b>145</b>

# Accounting Education in a Changing South Africa: The Challenges of the Future

SIDNEY H. WEIL AND DAVID B. L. MOLTENO<sup>1</sup>

## Introduction

South Africa today is partially a highly developed, technologically advanced, mining-based economy, but is also still, in many respects, an agricultural, underdeveloped nation. It is a country in the process of economic development, with increasing manpower needs, especially in respect of skilled and semi-skilled labor. This is also true of the accounting profession, which expects a large shortage of chartered accountants by the year 2000.

This economic change has resulted in dramatically increasing numbers of black South Africans being drawn into the industrial sector of the economy, with accompanying social changes. In addition to these socio-economic changes, political change is taking place in South Africa, and will continue to do so.

In this scenario of a rapidly changing South Africa, the implications for education are profound.

“Significant changes will take place and these will not only be of a structural nature but will be fundamental and far reaching in their consequences, especially for education and tertiary education in particular.” (Seneque, 1987)

This is also true of accounting education, particularly as black student numbers in accounting have increased considerably in recent years (Mehl and Weil, 1987). At the very least, the educational aspirations of these students will have to be met.

<sup>1</sup> The authors express their gratitude to Geoff Everingham of the University of Cape Town for his perceptive and helpful comments.

This paper proposes to trace the development of the accounting profession in South Africa, and to critically assess both existing structures and pedagogues, as well as recent innovations by the profession and other interested parties.

The accounting profession in South Africa has recognized the changes taking place, and consequently recent years have seen the birth of several organizations, which are addressing some of the issues involved.

## **Development of the Accounting Profession in South Africa**

### ***I. The Profession***

a. Structure: The development of accounting in South Africa has closely followed the growth of the profession in Great Britain. Until 1950, the profession functioned as a loose federation of four provincial bodies, under the aegis of the National Council of Chartered Accountants. In 1950, consensus was reached between the four provincial associations, leading to the establishment of the Public Accountants' and Auditors' Board (PAAB), by Act of Parliament, in 1951. In terms of the Public Accountants and Auditors Act (No. 51 of 1951), the PAAB comprises 14 members, made up of 7 members appointed by the profession, 2 by the universities and 5 by the government.

Chartered accountants wishing to enter public practice must register with the PAAB. Apart from the entry, registration and regulation of these members, the PAAB also has responsibility for the administration, establishment, control and monitoring of rules and regulations for the practical and academic training of prospective accountants. In this latter capacity, the Board, via its Education Committee (EDCO), is responsible for the conduct of the Qualifying Examination, the prerequisite to become a chartered accountant.

In 1980 the South African Institute of Chartered Accountants (SAICA) was established, replacing the National Council. The institute serves as a coordinating body of the four regional societies, looking after the interests of its members, who comprise all chartered accountants in South Africa, not merely those in public practice. The council of the SAICA comprises 16 members, 14 from the ranks of members in public practice and 2 from commerce and industry.

b. Reporting Requirements and Standard Setting: Financial reporting requirements for companies in South Africa are governed by the Companies Act, No. 61 of 1973, as amended. Section 286 (3) reads as follows:

“The annual financial statements of a company shall, in conformity with generally accepted accounting practice, fairly present the state of affairs of the company and its business as at the end of the financial year concerned and the profit or loss of the company for the financial year. . . .”

The Companies Act also sets out (in schedule 4) the minimum disclosure requirements for the preparation of annual financial statements of companies.

Responsibility for the setting of standards, by way of statements of Generally Accepted Accounting Practice, is shared jointly by the PAAB and SAICA. Statements are developed by the Accounting Practices committee of the Institute, and submitted for approval, after exposure to the profession and other interested parties, to the Accounting Practices Board. Similar procedures exist for the development of auditing standards.

c. Continuing Professional Education (CPE): Accountants in public practice are expected to update their knowledge continually, although CPE has not yet been made mandatory. The institute recommends a total of forty CPE hours annually, following the lead of the Scottish Institute. Commitment to CPE varies within the profession, but the tendency amongst international firms has been to comply with that organization's international policy. One such firm requires a rolling average of 120 CPE hours over a three year period. This follows from the minimum mandatory United States requirements.

## **II. Educational and Training Requirements for Aspirant Chartered Accountants**

a. Entrance Requirements to the Qualifying Examination: To be allowed to write the Qualifying Examination, a student must have passed the Certificate in the Theory of Accountancy (CTA), or the equivalent degree. The route most commonly followed by the students is that of a full-time (three years) Bachelor's Degree. Part-time study will usually encompass a longer period, and is seldom completed in less than five years.

On completion of the CTA, a student is expected to have an in-depth knowledge of auditing, financial accounting, business information systems, managerial accounting and financial management, and taxation (specified by EDCO), and a working knowledge of other disciplines such as economics, commercial law, statistics and business economics. The CTA, thus, is designed to produce a high degree of specialization, with some exposure to other related disciplines.

Before commencing university studies, an entrant must have a matriculation exemption certificate (comprising twelve years schooling), with a satisfactory pass in mathematics. Accounting as a school subject is not a prerequisite for university study, but a substantial number of accounting students at university have had some exposure to accounting at school.

b. The Qualifying Examination: Prior to 1950, accounting education was provided by correspondence schools, technical colleges or universities, and, since 1921, examinations conducted by the General Examining Board. In 1950 the provincial societies and the universities agreed to coordinate the education of accounting students, thereby creating a close interface between the profession and the universities. Thus, in 1951, the university Training Scheme came into being, providing, "... (b) that the universities would provide courses covering the subjects required by the General Examining Board and would maintain a minimum standard and syllabus

content . . .” (Noyce, 1954, pp. 15). The General Examining Board of the profession would drop all its examinations except for the final Qualifying Examination. In 1957 the PAAB took over from the General Examining Board. To ensure uniformity in meeting the objectives of the University Training Scheme, a system of accreditation for universities, granting them permission to teach the CTA (or equivalent qualification), was subsequently introduced. Fourteen universities are currently accredited.

A comprehensive review of the syllabi by the profession led to the publication of the common body of knowledge (COBOK) requirements in 1969 (National Council of Chartered Accountants, 1969). A major review of COBOK was carried out through the Education Requirements Committee (ERCOM) of the PAAB, and published, in final form, in 1986.

Responsibility for the setting of the examination is vested in the Education Committee of the PAAB. The examination is written annually and is comprised of three four-hour papers, written on three consecutive days. Papers I and II concentrate on financial and managerial accounting, financial management, and taxation. Paper III covers auditing and business information systems.

The questions are semantically rich, designed to test students’ abilities to reason and to discuss. No objective testing is done.

The success rate for the Qualifying Examination is of the order of 45 per cent to 55 per cent.

c. Practical Training Requirements: Before being allowed to register as a chartered accountant, an aspirant needs to undergo a period of practical training. This training, which is conducted in terms of a specific contract called “Articles of Clerkship”, takes place in the experiential environment of a firm of practitioners whose training facilities must meet the requirements of the SAICA/PAAB.

The contract of the articles is either for a period of three years (for graduates) or five years (for non-graduates). In addition, a non-graduate may qualify for a remission of one year of the service period, if he/she completes a degree during the period.

Prior to the 1980s, students could not write the Qualifying Examination before the elapse of one half of the period of articles. This has changed to enable students to take the examination as soon as they sit for articles.

## **Responding to the Challenges of the Future**

It is clear from the previous section, that the present structure of the profession and the teaching of accounting in universities has served well in producing what was seen as being needed for accounting: highly specialized, first-world orientated, accountants. This population has been drawn predominantly from the privileged sector of the population.

The perception, however, of these accounting needs is changing. There is a realization, both within academic circles, and, to a lesser extent, within the profession, that the system of professional organization and education



as it presently stands, is not able to meet the future economic, societal and business needs of a changing South Africa.

This section of the paper will assess, whether the accounting educational system will be able to produce enough accountants to meet the expected demand from the profession and the business sector, and whether the skills these new accountants will need are at present being provided.

### ***1. Meeting the Manpower Shortage***

Predictions indicate an acute shortage of about 12,000 chartered accountants by the year 2000, meaning that the present number of accountants will have to be doubled in just over a decade (Surtees 1988). This shortage of accountants is being exacerbated by the high emigration levels of newly qualified South African accountants, and the reluctance of foreign accountants to come to this country on a contract basis as they have done in the past.

The need to replenish diminishing numbers and also to provide for rapid growth, is an enormous challenge to the profession, and steps will have to be taken to encourage more people into accounting. Furthermore, changes will have to be made in the educational system to cope with the massive increase in students this recruitment drive could result in.

a. Increasing Accounting Student Numbers: The accounting profession has recently begun to take some steps to rectify the situation. It has realized that the position is getting worse and that this trend will increase as the country's population and economy grows, and that the profession needs to expand the sources of recruitment to ensure an equilibrium between supply and demand for accountants. "The Institute therefore takes the view that it cannot sit idly by and wait for things to happen; it must become proactive now if we are to avoid problems in the years that lie ahead. There is always the danger that history will show we did too little too late" (SAICA (A), 1988, p. 67). The profession has thus increased its promotional and recruitment campaigns in the high schools, in the press and in the universities themselves.

The most obvious source of new accountants, however, has not yet been tapped; namely that the black majority of the country, which comprises some 75 per cent of the population. At present, black participation in the managerial and professional sectors of the economy is negligible and less than twenty of South Africa's total 12,000 chartered accountants are black. The profession and other interested parties have seen the need to encourage more blacks to enter the profession, and have recently made greater efforts towards increasing their numbers.<sup>2</sup>

<sup>2</sup> In South Africa, government legislation classifies the population of the country into four "groups" in order to facilitate the apartheid system: white, black, colored and Asian. These designations have been used in this sense in the paper. The profession, however, does not keep records on a racial basis.

(i) The Association of Black Accountants of Southern Africa: In November 1985 the Association of Black Accountants of Southern Africa (ABASA) was founded with the intention of encouraging blacks to become accountants, to help them in furthering their professional careers, and to bring about change in the predominantly white profession. "The aim" of ABASA, says van Rooyen, "is to narrow the gap between white and black accountants in this country" (The Business Magazine, 1988, p. 13).

ABASA has highlighted the many difficulties that black accountants face.

"There are many whites who view us as lacking drive, ambition and the ability to meet the high standards required within the profession. They cite inability to communicate, diffidence, cultural shock, poor economic background and late-coming and poor education, as some of the reasons why blacks are left behind in the rat race" says ABASA'S Executive Director, Mashudu Ramano (The Business Magazine, 1988, p. 12).

There are approximately 250 colored and Asian chartered accountants in South Africa (Ramano, 1988) and they participate to a much greater extent than blacks in the white collar sectors of the economy.

Some of these factors as to why blacks have failed to gain a foothold in the accounting profession are valid, especially the poor schooling, manifested by inadequate facilities and under-qualified teachers in the black school education system, as well as a dearth of black accounting graduates. Perhaps, however, it is the subtle and covert racism, an attitude ingrained in whites by a society conditioned by decades of enforced racial segregation, that is the hardest hurdle for a black neophyte accountant to overcome.

Many white accountants have difficulty attributing these low numbers to racism and the stereotypes they hold of inherent black inferiority (Romano, 1988), and hide behind the claims of negative client attitudes towards black accountants, or the apartheid laws of the land (Van Greuning, 1987). The difficulty for blacks is compounded in that they often unconsciously internalize this negative perception of themselves and their abilities (Romano, 1988 and Van Greuning, 1987).

The majority of accounting firms have less than one per cent of blacks in their professional staff, although in some firms and offices the percentage is higher, notably in the black homeland areas of the country. There are no black managers or partners in any of the large accounting firms either (Van Greuning, 1987). There are however a number of colored and Asian accounting partners and managers.

The situation, with respect to blacks, is gradually changing. For instance, ABASA has been recognized by, and has formalized links with the SA Institute of Chartered Accountants; this has resulted in the development of accounting knowledge and skills at all levels. To further this objective, ABASA has opened a training center for students, and is sponsoring the tuition of a number of students.

Furthermore, it has been instrumental in setting up, with the help of the profession and the business leaders, the Eden Trust.

(ii) The Eden Trust: The Eden Trust was formed in 1987 with the major

objective being to “assist black advancement by providing the financial, educational and employment opportunity resources for there to be no less than 1500 but more likely up to 2000 black chartered accountants by the year 2000” (Eden Trust, 1988). This is to be financed by R12-million, set aside from the target figure for the fund of R20-million. This program hopes to increase black participation in the profession to 10 per cent of the total membership by the end of the century.

(iii) The Voluntary Employment Code: The Institute has tried to further the above goal by introducing a Voluntary Employment Code, under which firms undertake not to discriminate against any employee, and to recognize that blacks, who start from a disadvantaged background, need encouragement, support and opportunities to realize their potential. This support will be achieved through a system of mentors, where each trainee will be personally guided by an experienced person who will assist the trainee through his/her career in the firm, taking into account his/her political thinking, cultural background and the existing social and political climate (SAICA (B), 1988). Furthermore, firms which accept the Code will undertake that their annual intake of articled clerks will comprise at least ten per cent who are black trainees within three years of adopting the Code.

These steps by the profession are praiseworthy, but unless they are internalized and taken to heart by white accountants, they will have little effect if racial prejudice continues (Seneque, 1987). Fundamental changes in the psychological attitudes of white accountants, and not just in the structure of their profession, are needed.

b. Existing Problems in Accounting Education: Assuming that the accounting firms are committed to accepting this large number of new recruits, both black and white, into the profession, two issues need to be addressed. Firstly, where are these recruits to get the necessary education, and secondly, how suitable is this education.

(i) Available Educational Facilities: The Universities presently accredited by the PAAB already have more student applications than they can cope with. In addition, most universities are under-staffed. The present accounting education system will not be able to cope with the projected increases in student numbers.

Due to the low level of university lecturers' salaries, there is a severe shortage of accounting teachers at tertiary level, although the profession is trying to increase its annual salary subventions to the universities to alleviate this problem.

A scheme designed to increase the number of accounting lecturers, and to encourage chartered accountants to return to the academic world, was introduced in 1988 by the PAAB. This so-called “academic articles” system, whereby a restricted number of university graduates spend the first year of their articles lecturing and doing research at a university before completing the final two years of practical training at an accounting firm. This system is on a five year pilot plan, and its success or failure in increasing the number of accounting lecturers is yet to be seen.

Further, in regard to coping with increasing black student numbers, only two of the fourteen accredited universities are so-called "black universities" (which admit predominantly colored and Asian students), although the "white universities" do admit gradually increasing, but as yet minimal, numbers of black students (e.g. at the University of Cape Town, black students in 1988 comprise around 7 per cent of the total student population). This low intake at "white universities" is more a function of their high intake requirements, as well as low standards of black education, rather than a manifestation of direct discrimination. Increased facilities for black accounting education will still, however, somehow have to be made available.

(ii) **Low Success Rates:** The drive to increase student numbers is further hampered by the fact that the chances of accounting students managing to complete their university degrees are extremely low. Only about one out of four who start will have the opportunity of writing the Qualifying Examination. The success rate of black accounting students is even lower (Mehl and Weil, 1987). The accounting profession is, however, loathe to lower the high standards set for entrance into the profession, for fear of losing the high regard in which South African chartered accountants are held both locally and internationally. Measures will thus have to be introduced to give underprivileged students support, if they are to stand a reasonable chance of success.

## ***II. Accounting Education and Skills for the Future***

The question of what skills and knowledge an accountant needs is also being addressed by accounting educators.

a. **Present Content of Accounting Education:** The syllabus prescribed by the profession concentrates on specialized technical skills. It has been suggested, however, that a broader education would be more relevant to the careers of most accountants, equally as only about 40 per cent actually stay in the profession, the rest taking positions in the business world. It has thus been said that the university education and practical training received in articles, overemphasize the spheres of financial reporting and auditing (Seneque, 1987). At present none of the liberal arts or sciences form part of most accountants' training, and they receive no courses dealing with communication or thinking skills. The universities are currently looking at the possible restructuring of the curricula, but are hampered by their close interface with the profession.

b. **Broadening the Teaching Base:** A promising development recently has been the introduction of a so-called Conversion course, whereby students who have qualified in other areas, engineering or law for example, may do a two year course in intensive accounting before starting articles to qualify as a chartered accountant. In addition to recruiting new students to accounting, this development also has the advantage that these potential chartered accountants have a much wider educational background, and

broader experience which is not normally to be found in the narrow, highly specialized and procedural training of most accountants.

c. **Content Requirements for a New Environment:** Some academics see the actual theoretical and practical training that aspirant accountants receive, as concentrating too exclusively on big business and the manufacturing sector, ignoring the possibility of another type of business environment which may emerge in a changing South Africa.

Political change will without doubt come about, accompanied by major socio-economic changes, resulting in a new environment in which accountants must operate. The pace at which the country is moving towards these changes is uncertain, but it will be within the active lifetimes of present students and the skills they are taught now must be relevant throughout their careers.

Uncertainty also exists as to the nature of these changes. Seneque (1987) has perceived this new environment as being based on a social-democracy with a very mixed economy and an emphasis on social welfare (aimed at redistributing the wealth of the country more equitably). He foresees nationalization of certain industries, the increasing importance of small and medium-sized businesses in the economy and the growth of workers' co-operatives. Furthermore, a change will come in management style towards greater democratization as worker and union power increases.

Should this scenario eventuate, accountants are presently neither equipped to partake in an environment of this sort, nor to audit the entities which would be a part of it. The accountant's present training is not aligned towards a third world situation. However, this present training would not be irrelevant because certain elements of capitalism and its accounting needs will undoubtedly be retained. The country will always need chartered accountants as we know them today, but changes must be made in syllabi to accommodate the accounting needs of a South Africa in transformation (e.g. value-added statements which would fairly represent the distribution of wealth created by a firm). At present the universities are constrained from doing this by their necessary adherence to the ERCOM requirements.

If the number of small and medium-sized businesses continues to grow (Seneque, 1987), the need will arise for more people with basic accounting skills. One means of meeting this need is to stratify the profession.

This demand for less sophisticated accounting skills will mean that the skills of chartered accountants are at present too specialized, and that opportunities must be made available for the training of accountants who will work in the second tier of the economy.

An attempt to meet this need has been made by the formation of the Institute of Accounting Technicians of Southern Africa (IATSA). It was established "to alleviate the problems and to serve the needs of the growing small business sector (and create) a sound, professionally qualified technician level of accounting personnel drawn from all racial groups" (Institute quoted in Seneque, 1987, p. 50).

Most of the students intending to become accounting technicians come

from “technikons”, rather than from universities, reflecting the more technical and less theoretical emphasis of the designation. However, there has been criticism that the IATSA syllabus does not address the issues involved adequately and that too few blacks are enrolled in courses to qualify for the designation (Seneque 1987). As an example, there is no reference to the financial accounting needs of the small business sector or of those of co-operatives or not-for-profit organizations.

d. Future Pedagogical Requirements: Given that the accounting needs of South Africa in the future will have to be met primarily from the black population, the educational needs of students from disadvantaged backgrounds must be considered, especially in the light of their dramatically increasing numbers and their presently very low success rates.<sup>3</sup> It is thus clear that to admit black students, most of whom are from educationally deprived backgrounds, without consideration of their specific pedagogical needs, would be an exercise in futility.

A start has been made in this direction, with the growth of Academic Support Programs at the more progressive universities. Using the infusion of thinking skills as their base, these programs are achieving some success, but are still at an early stage in their development.

In addition, recent research in cognitive development, using instructional material designed to explicate and to attempt to develop necessary cognitive reasoning skills for the study of accounting, has achieved significant improvement in student success rates (Mehl and Weil, 1987).

Programs such as these demonstrate the potential of alternative pedagogues to improve success rates of disadvantaged students, and will need to be incorporated into standard curricula in the future.

## **Conclusion**

The accounting profession in South Africa has traditionally enjoyed high esteem. It has, however, been slow to adapt to a changing society, as indicated in this paper. If it is to continue to grow, and to thrive and prosper, it must address the changing needs of South Africa; socio-economic, political and educational. This will involve considerable change in the profession, both attitudinal and structural.

A positive start has been made in this direction. Should this momentum not only be maintained, but also gather in strength, the profession will continue to grow, and be a leader in a dynamic new society.

<sup>3</sup> At the University of the Western Cape, which caters predominantly for colored students, enrolment in elementary accounting has increased 350 per cent in 5 years. The pass rate of these students is of the order of 25 per cent to 30 per cent (including students repeating the course). (Mehl and Weil, 1987).

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# Accounting Education and the Certification Process in Zimbabwe

ANDREWS OPPONG

## Introduction

This paper describes and evaluates accounting education and the certification process in Zimbabwe in the context of the country's past, present and future political, social and economic developments. The major thesis of the paper is that present systems of accounting education and certification process would have to change drastically in order to become relevant to the new political, social and economic order. The government of Zimbabwe will continue to play a significant role in the economic affairs of the country. This interventionist policy of the government will result in an expanded public sector at the expense of the private sector.

The paper is organized in the following sequence: country history and economy, history of the accounting profession, the certification process, accounting education, and recommendations.

## Country History and Economy<sup>1</sup>

Zimbabwe, formerly known as Southern Rhodesia, is situated in South Central Africa between the Limpopo and Zambezi rivers. It was first administered by the British South African Company and then assumed the status of a self-governing British colony in 1923. When negotiations for political independence with the British government collapsed over the issue of majority African rule, the white minority government issued a Unilateral Declaration of Independence (UDI) in 1965. In response, the British government and the international community, through the United Nations Security Council, imposed mandatory economic sanctions on the country. The efforts of the African population to establish majority rule led to a bitter armed struggle during the 1970s, ending in a cease-fire in December, 1979. The cease-fire provided for a new constitution which reserved 20 of

<sup>1</sup> Country statistics are given in Appendix 6.1.



the 100 parliamentary seats for the white minority.<sup>2</sup> Elections were held in February, 1980, which led to a majority rule and Zimbabwe became internationally recognized as a politically independent country in April, 1980.

Zimbabwe is one of the more industrialized countries of Africa.<sup>3</sup> The country has a diversity of natural resources which has led to a more balanced and developed economy with a fairly advanced and sophisticated modern commercial and agricultural sector.<sup>4</sup> It is therefore not surprising that manufacturing accounts for the largest share of Zimbabwe's economic output and is second only to agriculture in terms of employment. Although the government is officially Marxist-Leninist, the economy can be characterized as a mixed economy of free enterprise with stringent government control on such matters as pricing and allocation of foreign exchange.

The economy that the African majority government inherited in 1980 was unlike that inherited by any other newly independent African country. It has been described as "more sophisticated, complex, productive, technologically reliant, internally integrated and industrialized than any other in black Africa."<sup>5</sup>

It was, however, also a settler and dualistic economy, completely dominated and controlled by fewer than 200,000 whites. The overwhelming African population was denied access to almost all basic services and was confined to the rural sustenance sector which was one of the most underdeveloped in the world.<sup>6</sup> The previous white minority regimes had imposed seemingly racist measures in almost every aspect of social and economic activity. The following extracts indicate some of the disparities between the two races:<sup>7</sup>

"Until independence, school beyond the age of nine or ten was for whites and a lucky minority of blacks."

<sup>2</sup> The 20 reserved seats were abolished in September, 1987. White voters were subsequently put on a common voters roll.

<sup>3</sup> Ironically, this was partly brought about by the mandatory economic sanctions resulting from the UDI. The country had to restructure its foreign trade and broaden the base of the economy to ensure a large degree of local autonomy and independence for local financial and commercial institutions.

<sup>4</sup> John Sans, "The Long Road to Recovery," *The Economist*, Volume 30, No. 4, 1981, p. 70.

<sup>5</sup> Flora Lewis, "Rhodesia's Gift to Zimbabwe," *The New York Times*, January 13, 1983.

<sup>6</sup> Ministry of Economic Planning and Development, "Annual Economic Review of Zimbabwe" (Harare: The Government Printer, August, 1981).

<sup>7</sup> "The Pain of Peace: A Survey of Zimbabwe," *The Economist*, April 21, 1984. For more on black representation in the public service, see Rukudzo Murapa, "Race and the Public Service in Zimbabwe: 1890-1983" in *The Political Economy of Zimbabwe*, edited by M. G. Schatzberg (Praeger Publishers, 1984).

“When it took power, . . . on one estimate from the mid-1970s, 62% of all income was received by 6% of the working population, almost all of them white.”

“White-ruled Rhodesia *never* allowed any blacks into the administrative ranks of its civil service. At independence, Zimbabwe had black businessmen, black farmers, black lawyers — but no black civil servants other than messengers and clerks.”

In February 1981, the government issued its first major transitional development document, appropriately described as *Growth With Equity*. The strategy was one of growth, equity and transformation. The government accepted the inherited economic structures as constraints but also saw them as providing opportunities that could be harnessed in the drive for development and implementation of its redistribution policies. The following specific objectives were outlined in the policy document:

- (a) a high rate of economic growth to achieve higher incomes and employment;
- (b) restructure the economy to promote rural development;
- (c) achieve greater and more equitable degree of ownership, control and participation in the economy by the nation and the state;
- (d) achieve a more efficient and equitable distribution of land and its development;
- (e) create new development institutions and rationalize existing ones where necessary;
- (f) improve and extend the basic economic infrastructure and social services to lower income groups;
- (g) train, mobilize and fully utilize manpower resources; and
- (h) seek to democratize the work-place.

These objectives were meant to correct past injustices and redistribute the country's wealth. Increased state control and participation in the economic affairs of the nation was chosen as the strategy to implement and achieve these objectives. The government's policies to date clearly indicate its determination to accomplish these objectives. For example, although there has been no outright nationalization of private firms, state participation in the economy has increased substantially through the creation of several parastatals (state or quasi-state institutions).<sup>8</sup> The National Development

<sup>8</sup> Ironically, this clutter of parastatals has been occurring during a period the number of state enterprises has been shrinking elsewhere in Africa (“Zimbabwe: Success at Risk,” *The Economist*, April 22, 1989). Examples include Cold Storage Commission, Grain Marketing Board, Dairy Marketing Board, Air Zimbabwe, National Railways of Zimbabwe, Zimbabwe Iron and Steel Corporation, Mineral Marketing Authority, State Trading Corporation, Zimbabwe Reinsurance Corporation, Zimbabwe Banking Corporation, Bank of Credit and Commerce International, Zimbabwe Insurance Brokers and Zimbabwe Development Corporation.

Plan (NDP) for 1986–90 projects a total investment of Z\$7.1 billion and expects 63.5 per cent of this to come from the public sector.<sup>9</sup>

The interventionist policy of the government in industry and massive spending on education, health and other social services to redress past injustices has required and will continue to require an efficient and effective civil service. Unfortunately, it was during this period of massive government spending that Zimbabwe lost some of its all white best civil servants and managers who either emigrated or quit for the bigger rewards of private business. For example, at the time of independence in 1980, the Treasury Department had 80 all white professional staff, each of whom had been in the department for an average of more than 15 years. However, by early 1983 only three of them were still there.<sup>10</sup> The departure of experienced civil servants resulted in inexperienced staff at the top of the civil service and the parastatal bodies. Between 1980 and 1989 Zimbabwe had to import about 88,000 expatriates to fill the gaps in its skilled labor force left by white emigrants. Unlike the indigenous white Zimbabweans, these expatriates expect high salaries, home leave, cars and other perks.<sup>11</sup>

In its attempt to train, mobilize and fully utilize its manpower resources, the government of Zimbabwe has given education at all levels a top priority. The education budget trebled in dollar amounts in 3 years, going up from 12½ per cent of central government spending in 1979–80 to 18 per cent in 1984–85, and has remained around this percentage since then.<sup>12</sup> Since independence, primary education has been free for every child; secondary schools, polytechnics, teacher training colleges and the university charge fees but are all heavily subsidized. The results, in numerical terms at least, have been impressive. The number of children in primary schools has increased from 820,000 in 1979 to 2.2 million in 1989, while secondary school enrollments went up from 74,000 to 380,000. Enrollment at the only university, University of Zimbabwe (UZ), is estimated to increase from 1,931 in 1979 to at least 7,000 in 1990.<sup>13</sup>

As will be discussed in a later section, accounting education has also benefited from the increased government expenditure on education. The major role of accounting education in the government's attempt to restructure social and economic relationships is to train individuals capable of providing relevant information to decision makers at all levels in different organizational settings to plan, control and evaluate programs, both social and economic. Specifically, accounting can function as a tool for national economic development by providing information for economic analysis,

<sup>9</sup> Colin Legum, Editor, *Africa Contemporary Record: Annual Survey and Documents 1986–1987* (Africana Publishing Company).

<sup>10</sup> "The Pain of Peace: A Survey of Zimbabwe," *The Economist*, April 21, 1984.

<sup>11</sup> "Zimbabwe: Success at Risk," *The Economist*, April 22, 1989.

<sup>12</sup> See Notes 9 and 10 above.

<sup>13</sup> See Note 11 above.

planning and policies.<sup>14</sup> National central planning organizations, statistical offices, and development banks, for example, use accounting information in the context of national and sectoral economic analysis as well as plans.

## **History of the Accounting Profession**

Zimbabwe is both a developing country and former colony of the United Kingdom. These two aspects of Zimbabwe's economic and political experience have not only determined but continue to determine development of accountancy as a professional pursuit in Zimbabwe. As Hove appropriately puts it:<sup>15</sup>

... accounting practice in almost all developing countries was imposed by developed countries initially through colonialism and then through the operations of transnational corporations, professional accounting institutes, and the special conditions in economic aid agreements, rather than in response to the societal needs of those countries.

Professional accountancy in Zimbabwe is therefore the product of both historical and contemporary forces. All the professional accounting bodies, as they exist in Zimbabwe today, started out as local branches or chapters of the various British accountancy bodies which were established by their members who had immigrated to Zimbabwe to manage the economic affairs of the British colonial government and transnational corporations. Without exception these immigrants imported into Zimbabwe the entire British accountancy system including its education, training and practices. Even when these local branches have become self-governing or autonomous, they continue to adhere strictly to the British system.

There are at least five professional accounting bodies in Zimbabwe, namely:

The Institute of Chartered Accountants of Zimbabwe.

The Institute of Cost and Management Accountants of Zimbabwe.

The Zimbabwe Institute of Public Finance and Accountancy (ZIPFA).

The Zimbabwe Association of Accounting Technicians (ZAAT).

The Institute of Chartered Secretaries and Administrators in Zimbabwe.

However, the Institute of Chartered Accountants of Zimbabwe (The Institute) is the only legally recognized accounting body. It was incorporated in 1918 under The Accountants Act (Chapter 215). Section 4 of the Act lists 14 objects of the Institute. Three of these objects [Sections

<sup>14</sup> Committee on International Accounting Operations and Education, *Accounting Education and the Third World* (American Accounting Association, 1978).

<sup>15</sup> M. R. Hove, "Accounting Practices in Developing Countries: Colonialism's Legacy of Inappropriate Technologies," *The International Journal of Accounting Education and Research*, Fall 1986, pp. 81-100.

4(a), 4(b) and 4(d)] are of direct relevance to accounting education and the certification process. These are:

- (a) to keep or cause to be kept a register of persons entitled to practice publicly in Zimbabwe as accountants;
- (b) to conduct examinations or to take such other steps as may be necessary to ascertain in terms of this Act whether persons are qualified to be admitted to the Register;
- (d) to encourage the study of accountancy by the members of the Institute, by clerks articulated to members of the Institute, and by other students, and for that purpose to provide information and education on accountancy matters by lectures, classes, discussion, books, correspondence, examinations and otherwise . . .

Objects (a) and (b), that is, registration of persons as accountants and conducting examinations, are seriously guarded by the Institute since only registered members of the Institute can describe themselves or hold themselves out as accountants by profession or public accountants or auditors under Section 22(1)(a) of the Accountants Act. Also, only registered members of the Institute can serve as auditors under The Companies Act (Chapter 190). On the other hand, the Institute has made no serious attempt to fulfill object (d), that is, encouraging the study of accountancy and promoting education on accountancy matters.

The Institute publishes a loose-leaf Members' Handbook which contains the requirements as to accounting principles and statements of standard accounting practice. These statements are approved by the Accounting Practices Board (APB) prior to their release. The APB consists of persons from commerce, industry, government, and the professions. The Institute is an associate member of the International Accounting Standards Committee (IASC) and therefore has undertaken the obligation to support standards promulgated by IASC and to adopt the Auditing Guidelines issued by the International Federation of Accountants (IFAC). Although the APB is authorized to establish accounting standards and auditing guidelines or amend IASC standards to meet specific Zimbabwe statutory or other local considerations, it has not published any standards or guidelines which can be truly described as Zimbabwean. It has adopted all IASC standards without any amendments, like most developing countries for no defensible reasons other than convenience.<sup>16</sup> Disclosure is required of all cases of non-compliance with IASC standards.

There has not been a significant change in the Institute's membership during the last ten years. The membership stood at 1,091 and 1,006 as of March 31, 1989 and 1980, respectively. As the following schedule shows,

<sup>16</sup> This observation is not unique to Zimbabwe. The observation was first made by Scott about the situation in Nigeria. See G. M. Scott, "Accounting and Developing Nations," (International Accounting Studies Institute, University of Washington, Seattle, 1970). The observation is also collaborated by Hove. (See Note 15).

about half of the membership is not resident in Zimbabwe (figures in brackets).<sup>17</sup>

1980	1,006 (457)	1985	1,000 (553)
1981	1,009 (475)	1986	996 (531)
1982	1,000 (474)	1987	1,005 (540)
1983	1,002 (502)	1988	1,076 (541)
1984	1,009 (490)	1989	1,091 (539)

The membership before independence in 1980 could not be ascertained. However, it is very likely it was higher. Many professionals, including accountants, left Zimbabwe just before the white minority settler government fell. It is also not clear how many of the present membership were locally trained. For example, any member admitted into the Institute prior to 1964 held an external qualification such as the qualifying examination for any South African provincial society or the Institute of Chartered Accountants in England and Wales. These members would have, however, served their articles in Zimbabwe.

There is very little publicly available information about the other four professional accounting bodies. However, the Zimbabwe Institute of Public Finance and Accountancy (ZIPFA) can be singled out as having the greatest potential in fulfilling accounting and financial management needs of the expanding public sector. Although ZIPFA started out as a branch of the British Institute, it has quickly established, in conjunction with the Department of Accountancy of the University of Zimbabwe and public sector organizations, a training program for individuals already employed in the public sector, including parastatals.

### **The Accounting Certification Process**

As described in the previous section, the Accountants Act permits only members of the Institute of Chartered Accountants of Zimbabwe to describe themselves as public accountants or auditors. This restriction is significant because only members of the Institute can serve as auditors under The Companies Act. There are two major ways for individuals to become members of the Institute and these are described in the By-Laws to the Accountants Act. First the By-Laws designate some overseas societies as "approved societies" through reciprocal arrangements.<sup>18</sup> Any member

<sup>17</sup> This information was supplied by the Registrar, Institute of Chartered Accountants of Zimbabwe.

<sup>18</sup> "Approved societies" as of September 1989 included the Institute of Chartered Accountants of Scotland, England and Wales, Ireland, Australia, The American Institute of Certified Public Accountants, and The Canadian Institute of Chartered Accountants. Reciprocity with The South African Institute of Chartered Accountants, and Provincial South African Societies (Cape, Natal, Orange Free State and Transvaal) was withdrawn in 1986.

of these approved societies may qualify for membership of the Institute by passing a special law examination which comprises papers set for the Bachelor of Accountancy degree of the University of Zimbabwe in Business Law, Tax Law and Practice. In any one year, it is doubtful if more than six persons obtain membership through this route. The second route to gaining membership is a three phase process, namely articleship, practical experience and qualifying examination.

The articleship is served with one of several local but usually multinational chartered accounting firms. To be admitted into articleship, one must have either a degree (which needs not be related to accountancy) awarded by a recognized university or passes in not less than five subjects in the General Certificate of Education (or equivalent), two of which must be at least at the "A" (Advance) level and must include English Language and Mathematics. The period of articleship is 3 and 5 years for university graduates and non-graduates, respectively. In addition, every articulated clerk must complete a prescribed program of practical experience to the satisfaction of the Institute. Graduate and non-graduate clerks are required to complete not less than 4,000 and 6,000 hours respectively of client exposure. The Institute has also laid down minimum levels of exposure in each of the main streams of professional work expressed as a percentage of the total exposure. The Education Committee of the Institute monitors the training records of every articulated clerk during and at the expiration of the articulated service.

In addition to the articleship and practical experience requirements, students must have either a Bachelor of Accountancy (BAcc) degree or Diploma in Accountancy Studies (both from UZ) or any other equivalent degree before they are admitted to the Institute's qualifying examination. The majority of students qualify for admission into the qualifying examination through the BAcc degree. Students with non-relevant degrees obtain them by taking correspondence courses with the University of South Africa (UNISA). Those with partially relevant degrees take certain "top-up" courses either in the BAcc or UNISA programs to achieve an equivalent standard. "In house" courses are provided by the chartered accountant firms for those studying through UNISA and for "top-up" courses. There is no co-ordination by or direction from the Institute over the provision of such courses.

The last step of the certification process is the qualifying examination. The qualifying examination is conducted annually by the Institute's Examinations Board advised by an external examiner. The examination has a total duration of 13 hours and consists of four papers: Accounting (including systems, statements and practices), Professional Practice, Financial Decision Making and Information Systems, and Tax Law and Secretarial Practice. [Details of the examination syllabus are given in the Appendix B.]

The syllabus classifies levels of required knowledge into "thorough" and "general". It continues to place emphasis on conventional private sector accounting topics by expecting students to have "thorough" knowledge on

these topics. Only “general” knowledge is expected on topics such as accounting for co-operative and local authorities (municipalities), and exchange control laws. A closer examination of some of the policies of the Zimbabwe government since 1980 would suggest “thorough” knowledge in accounting for co-operatives, municipalities, and exchange control. For example, the government has emphasized the formation of agricultural co-operatives with excellent and enviable results. It has also created numerous municipalities in its efforts to decentralize decision making in the country; and severe restrictions have been placed on foreign currency transactions.

## **Accounting Education**

The Institute of Chartered Accountants of Zimbabwe is not directly involved in the education and training of individuals desiring to become members of the Institute. It has no pre-entry education program. It has defined its responsibility under the Accountants Act as a very narrow one, specifically to lay down the requirements which individuals must meet to become members of the Institute and therefore gain the privilege to describe themselves as public accountants or auditors under the Act. However, academic qualifications are among the essential requirements for membership in the Institute.

The most efficient route to becoming a member of the Institute is obtaining the BAcc degree from UZ. The BAcc program has been designed to make it possible for its graduates to do only three years of articles of clerkship (during which period the practical experience of 4,000 hours of client exposure would have been satisfied) and exemptions from all but the final qualifying examination of the Institute.

The BAcc degree can be studied on a full-time basis over three years. It consists of the following three sequential parts.<sup>19</sup>

### **PART I**

Accounting I, Economic Principles, Quantitative Analysis for Business, Business Law, and Business Administration.

### **PART II**

Management Accounting and Control I, Accounting II, Managerial Finance I, Data Processing, and Management Theory.

### **PART III**

Accounting III, Auditing, Management Accounting and Control II, Public Sector Accounting and Finance, and Tax Law and Practice.

The degree can also be obtained on a part-time basis, when feasible, over a five-year period. The same courses are covered in five parts.

<sup>19</sup> University of Zimbabwe, Prospectus 1987, pp. 153–165.



The admission requirements into the BAcc program are the same as the general entrance requirements of UZ (Passes in five subjects of which at least two must have been at Advanced Level) plus a pass in Mathematics at the Ordinary Level. These passes are from the examinations of the Examining Board of Cambridge Overseas Higher School Certificate or London University's General Certificate of Education. Admission into the BAcc degree program is very competitive notwithstanding that the program has expanded along with the general increase in the enrollment at UZ since independence. Table 6.1 gives numerical information on the BAcc program in relation to the whole university.<sup>20</sup> Both enrollment and degrees awarded in the BAcc program have increased, the former from 300 in 1981 to 410 in 1986 and the latter from a mere 28 in 1979 to 105 in 1985. The growth in the program is consistent with the overall increase in the university population, from 1,931 in 1979 to 5,886 in 1986.

There are major constraints on the Department of Accountancy's ability to cope with the increasing demand for the BAcc program. The major one is shortage of lecturers. As of March 1987, the Department had only eight full-time lecturers, two of these were on visiting appointments. However, the Department has been a participant in a university-wide staff development program which should enable it to staff not only existing courses but innovative ones in the distant future. The Department also benefits from the services of lecturers and professors from other overseas universities through linkage arrangements with these overseas universities. Even if the Department had the lecturers to staff all of its courses, the university may not have the necessary physical facilities, such as residence halls, to admit all qualified students into the program.

### **Recommendations**

The preceding sections have been rather descriptive and factual with hardly any recommendations. This last section offers some specific recommendations.

The following inferences can be drawn from the discussions so far:

- a) The public sector has expanded since Zimbabwe achieved political independence in 1980 and in all likelihood will continue to expand in the foreseeable future.
- b) The Institute of Chartered Accountants of Zimbabwe cannot be relied upon to encourage and promote the study and practice of accountancy.
- c) The Department of Accountancy at the University of Zimbabwe (UZ) will continue to influence accounting training in Zimbabwe through its BAcc degree and new programs.
- d) The avenues for persons desiring to become professional accountants are very limited.

<sup>20</sup> The information was extracted from different editions of Commonwealth Universities Year Book (The Association of Commonwealth Universities).

The fact that the public sector is becoming the dominant sector in Zimbabwe has implications for accounting education and certification process. In this environment, economic development accounting, that is, accounting for economic analysis, planning and policies will assume greater importance in the training of accountants. Skilled accounting personnel will be required not only as providers of information but also as decision makers in a whole range of activities including:<sup>21</sup>

- a) planning and evaluation of public programs;
- b) developing and operating management information systems to support economic planning and project appraisals; and
- c) developing alternative measurements and evaluations for determining priorities in resource allocations.

Present accounting education and training structures are very deficient in this vital sector of the national economy.

The Institute of Chartered Accountants of Zimbabwe was formed to cater to the exclusive accounting needs of the private sector. It is very unlikely that the Institute, even if it had the expertise and facilities, will have incentives to increase its membership significantly because of the monopoly power it enjoys over the practice of professional accounting under the existing legislation.

In order to make accounting education and training relevant to the present and future needs of Zimbabwe, the following three major recommendations are offered:

- a) Besides providing academic training and leadership in accounting, the Department of Accountancy at University of Zimbabwe should take over the administration of all professional examinations in accounting including the Final Qualifying Examination of the Institute of Chartered Accountants of Zimbabwe.
- b) The three-year BAcc Honors degree should be changed to a four-year program to allow for specialization in the fourth year.
- c) The Institute of Chartered Accountants of Zimbabwe should oversee and provide practical experience to persons desiring to qualify as professional accountants, especially in private sector organizations.

The Department of Accountancy at UZ, despite its limited resources at present, is uniquely placed to provide leadership in accounting education and training in Zimbabwe. It is a fact that qualifying examinations of professional accounting bodies in both developing and developed countries have very strong academic orientation.<sup>22</sup> This feature makes the university

<sup>21</sup> See A. J. H. Enthoven, *Accountancy and Economic Development Policy* (North Holland, 1973), for expanded discussion of the ideas suggested here.

<sup>22</sup> For example, it is not unusual for professional accounting bodies, even in developed countries, to appoint academics as examiners.

the most appropriate place to train persons to prepare for such examinations. It is also logical that the institution providing such education is in a better position to examine persons receiving that education.<sup>23</sup> This line of reasoning is the basis for the first recommendation, that is, Department of Accountancy should administer, in close collaboration with the relevant professional accounting bodies, all professional examinations in accounting. This recommendation assumes that the appropriate authorities in Zimbabwe will make the necessary resources available to the Department of Accountancy for the successful implementation of the recommendation.

TABLE 6.1

	1979	1980	1981	1982	1983	1984	1985	1986
BAcc Degrees Awarded	28	n.a.	21	n.a.	106	102	105	n.a.
BAcc Enrollment	n.a.	n.a.	300	450	450	450	300	410
UZ New Admissions	521	836	n.a.	988	n.a.	1,207	1,309	1,707
UZ Enrollment:								
Male (FT)	1,052	1,445	n.a.	2,011	2,177	2,430	2,748	3,371
Female (FT)	429	426	n.a.	569	638	785	875	1,142
Male (PT)	372	303	n.a.	400	638	768	884	1,115
Female (PT)	78	66	n.a.	111	167	148	235	258
<b>TOTAL</b>	<b>1,931</b>	<b>2,240</b>	<b>2,525</b>	<b>3,091</b>	<b>3,620</b>	<b>4,131</b>	<b>4,742</b>	<b>5,886</b>

n.a.: not available;  
 FT: Full-Time;  
 PT: Part-Time.

For an honors program, a period of three years for the BAcc degree offered by the Department of Accountancy is rather short compared to North American standards. Almost all students enter the BAcc degree without any previous academic or practical background in commerce or business. The existing program's emphasis is on providing students with the academic requirements of the Institute. This is achieved at the expense of providing students with background knowledge in all core areas of business organizations and the social sciences. A four-year program will allow students to take elective courses in the social sciences (for example, political economy) and additional required courses in core areas of business

<sup>23</sup> The four-year program has been tried elsewhere without success, partly because while the university offered academic preparation in the fourth year for the qualifying examinations, the examinations were administered by professional accounting bodies. A case in point is Ghana. See A. Ghartey, "A New Perspective for Accountancy Education in Ghana," *International Journal of Accounting Education and Research*, Fall 1978, pp. 121-132.

organizations. Students will be required to choose an area of specialization in the fourth year. Some potential areas of specialization are private sector accounting, public sector management and accounting, and management accounting. The Department of Accountancy will administer qualifying examinations for each area of specialization. Those who pass the qualifying examinations will be required to serve a certain period of articleship after which they will become recognized as professional accountants in those specialized areas.

The Institute of Chartered Accountants of Zimbabwe will still have a role to play in the training of professional accountants. However, its role should be limited to providing practical experience to the graduates of the BAcc program, in particular those with specialization in private sector accounting. The Institute, working in conjunction with Department of Accountancy, will be able to influence the curriculum the Department of Accountancy offers for specialization in private sector accounting.

APPENDIX 6.1

## Country Statistics

Population (1988 estimate): 8,878,000

Area: 390,759 sq.km (150,873 sq.mi)

Capital: Harare

Monetary Unit: Zimbabwe Dollar  
Z\$2.01 = U.S.\$1.00 (March 31, 1989)

President: Robert Mugabe

Date of Independence: April 18, 1980

Government: Parliamentary System

Languages: English (Official); Ndebele and various Shona dialects.

Religion: Christianity and Traditional

# Syllabus: Qualifying Examinations of the Institute of Chartered Accountants of Zimbabwe (September 28, 1981\*)

## **Preamble**

The syllabus that follows has been divided into specific sections and the Institute Examination will be based on these. However, a knowledge of all subjects covered in attaining the entry requirement to the Examination (BAcc or BCompt (University of South Africa)) will be assumed and questions may be set on these.

## ***Levels of Knowledge:***

A thorough knowledge is expected on all matters in the syllabus except where it is indicated that a general knowledge only is required.

A thorough knowledge is defined as follows –

“A sound understanding of principles, practices and procedures, together with the ability to apply such knowledge without further extensive study or assistance”.

A general knowledge is defined as follows –

“an understanding of principles, practices and procedures, and how these are applied in general circumstances. Practical applications and worked examples will not, however, be required.”

## **Section I**

### **Accounting — Systems, Statements and Practices**

#### ***Aim***

The aim is to assess the extent to which the candidates are able:

a) to prepare accounting records and financial statements in order to reflect

- the transactions and financial affairs of business and other organizations in conformity with current legal requirements and professional standards of practice;
- (b) to present accounting statements and written reports relating to the financial problems of the business;
  - (c) to discuss critically the assumptions and conventions of current financial accounting practice and current developments.

\* At the time of writing this syllabus was under review.

### **Content**

1. The operation of bookkeeping systems of all degrees of sophistication from source event to preparation of financial statements.
2. Concepts and bases used in financial statements, including amounts at which assets and liabilities are stated, and the derivation and significance of accounting profit.
3. Critical survey of current practice characteristics, including the limitations of financial statements, the use of historical cost, the influence of the conservative approach in accounting, the lower-of-cost-and-market rule, the number of acceptable treatments of certain transactions.
4. Review of current issues and controversies, with particular reference to their applicability to Zimbabwe, including:
  - (a) accounting for inflation;
  - (b) alternatives to historical cost;
  - (c) deferred taxation;
  - (d) recognition of profit on sale;
  - (e) societal accounting and corporate reporting developments (e.g. value added statements, human resources accounting);
  - (f) objectives of financial accounts.
5. Accounting records and statements:
  - 5.1. Accounting concepts and principles:
    - (a) nature, history and function of accounting;
    - (b) fundamental accounting concepts of going concern, consistency, matching and prudence;
    - (c) basic bookkeeping and principles of double entry;
    - (d) accounting treatment of all financial transactions, including the valuation of assets and liabilities.
  - 5.2. Accounting for and presentation of financial statements of all business combinations, but in particular:
    - (a) sole traders;
    - (b) partnerships;
    - (c) companies;
    - (d) groups of companies;
    - (e) associated companies.

- 5.3. Accounting treatment of the following:
- (a) normal trading and manufacturing situations;
  - (b) contracting;
  - (c) farming;
  - (d) mining;
  - (e) branches (including foreign branches);
  - (f) hire purchase and lease hire;
  - (g) incomplete records.
- 5.4. The analysis and interpretations of financial statements.
- 5.5. A general knowledge only of the presentation of the financial statements of:
- (a) banks
  - (b) building societies;
  - (c) co-operatives;
  - (d) pensions and provident funds;
  - (e) clubs;
  - (f) local authorities;
  - (g) insurance companies.

## **Section II Professional Practice**

### ***Aim***

The aim is to assess the extent to which the candidates:

- (a) appreciate the nature, purposes and procedures of an audit;
- (b) are able to evaluate systems from the standpoint of internal control and operating efficiency;
- (c) have acquired a sound understanding of current auditing practice and procedures;
- (d) have the required knowledge relating to other matters on which chartered accountants may be consulted professionally.

### ***Content***

1. General
  - 1.1 The place of the auditor in the economic framework of the business community.
  - 1.2 The object of an audit.
  - 1.3 Various types of audit, in particular the nature and purpose of the audit of the limited liability company.
  - 1.4 The Institute's statement and guidelines on Accounting, Auditing and Professional Practice.
  - 1.5 A general knowledge of modern developments in auditing philosophy, as outlined in professional journals, including statements issued by the International Federation of accountants and other bodies.



2. Planning and Conduct of an Audit:
  - 2.1 Engagement and representation letters.
  - 2.2 The form, planning and conduct of the audit.
  - 2.3 The nature of the audit evidence.
  - 2.4 Appraisal, recording and evaluation of the systems of internal control over transactions, assets and liabilities.
  - 2.5 Design of detailed audit procedures, and the drawing of conclusions therefrom.
  - 2.6 Co-ordination of internal and external audits.
  - 2.7 Statistical sampling techniques for audit purposes.
  - 2.8 Verification of assets and liabilities.
  - 2.9 The principles of the audit of computer systems (including bureaux).
  - 2.10 Audit working papers.
  - 2.11 Reliance on work performed by other auditors.
  - 2.12 Special purpose investigations.
3. Reports:
  - 3.1 Object, form and meaning of an audit report.
  - 3.2 The concept of truth and fairness.
  - 3.3 The audit report under the Companies Act (Chapter 190).
  - 3.4 Qualified opinions.
  - 3.5 Circumstances in which an opinion cannot be given.
  - 3.6 Reports on special purpose investigations, including prospectuses, profit forecasts, cash flows and share valuations.
  - 3.7 Reports to management on internal control and other matters arising from the audit.
4. Secretarial Practice:
  - 4.1 Secretarial duties in regard to the formation of companies.
  - 4.2 Holding of meetings.
  - 4.3 Keeping of minutes.
  - 4.4 Keeping of share registers and other statutory books.
  - 4.5 Lodging of statutory returns.
  - 4.6 Share transfers.
5. Law:
  - 5.1 Companies Act (Chapter 190) (in respect of parts 5, 6 and 7 of the Act a general knowledge only will be required) including case law relating thereto.
  - 5.2 Responsibility of directors for presenting financial statements showing true and fair view, operating an appropriate system of internal control and safe-guarding assets of the company.
  - 5.3 Contract, lease, mortgage and pledge.

A general knowledge of Zimbabwe law with specific reference to:

- 5.4 Requirements of the stock exchange relating to the admission of securities to quotation in so far as they affect the auditor and reporting accountant.

- 5.5 Negotiable instruments (based on Bills of Exchange Act (Chapter 277)).
- 5.6 Partnership and voluntary associations.
- 5.7 Insolvency.
- 5.8 Attorney Trust Accounts.
- 5.9 Estate Duty.
- 5.10 Sales Tax.
- 5.11 Exchange Control.
- 6. Professional Conduct and Audit Practice:
  - 6.1 Auditor's relationship with directors and management.
  - 6.2 Powers, duties and liabilities of auditors.
  - 6.3 Professional ethics and qualities required of chartered accountants.
  - 6.4 Accountants Act (Chapter 215) and by-laws.
  - 6.5 Conduct of an audit practice.
- 7. General knowledge of current economic trends and issues in Zimbabwe.

### **Section III**

#### **Financial Decision Making**

#### ***Aim***

The aim is to assess the extent to which candidates:

- (a) understand methods and techniques for the systematic analysis of financial data in order to provide guidelines for management action in situations where choice has to be made between alternative courses of action;
- (b) have the ability to present accounting data and narrative reports to management on the corporate structure of companies and groups of companies.

#### ***Content***

- 1. The analysis of problems as a basis for decision, and the presentation of accounting data and narrative reports covering the financial and legal considerations in relation to matters such as:
  - 1.1 Mergers and acquisitions.
  - 1.2 Reconstruction schemes.
  - 1.3 Choice among sources of finance.
  - 1.4 Capital gearing and working capital.
  - 1.5 Valuation of businesses.
  - 1.6 Valuation of shares.
  - 1.7 Prospectus reports.
  - 1.8 Profit and cash forecasts.
  - 1.9 Dividend policy.

*Andrews Oppong*

- 1.10 Pricing policy, including group sales.
- 1.11 Location of activities.
- 1.12 Leasing or buying.
- 1.13 Discounted cash flow.
- 1.14 Inventory planning and control.
- 1.15 Break-even analysis.
2. A general knowledge of:
  - 2.1 Statistical probability.
  - 2.2 Linear programming.
  - 2.3 Queuing methods.
  - 2.4 Simulation methods.
  - 2.5 Regression analysis.
  - 2.6 Network analysis including critical path method, program evaluation and review techniques and decision trees.
  - 2.7 Profit sharing and incentive methods.

The emphasis of this sub-section will be on the candidate's ability to explain clearly the uses and limitations of the various methods and techniques, to recognize when a particular method or technique is applicable, and to arrange data relating to a given decision in a form in which the relevant method or technique can be used.

## **Section IV Information Systems**

### ***Aim***

The aim is to assess the extent to which candidates:

- (a) are able to use and interpret the methods and techniques available in the financial management of organizations;
- (b) have an understanding of management information systems;
- (c) have a general knowledge of data-processing equipment, techniques and controls.

### ***Content***

1. General
  - 1.1 Information — meaning of; needs of an organization; communication of; actions thereon; flow and content.
  - 1.2 Systems concepts.
  - 1.3 The collection, compilation, presentation, retrieval, distribution, analysis and interpretation of financial data for use in the creation of management policy, in short and long-term planning and decision-making, in the control of the execution of policy and decisions at all levels of the organization.

2. Budgetary Control and Costing:
  - 2.1 Budgetary control, including the control of costs and revenue in detail.
  - 2.2 Short and long-term budgetary planning.
  - 2.3 Analysis of costs and revenues for decisions, including those relating to capital expenditure and the financing thereof.
  - 2.4 Costing systems including standard, marginal, job, process and product costing; integration of cost and financial accounting systems.
  - 2.5 Presentation of reports, including the design of forms and methods of presentation.
3. Systems development, design and implementation:

A general knowledge of:

  - 3.1 Stages in developing an information system.
  - 3.2 Systems design.
  - 3.3 Manual and non-computerized systems.
  - 3.4 The functions and use of different kinds of equipment, such as accounting machines and computers.
  - 3.5 Selection of processing equipment.
4. Data processing:

A general knowledge of data processing equipment, techniques, systems, controls and in particular:

  - 4.1 Organization of a data processing department.
  - 4.2 Input media and devices.
  - 4.3 Hardware.
  - 4.4 Program languages, programming and software.
  - 4.5 Bureau applications.
  - 4.6 Computer applications (general accounting applications, route scheduling, production control, etc.); and a thorough knowledge of:
    - 4.7 Basic elements of a computer.
    - 4.8 Data processing methods (such as batch, on-line, real-time processing).
    - 4.9 Verification of data (punch and verify, validation runs, check digits, hash totals, sequence checks, etc.).
    - 4.10 User controls (ie controls over input/output by the user department, independent of the data processing department).
    - 4.11 Application controls (e.g. controls within the data processing department, data editing and validation, run-to-run controls, of rejected transactions etc.).
    - 4.12 General controls (e.g. procedures for approving programs and changes thereto, controls over access to equipment and data files, etc.).

**Section V**  
**Taxation**

***Aim***

The aim is to assess the extent to which candidates:

- (a) are familiar with the principles of personal and corporate taxation;
- (b) are able to use their knowledge in recognizing and advising on the more usual taxation problems which arise in practice.

***Content***

1. Income Tax Act (Chapter 181), Departmental Practices and Chapter 1 of the Finance Act (Chapter 179), including case law relating thereto.
2. Tax computations of individuals and companies.
3. Capital gains taxation.
4. Tax Planning.

# Professional Certification Process and Accounting Education in Kuwait

SHUAIB A. SHUAIB

## Introduction

During the last three decades, the economy of Kuwait has attained substantial growth in business transactions and activities. This economic expansion increased the demand for systematic accounting education. The government has recognized the importance of the investment in human capital to stimulate the development of its national economy. The purpose of this study is to present accounting education and certification process to practice accountancy in Kuwait.<sup>1</sup>

## Economic Environment

The State of Kuwait lies at the northwestern head of Arabian Gulf. It is bordered in the south by Kingdom of Saudi Arabia and the divided Kuwaiti-Saudi Arabian zone and in the north and west by Iraq. The population of Kuwait is currently about 1.8 million, including some 1.1 million non-Kuwaities. The population is expected to reach 2.2 million by year 2000.<sup>2</sup>

Prior to discovery of oil, Kuwait's economy was entirely dependent on sea trade and fishing. The discovery of oil in abundant quantities has made Kuwait an affluent society. The oil revenue has enabled the country to

<sup>1</sup> Much of the early history material discussed in the study has been drawn from my previous studies: *Accounting Education in the Middle East: The Case of Kuwait, the recent Accounting and Economic Developments in the Middle East*, Center for International Education and Research in Accounting Department of Accountancy, University of Illinois, 1985, and *Auditing Standards in Kuwait, Comparative International Auditing Standards*, Edited by Belverd E. Needles, Jr., Published by International Accounting Section of the American Accounting Association 1985.

<sup>2</sup> Ministry of Planning, Central Statistical Office Annual Abstracts, Edition XXIV, 1987.

create the world's most generous welfare state; it has educational and health services which are totally free.

To accelerate development the government continues to invest in infra-structural projects such as education, health and communication. Also there is a national determination to diversify the economy. This fact was revealed by the 1985/1990 five-year plan which attempts to co-ordinate economic plan in the public, semi-public and private sectors.

The economy of Kuwait has expanded substantially during the last three decades. For example the value of gross national product has increased from \$3,484.6 million in 1975 to \$5,918.3 million in 1985.<sup>3</sup> As the Kuwaiti economy continues to grow, there will be increased demand for dynamic business education to cope with changes in the environment.

### **Development of the Accounting Profession**

There is general agreement that the accounting profession should provide the professional frame of reference for accounting practice. Since the accounting profession in Kuwait is not active in this role at the present time, the government must establish a framework for accounting with the collaboration of accountants.

Regulation of accounting differs from one country to another, but a primary purpose of regulation is to permit only competent accountants to practice. This is the case in Kuwait. The government has moved to regulate the profession. Numerous laws were enacted to regulate accountants and accounting services. Some of the most significant of these laws are: (1) Practice of Audit of Accounts Law; (2) Law of Commercial Companies; and (3) Law of Commerce.

Practice of Audit of Accounts Law is the first law — Law No. 6 of 1962, amended by Law No. 5 of 1981 — enacted by the government to regulate the accounting profession. The authority for licensing professionals rests with the Ministry of Commerce and Industry. Article 1 requires that any person who wishes to practice auditing records his name in the Register of Auditors kept at the Ministry of Commerce and Industry. Article 2 states the qualification requirements, including the following:

1. The applicant should be a natural person.
2. He should have a bachelor's degree in commerce from the University of Kuwait with a major in accounting, or from any other university, or be a member of one of the professional institutions approved by the Ministry of Commerce and Industry.
3. He should have had practical experience for a period of at least seven years in the audit of banks, and insurance and investment companies, and five years for other industries. This experience should be in one of the following

<sup>3</sup> KD 1 = US\$3.37 — as of July 25, 1989.

- areas: (a) a public accounting office, (b) public or private companies, and (c) the government accounts department in one of the ministries.
4. He should be a Kuwaiti citizen. The Minister of commerce and Industry has the authority, to issue a license to a non-Kuwaiti to practice accounting and auditing for a two-year period. Such period could be renewed for one term only, from the date of enforcement of this law (Art. 5).
  5. He should be of good reputation and moral character; and he should not be less than twenty-five years old.
  6. He should pass the examination administered for practicing the auditing profession.

Part II (articles 11–20) of the law deals with the rights and obligations of the auditor. Article 12 states that the auditor shall complete his work according to generally acceptable auditing and accounting standards and professional ethics to be specified by the technical committee.

Other articles of this part of the law deal with the certificate of registration and the registration number. The accountant shall have his name registered, along with his registration number. Also, he should notify the ministry of his appointment as an auditor, assign a file to every company he audits, and keep the files and records for a period of ten years from the date of the last entry. Furthermore, in auditing a company, the auditor may not be: (1) a partner or an administrator; (2) a partner or an employee of the chairman or managing director, or a relative of the persons mentioned in (1) and (2); or (3) a relative up to the fourth degree of any person supervising the company's management or its accounts. In addition, the auditor may not practice any other profession which is in conflict with his work as auditor. The auditor may not engage in: (1) consulting work not related to accounting; (2) promotional work for incorporating and/or forming companies; (3) bookkeeping and preparation of financial statements; and (4) advertising his work or endeavoring to obtain business in a manner incompatible with the ethics of the profession.

The Law of Commercial Companies, Law No. 15 of 1960, requires that every corporation appoint an auditor(s). Under this law, the auditor must be a registered accountant appointed at the annual meeting of the corporation. The auditor shall not perform any work — such as membership on the board of directors, or service in a management or administrative capacity — which is in conflict with the nature of the audit of accounts of the corporation. The auditor has the right to examine all the books of the company and request any information deemed necessary in the performance of his examination. If he does not have access to the information needed, he must report to the board of directors and to the annual general meeting.

The auditor shall be entitled to attend the general meeting and give his opinion on every matter connected with his examination. The auditor shall include in his report the following information:



1. All the information and explanations which, to the best of his knowledge and belief, are necessary for the purposes of the examination.
2. Financial statements (balance sheet and profit and loss account) which present a true and fair view of the company's affairs. They must be prepared in accordance with the Commercial Companies Law and the company's bylaws;
3. An affirmation that the company has proper books of account.
4. A statement that inventory has been taken according to generally accepted principles.
5. A statement indicating whether the information in the report of the board of directors is in agreement with the information in the company's books.
6. A representation as to whether, according to his knowledge, any violations of the Commercial companies Law or of the company's bylaws were committed during the year which would affect the company's activities or its financial position.

Other legislative acts which affect accounting and auditing in Kuwait are the Law of commerce, Laws pertaining to the regulation of trading in securities, and the tax law. These laws have influenced the development of accounting and have increased the volume of accounting work.

The law attempts to raise the level of the profession by increasing the length of required experience and requires an examination which has not been stipulated by the superseded law. The examination is administered by the Ministry of Commerce and Industry in collaboration with the accounting department in Kuwait University and Kuwaiti Association of Accountants and Auditors (KAAA).

TABLE 7.1 *Accounting Examination held by the Ministry of Commerce and Industry*

Exam Date	Number of Applicants	Candidates Passed Exam
13.11.1982	3	2
25.04.1983	7	2
28.05.1985	4	—
27.06.1985	4	—
23.12.1986	15	—
03.05.1986	7	—
29.06.1987	8	2
21/22/12.1987	7	1
24/25.05.1988	4	4
27/28/12.1988	19	—

Table 7.1 reports the number of applicants who sat for the examination between 1982 and December 1988. Ten examinations have been administered during this period and only eleven individuals have passed and become certified. The total number of Kuwaiti licensed auditors are 37 as of July 1988. By June 1986, the non-Kuwaiti licensed auditors were terminated.

Auditing in Kuwait is conducted by registered accountant as required under the commercial companies law and by the Kuwait Stock Exchange. So far there is no defined set of generally accepted auditing standards. This results in heterogeneous auditing practices and differences in the quality of audit services. The absence of defined audit standards makes it difficult for the auditor in Kuwait to prove that he had done what a prudent and diligent auditor would do under the given circumstances in accordance with recognized auditing standards.

To understand and use the financial statements, it is necessary to know, the generally accepted accounting principles used for preparing financial statements. A survey of published financial statements revealed that significant differences exist in the disclosures included in the annual reports.<sup>4</sup> These differences arise from the fact that accounting practice in Kuwait is derived from those of the US, UK, and the neighboring Arab countries. There are no official pronouncements in Kuwait. In June 1981, a technical committee with a three-year term was formed to establish accounting standards.

Until the beginning of the previous decade, there had been no negative public concerns of lawsuits against practitioners. Due to the stock market crash in 1982, some cases were brought against auditors in Kuwait. This raises the question as to how the liability of the auditor should be determined in the absence of generally accepted accounting and auditing standards. Consequently, the accounting profession came under severe stress during the 1980s. The Ministry of Commerce and Industry realized the need for defined accounting principles. Beginning in January 1984, the Ministry started to issue resolutions and memoranda at the end of each year to be used as guidelines for preparing financial statements. Up to 1986, three resolutions were issued and consisted of the following;

January 1984, issued a memorandum to be used by the companies for preparing financial statements ending December 1983.

January 1985, Resolution No. 4 of 1985 issued concerning preparation of financial statements ending December 1984.

February 1986, Resolution No. 10 of 1986 issued concerning the preparation of financial statements ending 1985.

The memorandum and resolution stated above were prepared by the Ministry of Commerce employees in collaboration with the academicians and practitioners (accounting firms). By reviewing the above resolutions one can conclude that they did not provide a comprehensive treatment of accounting principles. However, it is a step in the right direction. From studying these resolutions it appears that they are a potpourri of the GAAP around the world, e.g., US, UK and International Accounting Standards.

<sup>4</sup> Shuaib A. Shuaib, *Current Accounting and Reporting Practices in Kuwait*, The Industrial Bank of Kuwait, Kuwait, 1984.

In March 1986 a new Permanent Technical Committee for Setting Accounting Principles was formed according to Law No. 2 of 1981. The committee consists of seven members, chaired by Ministry's under secretary, two representatives from Kuwaiti Association of Accountants and Auditors (KAAA), one academician from Kuwait University, one from Kuwait Stock Exchange, one from the Ministry of Finance and two from the Ministry of Commerce and Industry.

In January 1987 Resolution No. 4 of 1987 were issued concerning the accounting principles to be followed in preparation of financial statements for 1986 and onwards. The resolution consisted of the following:

- a) Objectives and procedures of Permanent Technical Committee for Setting Accounting Principles;
- b) Three guides relating to the following areas:
  - 1 Financial Statements
  - 2 Accounting for Investment
  - 3 Accounting for Real Estate.

## **Development of Accounting Education**

Accounting education has existed for some time in Kuwait though not in any formal sense. This education which, until recently, took the form of learning through personal and practical experience, has been supplanted by the recognized need on the part of the Kuwaiti government for systematic accounting education.

### **Pre-University Level**

For the last three decades, the Kuwaiti government has helped the nation to realize a better standard for the accounting field and to assist it in fulfilling its social responsibility through accounting education. The government established the first Secondary School of Commerce in 1963 to fulfill the increasing need for bookkeepers, administrators, secretaries, and clerks for both governmental agencies and private institutions. The students of this program are required to complete four years of course work to receive the Commerce Secondary School Certificate.

In 1975 the Ministry of Education established a commercial institute to meet the increasing demand for accounting and related services. To be admitted to this institute, the student must have a High School Diploma. The primary objective of the institute is to prepare students for commercial, administrative and financial positions of private and government sectors. The institute now offers course work in accounting, business administration, secretarial work, insurance, banking, computer, medical, material management, co-operative's business and post office clerical work. The

TABLE 7.2 Degree Graduation Requirements

1. General Courses (29 Credits)

Course No.	Title	Credits	H/W	Pre-requisite
Eng. 099	English language		5	
Eng. 101	English language	2	4	
Eng. 151	English language	2	4	Eng. 101
Eng. 201	English language	2	4	Eng. 151
Law 101	Introduction to law	2	2	
Law 151	Law	2	3	
Sta. 101	Statistics	3	4	
Cop. 105	Introduction to computer and data processing	3	3	
Adm/S 105	Office practice	3	3	
Adm/S 101	Office training	2	4	
Typ. 101	Arabic Typewriting (1)	2	5	
Typ. 151	Arabic Typewriting (2)	1	3	Typ. 101
Typ. 152	English Typewriting	2	4	
Eco. 101	Economics	3	4	
		<u>29</u>	<u>46</u>	

2. Complementary Courses (6 Credits)

Ins/B 101	Introduction to Insurance	3	3	
Ins/B 102	Mathematics of Finance	3	4	
		<u>6</u>	<u>7</u>	

3. Compulsory Specialized Courses (20 Credits)

Acc. 101	Accounting Principles (A)	3	4	
Acc. 151	Accounting Principles (B)	3	3	Acc. 101
Acc. 201	Corporations and Partnerships Acc.	3	4	Acc. 151
Acc. 152	Stores Accounting	3	4	Acc. 101
Acc. 153	Governmental Funds Acc.	3	4	Acc. 101
Acc. 154	Cost Accounting	3	4	Acc. 101
Acc. 203	Accounting Principles (in English)	2	3	Acc. 151
		<u>20</u>	<u>27</u>	

TABLE 7.2 (Continued)

*4. Optional Specialized Courses (6 Credits)*  
*The student selects two of the following courses:*

Course No.	Title	Credits	H/W	Pre-requisite
Acc. 231	Insurance Acc.	3	4	Acc. 151
Acc. 204	Special topics on Acc. (A)	3	4	Acc. 151
Acc. 251	Special topics on Acc. (B)	3	4	Acc. 151
Acc. 252	Auditing	3	4	Acc. 151
Acc. 253	Accounting for Petroleum companies	3	4	Acc. 151
Acc. 225	Banking Acc.	$\frac{3}{6}$	$\frac{4}{8}$	Acc. 151

*5. General Culture Courses*

I.C. 101	Islamic culture	2	2	
	Practical studies	$\frac{1}{3}$	$\frac{2}{4}$	

*6. FT 199 Field Training*

FT 199	Field training	$\frac{4}{68}$		6 weeks
	TOTAL	$\frac{4}{68}$		

minimum credits required for graduation are 68 hours, distributed over the following:<sup>5</sup>

1. General courses.
2. Compulsory specialized courses.
3. Elective specialized courses.
4. Courses supplementary to the major subject.
5. General elective courses.
6. Field training.

Table 7.2 lists courses required for graduation in accounting through the Department of Accounting in the institute.

<sup>5</sup> Kuwait Business Institute 1984–1985, Catalogue p. 13. Recently the name of the Institute changed to College of Commercial Studies.

## University Education

Prior to 1967 university education in accounting was not available in Kuwait. Kuwaiti business students had to study abroad. In 1967 the Faculty of Commerce, Economics and Political Science of Kuwait University was established to: (1) prepare highly qualified graduates to serve the government and private sectors; (2) offer interested students of other college courses which might usefully supplement their fields of specialization; (3) provide opportunities to orient the academic activity toward real issues and contemporary problems of the Kuwaiti society; and (4) contribute to the knowledge and better understanding of business subjects in Kuwait, the Arabian Gulf region in particular, and the Arab region in general. The university now offers course work in accounting, management, economics, insurance, statistics, public administration, and political science.

## Degree Requirements

Table 7.3 lists courses required to obtain a Bachelor of Commerce degree in Accounting or Business Administration. The plan requires every student to take general courses for three years. In the fourth year the student may choose to join the accounting section or the business section. The Faculty of

TABLE 7.3 *Bachelor of Commerce Degree Requirement — Accounting or Business Administration*

	Weekly hours lectures applied (Lab)	
<b>First Year</b>		
Financial Accounting	3	2
Principles of Organization and Admin.	3	1
Principles of Economics	3	1
Principles of Obligations (Law)	2	—
Pure and Financial Mathematics	3	—
European Language (English or French)	3	—
Islamic Culture	<u>1</u>	<u>—</u>
Total hours	18	4
<b>Second Year</b>		
Financial Accounting	2	2
Production Administration Marketing	2	—
Economics (Money, Banking and International Economic Relations)	2	1
Commercial Law	2	—
Statistics	3	1
Library Management in English	2	1
Islamic Culture	<u>2</u>	<u>—</u>
Total hours	17	5

TABLE 7.3 (Continued)

	Weekly hours lectures applied (Lab)	
<b>Third Year</b>		
Accounting Systems	2	1
Personnel Management	2	—
Public Finance and Taxation	2	—
Commercial Law	2	—
Insurance	2	1
Cost Accounting	2	1
Principles of Auditing	2	—
Public Administration	2	—
Finance	<u>2</u>	<u>1</u>
Total hours	18	4
<b>Fourth Year</b>		
Accounting Section		
Financial and Administrative Acctg.	2	1
Accounting of Financial Institutions	2	1
Mechanical Accounting	2	1
Auditing	2	1
Cost Accounting	2	1
Government and National Accounting	<u>2</u>	<u>1</u>
Total hours	12	6
Management Section		
Research in Marketing	2	1
Production Planning and Control	2	1
Administrative Policies	2	—
Administration of Specialized Institutions	2	1
Investment	2	1
Purchasing and Store Administration	2	1
Financial and Administrative Accounting	<u>2</u>	<u>1</u>
Total hours	14	6

Source: Prospectus of Kuwait University 1971–72 (Kuwait: Al Rissala Printing Press, 1971), pp. 174–78

Commerce, Economics and Political Science also awards a degree in economics and political science. Beginning with the 1973/74 academic year, the requirements were changed to closely resemble those of US universities to the extent that 120 credit hours are required in order to receive an undergraduate degree.

Table 7.4 lists the detailed requirements for the Bachelor of Commerce degree in Accounting through the Department of Accounting and Audit at Kuwait University.

TABLE 7.4 Bachelor of Commerce Degree — Accounting Course Requirements

<b>1. University requirements (30 credits)</b>	
<b>A. Compulsory courses (21 credits)</b>	
101 Arabic language	3
102 Arabic language	3
103 English language	3
102 English language	3
103 English language	3
104 English language	3
103 English language	3
102 History of Arab Islamic Civilization	3
<b>B. Elective courses (9 credits)</b>	
Three courses from the following:	
101 Methods of scientific research	3
101 Principles of statistics (compulsory course)	3
101 Introduction to sociology	3
101 Psychology	3
102 Introduction to logic	3
102 Islamic Culture	3
103 Government and Politics of Kuwait	3
105 Human Rights	3
106 Constitutional System in Kuwait	3
151 Statistical Mathematics 1	3
<b>C. 190 Arabic language (for foreigners only)*</b>	
<b>2. Common courses (33 credits)</b>	
101 Principles of management	3
201 Principles of marketing	3
213 Business finance	3
101 Accounting principles I	3
102 Accounting principles II	3
202 Corporate accounting I	3
101 Principles of economics	3
102 Principles of economics	3
203 Money and banking or	3
301 Economic development	3
101 Law	3
172 Mathematics of finance	3
<b>3. Major (27 credits)</b>	
<b>A. Compulsory courses (12 credits)</b>	
204 Principles of Cost accounting	3
206 Corporate accounting II	3
301 Principles of auditing	3
302 Managerial accounting	3



TABLE 7.4 (Continued)

**B. Elective courses (15 credits)**

Five courses from the following, two of which must be at the 400 level:

205 Special topics in accounting	3
303 Accounting for government and non-profit units	3
304 Accounting systems	3
305 Accounting for financial institutions	3
306 Cost accounting	3
309 Information systems	3
404 Auditing	3
402 Accounting theory	3
405 Petroleum accounting	3
412 National and international accounting	3
430 Seminar in accounting	3

**4. Complementary courses (18 credits)****A. Compulsory Courses (9 credits)**

201 Commercial law	3
131 Introduction to computers or equivalent course with the agreement of the department	3

**B. Elective courses (12 credits)**

Three courses from the following:

173 Insurance principles	3
202 Production management I	3
211 Statistics for the social studies or	3
212 Statistics for business	3
205 Special topics in accounting	3
305 Accounting for financial institutions	3

**5. Elective Courses (12 credits)**

The student selects four courses given in the University (each 3 credits)

**6. Total number of credits required for graduation: 120**

Source: Kuwait University, general undergraduate catalog 1987–1989, pp. 163–165

\* The student is exempted from some university requirements of which no more than 9 units offered in Arabic.

**Enrollment Pattern**

The enrollment in the university and college has increased during the period 1973/74 to 1987/88 (see Table 7.5).

As indicated in Table 7.5, the academic year 1976/77 witnessed an increase in enrollment in the accounting field, and the number of accounting graduates also increased from the academic year 1978/79 (Table 7.6).

Table 7.6 indicates the number of graduates in accounting compared to

*Professional Certification Process and Accounting Education in Kuwait*

TABLE 7.5 *Total Enrollment of Kuwait University and the College of Commerce, Economics and Political Science*

Years	University enrollment	College of Comm., Econ. and Political Science enrollment		Total
		Accounting major enrollment	Other major enrollment	
73/74	3,836	351	740	1,091
74/75	4,445	338	827	1,165
75/76	5,832	328	1,010	1,338
76/77	7,528	407	1,262	1,669
77/78	9,347	494	1,561	2,055
78/79	8,613	493	1,526	2,019
79/80	9,120	523	1,537	2,060
80/81	8,456	472	1,392	1,864
81/82	9,260	453	1,301	1,754
82/83	11,500	456	1,307	1,763
83/84*	14,650	336	1,130	1,466
84/85*	16,831	449	1,141	1,590
85/86*	16,359	555	860	1,515
86/87*	17,047	652	1,069	1,721
87/88*	15,602	640	1,089	1,729

\* 2nd semester figures relate to total university enrollment from Annual Statistical Abstract, 1988, p. 403.

TABLE 7.6 *Graduates of Kuwait University*

Years	Total University graduates	College of Comm., Econ. and Political Science graduates		Total
		Accounting	Other major	
73/74	490	56	133	189
74/75	589	85	104	189
75/76	755	46	117	163
76/77	860	58	166	224
77/78	973	55	228	283
78/79	1,163	82	246	328
79/80	1,506	106	307	413
80/81	1,666	137	348	485
81/82	1,632	104	435	539
82/83	1,583	122	313	435
83/84	1,571	102	234	336
84/85	1,818	106	287	393
85/86	2,096	120	297	416
86/87	2,727	165	373	538
87/88	3,132	183	482	665

Sources: Registration Department — Kuwait University

the total number of graduates in the college and university. The reason for this increase in enrollment may be traced to the significant increase in available positions for accounting graduates in a growing number of businesses and organizations as compared to fewer opportunities for graduates from other disciplines.

The increase in the number of accounting students necessitates a closer look at accounting education. Kuwait University is considered the country's primary institution for formal accounting education and responsible for the preparation of qualified accountants for the country's needs.

### **Curriculum for the Accounting Major**

Most scholars contend that generally accepted criteria for curriculum evaluation do not exist in Kuwait. Nevertheless, objectives which are established before a curriculum or an individual course is designed can then serve as guidelines for evaluation. Such is the case with the accounting curriculum in Kuwait.

A number of studies support the concept that the basic objectives of accounting education at the university level should, among other things, provide students with the following:<sup>6</sup>

1. Basic training for leadership in the areas of accounting and business.
2. Adequate skills to serve business.
3. The analytical, behavioral, and learning tools and skills necessary to recognize problems and to devise workable solutions or recommend actions.
4. A sense of ethical and social responsibilities.
5. Theoretical knowledge which will provide a background necessary for the proper interpretation of practical problems; and
6. An ability to communicate thoughts effectively.

A study which seeks to evaluate a curriculum faces a number of difficulties, since it necessarily involves a series of subjective judgments. The objectives of the accounting program of Kuwait University are well defined but have not yet been fully implemented. The present accounting curriculum is considered neither perfect nor unchangeable. A determined and continuous attempt has been made to implement these foregoing objectives. This accounts for the several changes in the accounting curriculum during the last ten years.

To generate a sufficient number of qualified accountants for the present and future needs of Kuwait, the contents of the accounting education program must be improved to better reflect the environmental factors

<sup>6</sup> "Report of the Committee on Professional Education in Accounting," *Accounting Review* (April 1959): 197-198; and "Report of the Committee on Junior (Community) College Curriculum in Accounting," *Accounting Review Supplement*, vol. XIVII (1972): 164-185.

peculiar to Kuwait. In general, the accounting curriculum has moved in this direction. The present curriculum designed for accounting majors, however, need to include more courses in the areas of the social environment of business, quantitative analysis, and computer application.

### **Academic Staff**

Compared to their US counterparts, almost all Kuwaiti accounting teachers are full-time professors. All of the present accounting teachers in Kuwait University have terminal degrees (PhD) in accounting, and some have professional accounting qualifications such as Certified Public Accountant. In addition, the faculty brings with it wide experience as accounting educators and practitioners, gained prior to joining Kuwait University.

Despite these desirable credentials of the accounting faculty, several problems exist. A major problem of accounting education in Kuwait is the lack of an adequate number of qualified professors because of the difficulty in recruiting faculty. To attract well-known professors and scholars, the university should provide better compensation for the academic staff and adequate funds for departmental research and professional service projects.

### **Accounting Textbooks**

The lack of proper accounting textbooks is an additional problem facing Kuwait University. Over the years, several American textbooks have been translated, with some modification, into Arabic. The translation process, however, has led to a number of problems which reduces the usefulness of these textbooks. This is primarily due to differences in the use of terminology and idiomatic expressions in Arabic from country to country.

The differences in terminology among the different Arab countries are problems which accounting educators and practitioners should consider carefully. Preferably, the local or the common and widely accepted terms should be employed with less frequently used terms possibly added parenthetically.

Another problem is generated by the differences in local practices or laws. This condition exists to some extent in all Arab countries. For example, every business in Kuwait is required under Law No. 68 of 1980 to maintain at least two books (the daily journal and the inventory book). This requirement may not be applicable to other Arab countries. Translations of foreign textbooks, therefore, need to be clarified and modified to fit local practices.

A significant problem is the continued availability and use of translations of old texts. For example, some introductory and intermediate accounting materials in the Arab world were translated from early English editions with questionable relevance and outdated facts. New American textbooks, especially in the financial, managerial and cost accounting fields, have been more recently translated with some modifications to fit local needs.

Finally, the unavailability of instructors manuals for instructors adopting the translated textbooks has been a problem. Contrary to the practice followed in the United States, authors of Arabic textbooks do not provide such manuals for instructors.

### **Teaching Methodology**

Much of the discussion concerning teaching methodology in accounting has centered on the case method versus the analytical approach. Kuwait most likely will benefit from combination of the two educational approaches as it is desirable for the Kuwaiti student to obtain some knowledge of actual accounting cases. To achieve this, universally recognized methods, such as reading assignments, written problems, lectures, examinations, seminars, on-the-job training, and visual aids are employed. The following description has some of the educational techniques applied in Kuwait:

1. Lecture, reading assignments, and written problems: These methods are presently the mainstay of accounting instruction in the Accounting Department at Kuwait University. Better textbooks could contribute significantly in this area by allowing more time for classroom discussion and clarification. This would reduce the preparation time required by professors, thus allowing them more time for research.
2. Visual aids and computing facilities: At present, these techniques do not constitute a major part of the accounting curriculum. Instruction would be more effective if more were used. There is a plan to expand the quality and quantity of these aids and facilities in the near future.
3. Examinations: Prior to the 1973/74 academic year, the quality control operation (testing examination) resembled that of the European system. Quizzes were seldom used, and only one examination per year was given. Students who failed had to wait for the following year's final examination to improve their academic standing. Beginning with the 1973/74 academic year, the testing or examination system was changed to a system more similar to that of the United States. More than one examination and a number of quizzes are now used during each semester.

### **The New Proposed Program**

Developing nations have tended to borrow concepts and standards from developed nations on the grounds that these are the best concepts and standards available. The environmental factors surrounding business activities in developing nations differ from those in developed nations. Furthermore, the legal, political, social, cultural, and economic systems also differ from one environment to another. It is necessary to utilize only those concepts and standards that are applicable to each individual environment. With this in mind, Kuwait University has developed a new program which relates to its unique environment.

Consequently, several committees were formed to study and develop a new program. Some of the factors considered by the committees were: (1)

requirements of the labor market which encompasses all segments of the economy, government, private, and mixed sectors; (2) economic future of Kuwait as a financial center; (3) replacement of the existing College of Commerce, Economics and Political Sciences since it is not suitable to the labor market in Kuwait; and (4) advantages presented by the development of accounting in other countries, such as other Arab countries, the United States, and the United Kingdom.

The program requires proficiency in both Arabic and English, a basic knowledge of economics and mathematics, and completion of high school study. Since many high school graduates will not have the required proficiency and knowledge, the proposed program includes a preliminary semester. The student must complete 132 credit hours to receive a degree (see Table 7.7).

TABLE 7.7 *Credits Hours Requirement, Kuwait University*

Years	Credits
Preliminary	6
First and second	60
Summer training	3
Third and fourth	60
Summer training — third year	3
Total credits required for bachelor	132

Table 7.8 details the requirements for the bachelor's degree. Table 7.8 indicates that the first and second years consist of general and business studies. The courses in this period include management, marketing, finance, accounting, economics, managerial sciences, and research methods, as well as Arabic and English languages. Students must also elect nine credits in general requirements. In the third and fourth years, the students specialize in one of the following: management, marketing, finance and investment, management information systems, business economics, accounting, and insurance.

For a major in accounting, the student must have thirty credits in required courses and may elect an additional eighteen credits offered by the Accounting Department.

Table 7.9 lists the compulsory and elective courses. Table 7.9 indicates that the students spend their summer in internship programs (training) after the second and third years.

The proposed program resembles the existing requirements in the United States. The only distinct feature of the program is the practical experience which is integrated into the curriculum. This helps students to relate the concepts taught in the classrooms to the local environment.

TABLE 7.8 Proposed Degree Requirement

Preliminary semester	First and second years	Third and fourth years	
6 credits	60 credits	60 credits	3 credits
<p>A. English language (only for the college students, non-credit hours)</p> <p>B. Statistics and mathematics (6 credits)</p> <p>(x) Introductory semester may be more than six credits. There may be more than one introductory semester, depending on the student's educational background.</p>	<p>A. Compulsory courses (51 credits) The credits 6 Management 6 Marketing 6 Finance 6 Quantitative Methods 6 Accounting 6 Economics 6 Managerial Science (in English) 3 Methods of Scientific Research 3 Law 3 Arabic language</p> <p>B. Elective courses (9 credits) The student selects 9 credits given at the University</p>	<p>Specialization program credits of the program of specialization 48 credits</p> <p>A. Compulsory courses 24 credits minimum 30 credits maximum</p> <p>B. Elective courses 24 credits if credits of compulsory courses are 30 credits (x) Elective courses are inside the college</p> <p>C. Electives (12 credits) Courses given at the University</p>	<p>3 credits</p> <p>S u m m e r t r a i n i n g</p> <p>S u m m e r t r a i n i n g</p>

TABLE 7.9 *Accounting Program*

Compulsory courses (30 credits)	Elective courses (18 credits)
<ol style="list-style-type: none"> <li>1. Intermediate accounting</li> <li>2. Advanced accounting</li> <li>3. Cost accounting</li> <li>4. Managerial accounting</li> <li>5. Principles of auditing</li> <li>6. Principles of governmental accounting and non-profit organizations</li> <li>7. Accounting system</li> <li>8. Accounting theory</li> <li>9. Computer applications</li> <li>10. Business policies (last semester)</li> </ol>	<ol style="list-style-type: none"> <li>1. Auditing</li> <li>2. Cost accounting</li> <li>3. Managerial accounting</li> <li>4. National accounting</li> <li>5. Oil accounting</li> <li>6. International accounting</li> <li>7. Accounting for financial institutions</li> <li>8. Advanced accounting for governmental and non-profit organizations</li> <li>9. Special topics</li> <li>10. Seminar</li> </ol>

### **Conclusion**

The study has presented the development of the Kuwaiti accounting profession in general and development of accounting education in particular. The economy of Kuwait has been developing at a rapid rate. Therefore, the accounting profession should be playing a more important role and be responsive to the country's present and future information needs. To meet these needs, the concepts of the new program has been introduced as a step toward achieving the needed changes which have not been implemented. Some of the issues which require additional attention and discussion in connection with the efforts to improve the accounting profession and accounting education in Kuwait are: accounting and auditing standards setting; standards for admission into accounting program; and that accounting faculty should maintain competence in the information technologies such as computer applications; the development of accounting curriculum; writing textbooks, doing research and publishing in periodicals.



# The Accounting Profession in Saudi Arabia

ABDULLAH M. AL-FAISAL

## Introduction

Saudi Arabia is an Arab State. It occupies about four fifths of the Arabian Peninsula, which is located in southwest Asia between the Red Sea, the Arabian Sea and The Arabian Gulf. The area of the country is about 870,000 square miles or about one fourth that of the United States. It has most of the geographical features except the internal bodies of water. The country is mostly dry except the Western Province which has spring and summer rain enough for seasonal agricultural activities.

Agriculture in other provinces depends mostly upon underground water which is pumped mechanically or naturally in the form of springs. The Eastern Province, for instance, has about 3,000 water springs. The country's population is estimated to be twelve million. They are clustered in about ten major cities or scattered in farm villages around the country.

Present Saudi Arabia consists of four provinces. Western and Eastern Provinces were indirectly under the control of the Ottoman Empire, but they were freed before the collapse of the Ottoman Empire in 1918. Because of that, Saudi Arabia escaped Western colonization which followed World War I. Saudi Arabia was isolated from Western civilization for a long period of time until the major discovery of oil in 1933 by Standard Oil of California. Standard Oil, with three other American oil companies, formed the Arabian American Oil Company (ARAMCO) through which the country opened its eyes to see the modern world. The effects of the isolation of Saudi Arabia from Western civilization were twofold: it kept the country technologically and economically behind for some decades, it also preserved the social values and old Arabic traditions of the country.

As is the case with most countries, traditional religious education was the only education system in Saudi Arabia until modern educational systems were introduced in 1926. The Ministry of Education was created in 1954. In 1957, the first modern university was established. Since 1965, the expansion of education has continued. New public schools were being opened on the

TABLE 8.1 *Higher Education in the Kingdom*

	1985/86			1986/87		
	Total	Male	Female	Total	Male	Female
Number of Students						
University						
Colleges*	85,109	62,202	22,907	88,310	64,304	24,006
Girls' Colleges**	<u>17,600</u>	—	<u>17,600</u>	<u>19,144</u>	—	<u>19,144</u>
Total	<u>102,709</u>	<u>62,202</u>	<u>40,507</u>	<u>107,454</u>	<u>64,304</u>	<u>43,150</u>
Number of Teachers						
University						
Colleges*	8,659	7,353	1,306	8,162	6,853	1,309
Girls' Colleges**	<u>1,065</u>	<u>106</u>	<u>959</u>	<u>1,111</u>	<u>123</u>	<u>988</u>
Total	<u>9,724</u>	<u>7,459</u>	<u>2,265</u>	<u>9,273</u>	<u>6,976</u>	<u>2,297</u>
Number of Institutions						
University						
Colleges*	66	66	—	67	67	—
Girls' Colleges**	<u>11</u>	—	<u>11</u>	<u>11</u>	—	<u>11</u>
Total	<u>77</u>	<u>66</u>	<u>11</u>	<u>78</u>	<u>67</u>	<u>11</u>

\* Including Girls' Sections.

\*\* Under the supervision of the General Presidency of Girls' Education.

Source: Ministry of Higher Education.

average of one every three days. Six additional modern universities were established in the last two decades. Table 8.1 shows the number of students in colleges and higher education.

Vocational training — technical, commercial and agricultural — is relatively new and exists only in the larger commercial centers. The first trade school was opened in 1949, but the expansion of vocational schools is not enough to meet the country's needs. Sending students abroad is one of the elements of Saudi education. In 1982, for instance, 30,000 Saudi Arabi were studying abroad, either at the graduate level or in undergraduate fields not available in Saudi Arabia.

Saudi Arabia's economy is still dominated by the oil industry which in 1984 provided over 60 per cent of the government's revenue and approximately 90 per cent of the country's foreign exchange. The oil industry is owned by the government. Both the income generated by the oil industry and modern technology introduced by the oil companies have encouraged construction industries which constitute major economic activities in Saudi Arabia. Commercial activities reflect the increase in general economic activities. During the last two decades imports of both consumer goods and capital goods have increased sharply. Trade practices in major cities are

TABLE 8.2 *Companies Operating in the Kingdom  
(Capital in Million Riyals)*

Nature of Companies	1985		1986		1987	
	Number	Capital	Number	Capital	Number	Capital
1. Joint-stock companies	57	40,972.2	61	41,892.2	64	42,168.4
Saudi	41	30,978.3	44	31,848.8	47	32,124.5
Non-Saudi	-	-	-	-	-	-
Joint venture	16	9,993.9	17	10,043.9	17	10,043.9
2. Limited liability partnerships	3,256	17,406.9	3,522	19,682.2	3,703	21,615.7
Saudi	1,889	6,027.9	2,075	7,376.8	2,214	9,118.2
Non-Saudi	7	18.0	7	18.0	7	18.0
Joint venture	1,360	11,361.0	1,440	12,287.4	1,482	12,479.5
3. Joint liability partnerships	2,152	2,479.0	2,310	2,594.3	2,392	2,649.8
Saudi	2,098	2,450.9	2,256	2,566.1	2,338	2,621.7
Non-Saudi	7	3.3	7	3.3	7	3.3
Joint venture	47	24.8	47	24.9	47	24.8
4. Mixed liability partnerships	620	1,480.8	786	1,565.1	831	1,638.4
Saudi	586	1,434.2	752	1,518.5	797	1,591.8
Non-Saudi	1	0.3	1	0.3	1	0.3
Joint venture	33	46.3	33	46.3	33	46.3
5. Mixed liability partnerships by shares	10	6.5	10	6.5	10	6.5
Saudi	10	6.5	10	6.5	10	6.5
Non-Saudi	-	-	-	-	-	-
Joint venture	-	-	-	-	-	-
6. All companies	6,095	62,345.4	6,689	65,740.3	7,000	68,078.8
Saudi	4,624	40,897.8	5,137	43,316.2	5,406	45,462.7
Non-Saudi	15	21.6	15	21.6	15	21.6
Joint venture	1,456	21,426.0	1,537	22,402.5	1,579	22,594.5

Source: Ministry of Commerce.

gradually becoming more sophisticated with the characteristics of a commercial mechanism geared to a modern economy.

### **The Need for Accountants' Services in Saudi Arabia**

The case of professional accounting development in Saudi Arabia supports some accounting writers who see the corporate development of Great Britain and the United States in the 19th century as a major factor for the development of accounting in these countries. Until 1950, an accounting profession did not exist in Saudi Arabia because the business enterprises at that time were mostly proprietorships and partnerships. Corporations in Saudi Arabia were formed late in the 1950s. These were mainly in the field of electric power generation which were publicly supported in the form of stockholders providing the needed funds and of customers demanding products.

TABLE 8.3 *Individual Proprietorships and Firms Registered in the Kingdom*

Province	1985	1986	1987	Cumulative Total
Central	7,334	7,141	4,573	95,497
Western	15,117	10,265	2,545	100,435
Southern	1,679	1,703	4,276	17,687
Eastern	3,425	3,036	4,187	51,511
Northern	<u>1,638</u>	<u>1,505</u>	<u>964</u>	<u>18,607</u>
Total	24,193	23,650	16,545	283,737

Source: Ministry of Commerce.

At the present time there are sixty-four public corporations and 4,350 limited liability companies, besides large numbers of proprietorships and partnerships operating in Saudi Arabia. Corporations, for instance, are engaged in most business activities and are classified as follows: financial institutions — 11, industrial corporations — 12, cement industry — 8, services — 13, electricity — 10, and agriculture — 7. A large amount of money has been invested in these corporations. The following tables show the number of business institutions and the capital invested and the consolidated balance sheets of all banks in the country, which should help the reader form an opinion as to the overall size of the economy.

The existence of corporations has generated the need for providing useful and dependable financial statements. With the separation of corporate management from its ownership, stockholders have become interested in management's performance and how it contributes to the well-being of their investments. Creditors are aware that the assets of a corporation are the only coverage of their credits. Consequently, they have become increasingly concerned with the solvency of the corporation and its ability to pay its

TABLE 8.4 Consolidated Balance Sheet of Commercial Banks (As at the end of fiscal years)

	(Million Riyals)				
	1982/83	1983/84	1984/85	1985/86	1986/87
<i>Assets</i>					
Cash balances	10,856	10,245	11,018	13,186	13,918
Foreign assets	66,001	71,052	73,400	72,770	86,672
Loans and investments	49,397	56,001	59,280	58,081	59,264
Other assets	11,882	7,949	8,868	10,491	10,805
Total assets = liabilities	<u>138,136</u>	<u>145,247</u>	<u>152,566</u>	<u>154,528</u>	<u>170,659</u>
<i>Liabilities</i>					
Total deposits	99,117	109,293	114,146	113,372	121,927
Foreign liabilities	5,604	8,498	8,944	11,145	14,288
Capital and reserves	8,513	10,038	11,893	13,008	13,148
Other liabilities	24,902	17,418	17,583	17,003	21,296

\* Ten-month fiscal period.

debts. The government has interest in a corporation through the corporation tax and public protection. A corporation's management needs dependable financial information as a basis for future decision making. A corporation's customers and future investors look for reliable financial information. These different interests could be met by a neutral party through accounting services. Such services could be summarized as follows:

- a. Auditing according to the requirements of the Companies Act and the generally accepted auditing standards in Saudi Arabia.
- b. Bookkeeping and preparation of financial statements.
- c. Tax services.
- d. Management advisory services.
- e. Liquidation services.
- f. Special investigations and
- g. Representations before third parties, including government.

Saudi Arabian schools could not provide the needed skilled accountants because:

1. Most of the educated people were directed towards civil service, and
2. Business administration colleges are relatively new.

For the above reasons, accountants from other Arab as well as non-Arab foreign countries are allowed to practice in Saudi Arabia.

At the present time, accounting services are provided by 211 certified accountants. The following table shows certified accountants in Saudi Arabia classified according to nationality:

Nation of Origin	Number
Saudi Arabia	156
Britain	2
Lebanon	8
Pakistan	1
Sudan	1
United States	1
Egypt	25
Iraq	2
Jordan	8
Syria	2
Bahrain	1
Kuwait	4
	211

### ***Professional Certification***

In Saudi Arabia, professional licenses for accountants are issued by the government. The Ministry of Finance and National Economy was the government department which had the authority of issuing licenses until 1957. Since then the authority has been transferred to the Ministry of Commerce. The main requirements for certification at the present time are:

1. Applicant should be Saudi, or a non-Saudi licensed in his native country. The Minister of Commerce and Industry has the authority to license non-Arabs to practice accounting and auditing when he deems necessary.
2. Applicant should be a resident of Saudi Arabia.
3. Applicant should have a doctoral degree in accounting or a master's degree in accounting and one-year training in a licensed accounting office, in government or in business. Or, an applicant should have a bachelor's degree in business or its equivalent with three years training in government, a public corporation or private business. Accounting experience must be gained after graduation in order to qualify.
4. Applicant should be of good moral character.
5. A licensed accountant is allowed to audit corporate financial statements only after he has practiced accounting or auditing on his own as a public accountant for not less than three years.

### ***Rights and Responsibilities of Public Accountants***

In 1965 the Council of Ministers, by its Decision No. 185, confirmed by Royal Decree 6/M, issued the first comprehensive Companies Act in Saudi Arabia. The Act recognized the accounting profession and stated the rights and responsibilities of public accountants in Saudi Arabia in its articles 129–133, 229 and 230.

Article 130 deals with the appointment of the auditor, his fees and his independence. It states that the auditor is appointed and/or dismissed by the stockholders in their annual meetings. His fees and his reappointment are determined by the stockholders. In pursuing the object of maintaining the auditor's independence, the article prevents the auditor from combining his duties with that of a promoter, an incorporator, a director, or an employee. Furthermore, the auditor shall not be a partner, employee, or relative to the fourth degree of any of the founders or directors of the company.

Articles 131 and 132 explain matters dealing with standards of the audit report. These two articles require the Board of Directors to prepare, at the end of each fiscal year, financial statements as well as a report of the corporation affairs by the Board of Directors and make them available to the auditor. The financial statements and the auditor's report should be available for stockholders before the date of the annual general meeting. The audit report should clearly state:

- a. whether the auditor has obtained the information he needed from management,
- b. any violations of the Companies Act,
- c. any violation of the articles of incorporation have occurred, and
- d. the auditor's opinion as to the accuracy of the company's accounts.

The Act gave the auditor the statutory right to inspect the company's records and books, verify its assets and liabilities as well as demand any statement or clarification from management. He has the right to have the Board of Directors call for a general meeting of stockholders to discuss a matter not to be delayed to the annual meeting. Article 230 provided for imposition of a fine of not less than SR 1,000 (\$282) and not more than SR 5,000 (\$1,409) on any manager or director who impedes the auditor's work.

Article 133 deals with ethics as well as the auditor's legal liability. It states that the auditor shall not disclose to the stockholders outside the general meeting or to any other persons confidential information to which he had access during his audit. If he does, he shall be replaced and held liable for damages. This article holds the auditor responsible for damages to the company, stockholders, or any party by reason of error or negligence committed by the auditor in rendering his services. Article 229 imposes a penalty of imprisonment for not less than three months and not more than one year and/or a fine of not less than SR 5,000 (\$1,409) and not more than SR 20,000 (\$5,634) on any manager, director, auditor or liquidator who willfully includes false information in the financial statements or omits material facts in these statements with the intent of concealing the financial condition of the entity.

### ***Accounting and Auditing Standards***

The accounting profession in Saudi Arabia has been influenced by the accounting profession of Egypt because: (1) before the establishment of

business schools in Saudi Arabia, most Saudi college students in the field of business administration studied in Egypt; (2) after the establishment of colleges of business in Saudi Arabia, most of the business faculty positions were filled with Egyptians; (3) Egyptian legal advisors and accountants helped in drafting the Saudi Companies Act and the interim regulations of the accounting profession; and (4) most of the staff in the accounting firms are Egyptians. Similarly, the accounting profession in Egypt has been mainly influenced by the accounting profession in the United Kingdom because: (1) the British colonized Egypt; (2) most of the early Egyptian accountants were educated and licensed in England; and (3) Egyptian commercial law is mostly adaptations of British commercial law. From the foregoing discussion, it may be concluded that accounting principles in Saudi Arabia are mostly influenced by the generally accepted accounting principles in the United Kingdom.

In 1982 the Ministry of Commerce sponsored a project for developing accounting and auditing standards for the country. In 1985 the project resulted in; (1) writing up a set of auditing standards; (2) a conceptual framework of financial accounting which includes theoretical analysis of objectives of financial accounting and essential concepts for financial accounting and reporting standards; (3) general presentation and disclosure of financial information; (4) a suggested organization structure of the accounting profession; (5) suggested code of ethics, and (6) quality control procedures.

In 1986 the Ministry of commerce put auditing standards and general presentation and disclosure on trial for an undefined period of time. After this period, these standards will be subject to review and then put in force. The other items on the project are awaiting approval of the appropriate government decision, i.e. a new Public Accountant's Act. Such an act is under review at the present time. If it is approved, it will be issued by a Royal decree from the King of Saudi Arabia. Under the new act, a professional accounting body would be formed to take the responsibility of writing up the rest of the accounting standards and making appropriate amendments in the future.

The main features of the financial accounting objectives are: (1) the common needs of major external users, (2) nature of information that can be produced by financial accounting, (3) objectives and general purpose of external financial statements, and (4) limitations of financial statements.

The major features of the financial accounting concepts are: (1) basic elements of financial statements, (2) events, transactions and circumstances, (3) accounting measurements, and (4) qualitative information.

The standard of general presentation and disclosure is the first standard of a series of financial accounting standards to be issued in the future. The main features are general presentation requirements. Financial information is to be presented in a set of financial statements, including Statement of Financial Position, Statement of Income, Statement of Changes in Owners Equity, and Statement of Sources and Applications of Funds. General disclosure requirements are as follows:



Nature of the enterprise's activities  
Significant accounting policies or changes  
Changes in estimates  
Changes in structure of an accounting unit  
Correction of prior periods errors  
Financial commitments  
Subsequent events

In the absence of national accounting standards, corporations apply standards derived from commonly accepted practices, government regulations, international accounting standards and standards of different countries.

Up to 1986 there was no official national auditing standards in Saudi Arabia. This does not mean, however, that auditors in Saudi Arabia are not complying with auditing standards. In a survey by Ahmed Shimani in 1970 to test the compliance of Saudi auditors with American standards of auditing, he found that eight standards received 100 per cent compliance. These were: competent personnel, independence, due care, planning, internal control, sufficient evidence, adequate disclosure and expression of opinion.

Because auditing standards are concerned mainly with the qualifications of auditor and the art of performing auditing, including issuing the Audit Report, accounting authorities in Saudi Arabia did not find it difficult in promulgating commonly accepted international auditing standards. The standards on trial at the present time are:

- (1) qualification and proficiency of the independent auditor,
- (2) independence and objectivity of the independent auditor,
- (3) due professional care,
- (4) adequacy of planning,
- (5) supervision and proper documentation,
- (6) evidence, and
- (7) reporting.

The Audit Report has to meet the requirements of the Companies Act as well as the company's article of association. This compliance should be stated explicitly in the Audit Report. A sample of the short Audit Report is included in Appendix 2.

### **Accounting Education**

In order for the country to meet widely different needs of public and private institutions, different educational programs in accounting exist.

#### ***Pre-College Accounting Education***

Accounting education programs are available in eleven business schools at the high school level. These schools are scattered around the country to

provide needs for different areas. Some schools have evening as well as morning programs. Schools are supervised by the Vocational Education and Training Departments. Courses offered in these programs include principles of accounting and introduction to Zakat and tax accounting.

Students in these programs study a variety of subjects in other disciplines, such as management, banking and finance, commercial law, computer business applications, business communication and some quantitative courses. Graduating students are employed by either the government or the private sector. Those with high marks may be admitted to the University.

### ***College Accounting Education***

College accounting education is provided by three different types of institutions: universities of higher education, commercial institutes and the Institute of Public Administration.

Five universities teach accounting in an undergraduate program. Two universities have graduate and undergraduate programs. Table 8.5 shows the number of students in the School of Business at King Saud University.

TABLE 8.5 *Number of Business and Accounting Students in KSA*

Year	Number of School of Business Students in KSA	Number of KSU Accounting Students
1979/80	7,438	252
1980/81	7,405	278
1981/82	8,297	254
1982/83	9,819	207
1983/84	9,084	237
1984/85	10,139	214

King Saud University (KSU) in Riyadh is a leading university in the country for accounting education. The Department of Accounting has always been concerned with the development of its curriculum to keep up with world standards in order to meet the country's needs. The department achieves this through continuous contact with leading institutions in the world by sending students and visiting scholars to such institutions and by inviting scholars to KSU.

In order for a student to get a first degree in accounting, he or she must finish 126 credit hours. These are divided into 22 hours for — general university requirements, 9 hours for School of Administrative Science, 42 hours for major courses, 33 hours for elective courses from other majors, and 18 hours for elective courses from the accounting major. Details are shown in Appendix 8.1.

## APPENDIX 8.1

### Required Courses

#### Major Field

101 — Principles of Accounting  
102 — Principles of Accounting  
217 — Intermediate Accounting  
227 — Intermediate Accounting  
231 — Cost Accounting  
251 — Accounting Systems  
311 — Advanced Accounting  
312 — Advanced Accounting  
321 — Government Accounting  
322 — Tax and Zakat Accounting  
341 — Auditing  
411 — Accounting Theory  
  
431 — Managerial Accounting  
491 — Research Paper

#### Non-Major Field

Islamic Literature  
Arabic Literature  
English Literature (22 credit hours)  
Free Courses  
  
ECON 101 — Principles of Economics  
P.S. 101 — Introductory Politics  
Law 101 — Introductory Law  
QU 121 — Quantitative Methods  
QU 191 — Computers in Administration  
QU 211 — Mathematics of Finance  
QU 241 — Advanced Quantitative  
Methods  
QU 443 — Investment Analysis  
BUS 101 — Principles of B.A.  
ECON 102 — Principles of Economics  
ECON 211 — Money and Banking  
LAW 211 — Commercial Law

### Elective Courses

#### Major Field

ACCT 331 — Cost Accounting  
ACCT 412 — Contemporary  
Issues in Accounting  
ACCT 413 — Applied Accounting  
ACCT 441 — Auditing  
ACCT 451 — Accounting &  
Computer  
ACCT 492 — International  
Accounting  
ACCT 493 — Selected Topics  
ACCT 495 — Internship

#### Non-Major Field

P.A 211 — Administration  
BUS 283 — Management  
Information Systems  
BUS 321 — Manpower Planning  
BUS 331 — Production Management  
BUS 412 — Business Finance  
LAW 311 — Intermediate Law  
QU 351 — Advanced Quantitative  
Methods  
INF 215 — Communication Theory

In order for a student to get a master's degree in accounting from KSU, he or she has to finish 42 credit hours in accounting and other related fields of study. Courses are:

**Accounting Courses:**

- ACCT 501 — Research Methodology
- ACCT 511 — Studies in Accounting Theory
- ACCT 541 — Auditing
- ACCT 551 — Information Systems
- ACCT 571 — Controllership
- ACCT 591 — Research Paper in Accounting
- ACCT 512 — Studies in Professional Practice
- ACCT 522 — Behavioral Accounting
- ACCT 561 — Contemporary Issues
- ACCT 575 — Analyzing Financial Statements
- ACCT 581 — International Accounting

**Non-Accounting Courses**

- ECON 507 — Managerial Economics
- QU 553 — Model Building in Decision Making
- IS 545 — Computerized Information Systems
- BUS 522 — Portfolio Analysis
- BUS 561 — Business Policies
- BUS 590 — Decision Making

Besides the program offered by KSU at its main campus, it also offers a program in accounting leading to a first university degree at its campus at Al-Quasim. In the near future, Abham campus will be admitting students for the accounting program.

King Abdulaziz University in Jeddah is another major university in Saudi Arabia teaching accounting programs at the graduate and undergraduate levels. King Faisal University in Al-Hesa and Mohammed bin Saud University in Al-Hesa, Al-Quasim and Abha campuses offer accounting programs leading to the bachelor's degree.

King Fahad University in Dharan teaches accounting in its School of Industrial Management. It offers a bachelor's degree in industrial management with concentration in accounting. In order for a student to get such a degree, he has to take at least 18 credit hours of accounting.

Vocational Education and Training Department offers accounting programs in two of its commercial higher educational institutes. The Public Administration Institute also provides accounting programs for high school and university degree holders. After a two-year program, students join the government for a government career in accounting.

### **The Future of Accounting in Saudi Arabia**

Accounting in Saudi Arabia is undergoing major developments in education, organization and standardization. Demand for accounting services is

increasing in both the public and private sectors as well as in the profession itself. There are more than 10,000 jobs awaiting Saudi accountants in the government sector. In business and industry Saudi nationals occupy less than 20 per cent of accounting jobs.

In the public accounting sector, at least 25 per cent of a firm's employees should be Saudis. Permission may be obtained from the Ministry to waive this requirement. Saudi accountants are paid at least twice as much as non-Saudis with the same qualifications.

This situation has led to an expansion of accounting programs at all universities. The quality of programs is also being upgraded.

Saudi Arabia at the present time is undergoing a number of economic adjustments, which implies that greater emphasis should be given to efficiency and cost control. To improve quality, King Saud University, for instance, has added more quantitative and computer courses to undergraduate programs and made major improvements to its graduate program.

A School of Accounting is currently under consideration at KSU. Such a school will give more flexibility in executing accounting programs than what is available under the departmental system. Other universities might follow a similar route to increase the quality and quantity of accounting education.

The new Public Accountants Act will be important to the future of accounting in Saudi Arabia. It is expected that practicing accountants in the field of public accounting would be limited to Saudi nationals. This would increase demand for qualified Saudis and make the profession more attractive. It is expected that the new Act would form a professional organization for public accountants, similar to the AICPA in the US. It would be charged with the responsibility of setting examinations, providing continuing education, issuing and amending auditing standards, accounting research, organizing workshops and seminars on accounting issues, publishing periodicals and proposing changes in the Public Accountants Act.

The new act would stress the legal liability of public accountants. Such emphasis would force public accountants to be more careful when they express opinion on a company's financial statements; it would give the courts clear reference points for ruling on disputable accounting cases.

Since the issue of the general presentation and disclosures standard on a trial basis in 1986, the quality of financial statements has improved. In the near future, it is expected that compliance with standards will be compulsory. More standards would be promulgated when the new accounting society comes into existence.

The future of accounting in Saudi Arabia will be affected by development in the Gulf Cooperation Council (GCC) countries.<sup>1</sup> GCC countries adapted in 1987 three documents relating to accounting matters. They adopted a unified act for public accountants, but permitted a three-year trial period before it became compulsory.

<sup>1</sup> The Gulf Cooperation Council (GCC) countries are Saudi Arabia, Kuwait, Bahrain, Qatar, the United Arab Emirates and Oman.

*Abdullah M. Al-Faisal*

They also adopted the statement of financial accounting objectives, the statement of financial accounting concepts and the auditing standards presented by the Ministry of Commerce of Saudi Arabia. These statements and standards are the same documents prepared for the Ministry of Commerce of Saudi Arabia in 1986. A meeting of GCC representatives is planned to discuss the general presentation and disclosures presented by Saudi Arabia.

# Accounting Education in Australia

MURRAY C. WELLS

## **Accounting in the Australian Economy**

Australia has a population of 16 million concentrated on the south-east coast of the continent. It is the most urbanized country in the world, largely because of the harsh conditions in the “dead center.” Distances are vast and transport and travel are often difficult. The economy was built upon primary products from farming and mining. Those products are still important (Australia is recognized as Japan’s coal mine!), but have been overtaken by tourism and other service industries as the main export earners.

The two largest cities, Sydney and Melbourne, are major commercial and financial centers. Both have populations of about 3 million; both are major ports; they have significant manufacturing sectors; and they have a full range of financial services, including the usual financial intermediaries, stock exchange, futures exchange, options market and so on. Australian banks are amongst the most technologically advanced in the world and both Sydney and Melbourne are recognized as key financial centers for Asia and the Pacific rim.

Accounting plays a significant part in the service sector of the economy. As with all advanced economies, Australia is becoming more service based and less dependent on commodities. Within that context, it is interesting to observe that one of Australia’s major exports, and the fastest growing part of the export sector, is education. Within that export market, accounting education dominates. Thousands of students from the Asian countries study in Australia and obtain professional accreditation before returning to their own country to seek employment or practice as accountants. Indeed, in some Asian countries, membership of a recognized foreign professional body is the normal route to professional recognition.

## **The Accounting Profession**

The Australian accounting profession consists of two bodies — the Australian Society of Accountants (ASA) and the Institute of Chartered Accountants

in Australia (ICA). Technical level accounting clerks are served by the National Institute of Accountants (NIA). The ASA is the largest professional body (of any discipline) in Australia with 56,000 members. The ICA has 15,000 members.

Traditionally the ICA represented accountants in public practice, and even today public practitioners dominate the Institute. However, the ASA has more members in public practice than the ICA, but they tend to be in the smaller practices. The Big 5 (previously the Big 8) public accounting firms are usually thought to be the backbone and strength of the ICA. However, with changing employment trends, the ICA now has a substantial proportion of its membership in commerce and industry. Nevertheless, admission to the ICA still requires three years' practical experience in the office of a member of the Institute in public practice. The ASA also has a three years' practical experience requirement within its membership structure, but that experience may be obtained within any branch of accounting including commerce, industry or government.

Both professional bodies have a range of membership levels, but the effective entry requirement in both is a recognized bachelor's degree from an accredited university. A "relevant" bachelor's degree will normally contain all of the subjects required to satisfy the academic requirements for admission to the professional bodies. However, that is not essential as the degree may be supplemented by approved subjects taken outside the degree or, indeed, a non-relevant degree may be supplemented by all of the subjects required by the professional bodies.

The ICA has only two levels of membership, "Associate" and "Fellow". Associate membership requires the satisfaction of all the conditions for membership, including eligibility for a "practicing Certificate" and all members are, therefore, eligible to enter public practice. The recognized designations for membership are "ACA" or "FCA".

The ASA has four levels of membership (see Figure 9.1):

Provisional	– no designation
Associate	– "ASA"
Certified Practicing Accountant	– "CPA"
Fellow	– "FASA"

The recognized "professional" level of membership is "CPA" and that status must be achieved before a member can be issued with a "Practicing Certificate."

The requirements of the professional accounting bodies determine to a large extent the nature of accounting education in Australia (see Marsh and Henning, 1987, for a review of the background to accounting education policy; and Goldberg, 1981). Hence this brief introduction to the structure of the accounting profession. Also important is the relationship between the educational institutions and the professional bodies. While that relationship is now very harmonious, that has not always been the case (Keown, 1948;



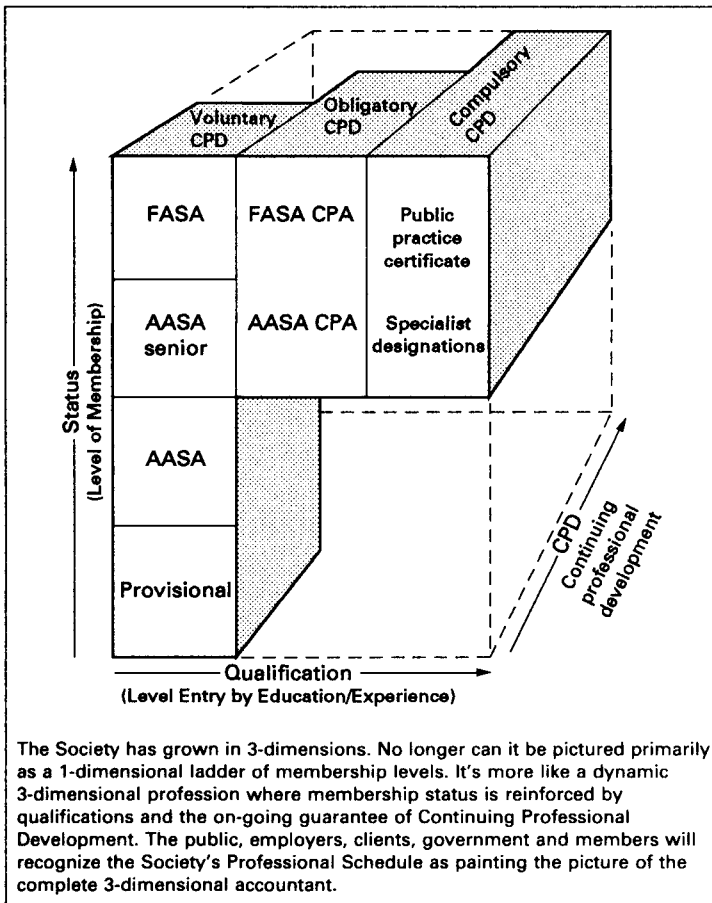
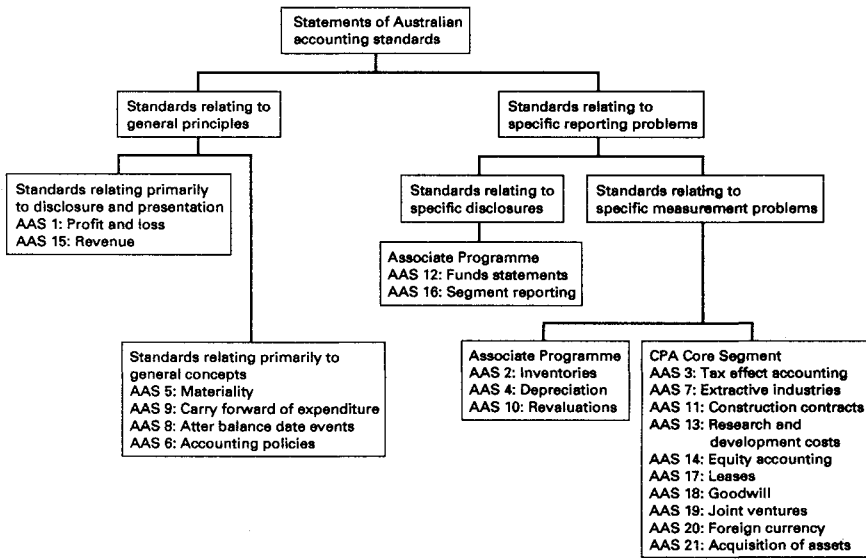


FIG 9.1 The "3-Dimensional Accountant"

Chambers, 1948). However, it is only very recently that the educators have been sufficiently well organized and cohesive to use their own organization — The Accounting Association of Australia and New Zealand — AAANZ (for a history of the Association, see Goldberg, 1988). That Association, amongst its other objectives, is used as a negotiating medium with the professional accounting bodies. This has been particularly evident in a recent (1988/89) Review of Accounting Education in Australia (see "Executive Summary" of the Report in Appendix 1), and a campaign to increase funding for accounting education within universities. Both the review and the funding campaign were skillfully managed through the joint efforts of the ASA, ICA and AAANZ. Both professional bodies also have strong representation from universities on their education and membership committees.

The present educational requirements of the professional bodies and the



The accounting standards dealt with in the Associate Programme are the more generally applicable standards, those which are most often used by accountants working in different areas of employment. That is, they represent the *minimum* knowledge that all accountants must have and which, therefore, should be in the Associate Programme. Also, there are logical linkages of content among the standards, or among the groups of standards listed above and they are relevant across the whole range of public and private sector reporting entities. The remaining accounting standards are dealt with in the CPA Core Segment.

You will need to retain and use your Associate Programme study guide when you move on to the CPA Core Segment.

FIG.9.2 Treatment of accounting standards in the Associate and CPA Programmes

curricula of the educational institutions reflect the close working relationship between those organizations. For example, it is expected that candidates for admission to the Institute of Chartered Accountants and the Australian Society of Accountants will be thoroughly examined in the technical details of current accounting standards (or GAAP) during their “professional year” of study (see Figure 9.2).

It is not expected, therefore, that the teaching institutions will necessarily require their graduates to have that level of technical expertise. All universities do, in fact, deal with accounting standards, but in their own way. Some treat them as an example of “best practice,” some as the regulatory framework in which accounting is practiced, some as the vehicle through which to examine accounting choices of managers, and so on. The point is that the universities, secure in the knowledge that the professional bodies impose their own educational and training requirements on applicants for admission, can tailor the university curricula to meet educational objectives that may be different from those of the professional bodies. The policies of the professional bodies to impose their own training courses and examinations thus allow universities greater freedom than

binding them by a set of professional prescriptions leading to examinations which graduates sit immediately before or after graduation. It also goes some way to removing the temptation to use the results from those professional tests as a measure of the success of the universities. Indeed, the ASA very sensibly does not allow publication of the results of its admission examinations, thereby preventing the preparation of the statistics by which universities might (spuriously) be ranked and compared.

## **The Universities**

There are 26 universities in Australia, only three of which are private. All of the others are State universities except for the Australian National University (ANU), which exists under Federal legislation. Despite their origins within the seven States of Australia, the State universities and the ANU are funded (and thereby effectively controlled) by the Federal Department of Employment, Education and Training.

The first university in Australia was the University of Sydney (1850), although the University of Melbourne was the first to introduce a full “major” in accounting, in 1925. Now, all 26 universities teach accounting within a variety of degrees — Bachelors of Economics, Commerce, Business, Accounting and others, and most of the universities offer Masters and Doctor of Philosophy degrees in Accounting.

## **Undergraduate Programs**

All of the major State Universities (Sydney, Melbourne, Queensland, Adelaide, Western Australia and Tasmania) are metropolitan universities. They are the most sought after in their respective States and it is not normal for those who can gain admission to the leading university in their own State to travel away from home to attend an out-of-State university. That is, because of the distances involved, even those students who do not gain admission to the leading university closest to their place of residence will usually enter another university within their State rather than attend a university in a neighboring State.

The leading universities are, generally, large — up to 25,000 students. Most bachelor’s degrees require three years of full-time study or six years of part-time study. Some universities allow students to switch from one mode of study to the other and there are a variety of other study patterns available, including “sandwich” courses (interspersed with work experience) and distance learning.

Typically, Australian bachelor’s degrees in the business area contain 20 to 24 semester units varying in weight from 2 hours per week to 4 hours per week. In addition, students would be expected to prepare assignments, write essays and complete computer modules in open access or supervised computer laboratory sessions. In addition to regular hand-in assignments and class quizzes, all students will be assessed by formal examinations at the

conclusion of each course. In most universities, students are allowed only two attempts at a course. Two failures in one of the courses within a major sequence may, therefore, disqualify a student from proceeding further with their degree. It is not common for Australian degrees (other than the Bachelor of Arts) to contain any liberal arts requirements as they are assumed to have been covered in the final two years of high school.

Accounting courses are usually offered within an economics, commerce or business degree. Those degrees typically contain compulsory courses in economics and quantitative methods, and some include other subjects such as communication skills or research methods.

The "Honors" degree, usually requiring an additional year of study, is a specialist program designed for students wishing to carry on to graduate work in their area of specialization. Students can earn "distinctions" in their normal coursework leading to a "pass" degree, but the award of "First (or Second) Class Honors" requires the additional year and is recognized as an award of great distinction. Grade point averages are not used in Australia.

### **Graduate Programs**

Most of the Australian universities offer graduate programs in accounting. These include master's degrees by coursework or by coursework and research thesis and doctoral programs. Master's degrees tend to follow the pattern of courses in research methods and current topics common in the US. Macquarie University has one innovative program that allows candidates to prepare for the ICA's Professional Year as part of the Master's degree coursework.

It is not usual to include professionally recognized accounting courses in an MBA program, and this avenue for admission to the professional accounting bodies is not used in Australia.

Until recently, doctoral programs followed the British system in that they were by research thesis only. More recently, and in response to the demand for more analytical skills and empirical research, a number of universities have adopted programs that follow more closely the usual pattern in the US. None of the Australian universities has a large doctoral program, although the University of Sydney has graduated more than 15 PhDs since 1974. Increasingly Australia is being recognized for the quality of its academic programs and demand for doctoral studies from within Australia and overseas is becoming very strong.

One factor inhibiting the growth of graduate programs has been the severe shortage of suitably qualified faculty faced by all Australian universities. Until very recently, it has been common for aspiring academics to obtain their PhD in the US. Typically, they do not return to Australia. There are a number of reasons for this:

- (1) The US schools imbue their doctoral candidates with the need to be "close to the action," and because of poor funding, Australian universities have, in the past, been unable to establish a comparable research environment.

- (2) The State universities have had a common salary scale which seriously impeded attempts by Australian universities to attract faculty back from the US or even to encourage graduates to seek an academic career.
- (3) Access to computer data bases such as the Compustat files was impossible from Australia and comparable data bases did not exist.

It is now recognized that most of the impediments to recruiting faculty in Australia have been or are being overcome. Universities are now able to respond to market demands in determining appropriate salaries. The major universities have well established and recognized doctoral programs; data bases have been established and accounting departments presently have computing power to support them. In terms of creating the right environment to attract young faculty to Australia, a recent survey showed that the Sydney metropolitan area (which has five universities) would be ranked within the top four geographical areas in the world in terms of research output (Reeve and Hutchinson, 1988). Cooperation between universities within the Sydney metropolitan area is increasing, to the point that a proposal to offer a joint doctoral program is currently (October 1989) under active consideration by the University of Sydney, Macquarie University and the University of New South Wales. That program will bring together one of the best research teams in the world.

### **Accounting Courses**

The majority of students majoring in accounting undertake their degrees full-time. However, a substantial number of students study part-time while distance learning is less common.

The two professional accounting bodies jointly accredit university degree courses. An applicant for membership with an accredited degree may proceed directly into either of the professional bodies' training and examination programs. To obtain accreditation, a degree program must contain three years of accounting studies (that is, six semester units of 3 hours per week), two semester units of economics, four semester units of commercial law, one of audit, two of finance and one of statistics or quantitative economics.

Course content follows closely the pattern found in North American universities except that relatively less weight is normally given to the intimate detail of GAAP. As indicated above, while practical applications and the theoretical examination of some standards is expected, the detailed study of all standards commonly found in the US is not as common in Australia. However, more usual is an early exposure to research results and controversial areas like Capital Asset Pricing Models (CAPM), agency theory, measurement issues, options pricing, risk measures, activity costing, the independence and liability of auditors, and so on.

An interesting innovation has been proposed by the Australian Society of Accountants. The Society's National Membership committee believes that there is a substantial number of graduates who will not want full

membership, and may not even wish to practice as an accountant, but who still wish to “belong” to a professional body and enjoy opportunities for professional development without claiming professional certification. They may not have taken the full sequence of subjects necessary for certification but have completed enough to satisfy some minimal entry requirement — for example, no auditing but three years of information systems; or no courses in information systems but a major in finance. It is proposed to admit such people as “associate” members but to prevent their further advancement to CPA without completing all of the subjects required for full certification.

It should be emphasized that the accreditation process does not require conformity with detailed course prescriptions. The professional bodies indicate broad areas of study that must be included in a degree, but they do not specify curricula, level of achievement, teaching or assessment methods or other matters of detail (see Appendix 9.2). They do, however, have guidelines relating to the qualifications of the faculty, library holdings, study facilities, computing facilities, and so on. In recent times the professional bodies have withheld accreditation or threatened to withdraw accreditation from particular universities in some instances because faculty were not properly qualified or the physical facilities were inadequate. In general, however, there is close cooperation between the universities and the joint professional Accreditation Committee. The occasional case where accreditation is refused or withdrawn, and the more common instances where the Accreditation Committee makes recommendations to a university, indicate that the process is taken very seriously, and is not just an annual ritual in satisfaction of some ineffectual regulation.

### **Professional Certification**

Both the Australian Society of Accountants (ASA) and the Institute of Chartered Accountants in Australia (ICA) require applicants for membership to undertake a period of study and sit examinations after graduating with an accredited degree. “Full membership” in this case means achieving “CPA” status within the Society of Accountants or “Chartered Accountant” “ACA” status within the Institute. The Society’s set of study and examination requirements is known as the “Professional Schedule” and the Institute’s is known as the “Professional Year.”

The professional requirements of the two bodies are similar in concept, but different in their mode of delivery. Because it has to cater with applicants from a wide range of employment areas, the ASA has had to cope with wide geographical spread in its membership and in its applicants for membership. These range from employment within financial intermediaries, public sector, and major companies in large cities to suburban accounting firms, employers in country towns and mining companies at very remote drilling and mining sites. The ICA, on the other hand, assumes that with its “apprenticeship” requirement, most if not all of the people applying

for membership will be located in major towns or cities and will be able to attend classes on a regular basis. The ICA's study requirements are, therefore, based on a tutorial system while the ASA's is based on distance learning. Both have formal examinations although, again, because of the large numbers involved, the ASA makes greater use of multiple choice examinations while the ICA still relies on traditional problem solving and essay-type examinations.

The Professional Year and the Professional Schedule are both presented in modular form. Students must pass all modules to obtain full certification. The modules include taxation, audit, external reporting, and professional ethics. In the case of the ASA's Professional Schedule, different parts of the Schedule must be completed in order to achieve different levels of membership — that is, some basic modules based on the Society's "Membership Handbook" (which includes all the Accounting Standards and Ethical Statements) are required for admission to an "Associate," while more detailed and extensive tests apply for advancement to CPA status. The ICA, on the other hand, has no intermediate level of membership, and candidates must pass all modules in the Professional Year before admission to the main membership level of Associate Chartered Accountant. (The "Professional Year" originally meant just that — all modules had to be completed within a set 12-month period. That requirement has now been relaxed and the program can be completed over two or three years.)

## **Conclusion**

Australia is fortunate in having an educational system for accountants which is well coordinated and in which the respective responsibilities of the universities and the professional bodies are well understood and respected. That is not to say that there are no tensions or contentious issues. Debate between the two sectors is common and, as we might expect, at times heated. Nevertheless, the system is effective and people entering the profession are well qualified. The demand for accountants within Australia is high but, as an indication of the quality of Australian accountants, it also remains very high overseas. Thousands of overseas students seek to obtain their bachelor's degree in accounting in Australia and it is not uncommon to find British and US firms recruiting recently qualified accountants in Australia. Australian accountants who travel have no difficulty in finding suitable employment or professional placement overseas.

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# Task Force for Accounting Education in Australia REPORT

Commissioned by the Joint Standing Committee of  
THE INSTITUTE OF CHARTERED ACCOUNTANTS IN AUSTRALIA  
AUSTRALIAN SOCIETY OF ACCOUNTANTS  
with the  
ACCOUNTING ASSOCIATION OF AUSTRALIA AND NEW ZEALAND  
February 1988

## **Executive Summary**

### ***Background to the Report***

The Task Force for Accounting Education in Australia was created by the Joint Standing Committee of the Institute of Chartered Accountants in Australia and the Australian Society of Accountants in August 1985 in conjunction with the Accounting Association of Australia and New Zealand, following widespread concern within the profession and among accounting educators over problems facing accounting education.

The Task Force met for the first time in November 1985 and consisted of representatives from the two professional accounting bodies and the Accounting Association of Australia and New Zealand. Its extensive enquiries were largely concluded by December 1987.

### ***Task Force Terms of Reference***

The following terms of reference were adopted in November 1985:

1. To determine the identity and needs of the various users of accountants.
2. To determine appropriate educational models for the accounting profession.
3. To consider the need for and processes of professional accreditation.
4. To determine resource requirements for accounting education including human resources, financial resources and alternative sources of funding.

5. To review the various institutional structures in which business/accounting qualifications are offered.

### ***Enquiry Procedures***

The Task Force was concerned primarily with future trends in accounting education; however, it also reviewed historical and contemporary statistics and opinions.

The Task Force chose to publish progressively a series of articles on emerging issues, in order to generate debate within the accounting profession and to keep members of the three sponsoring bodies informed.

Major commissioned studies included: a historical study of supply and demand; extant models of accounting education in Australia; qualitative issues affecting accounting education; funding of accounting education; and Delphi Studies of the educational needs of eight different categories of accountants.

### ***Major Issues***

- There has been an explosion of knowledge in accounting and cognate disciplines, creating significant pressures on the traditional three year undergraduate accounting degree.
- An excess of demand over supply for various categories of accountants will continue for the foreseeable future.
- Specialization is a fact of life in many areas of accounting practice, but is not yet reflected adequately in educational processes.
- The shortage of good quality accounting academics is serious, and will create intractable problems relating to the production of a sufficient number of well educated graduates and postgraduates, unless significant remedies are applied.
- Accounting education is critically under-resourced, in both human and financial terms, with high student/staff ratios and low expenditure per student widespread throughout tertiary institutions.
- Accounting research in Australia is under-resourced, and warrants funding support by the profession and others.

### ***Major Recommendations***

- Tertiary institutions should progressively alter the required content of their undergraduate degrees to permit greater flexibility and facilitate later specialization.
- Harmonized requirements for specialist designations based on experience and postgraduate study should be introduced by both professional accounting bodies.
- The duration of basic accounting studies should be the equivalent of four years full-time, comprising three years of undergraduate study with the fourth year as a postgraduate program, probably on a part-time basis.

- There is an imperative need for an increase in the human and financial resources available for accounting education. The resource increase will have to be provided substantially by government or through resource reallocation within tertiary institutions, but with growing contribution from the profession and industry/commerce.
- Salary scales for academics in accounting and cognate fields must be deregulated so as to be performance based and recognize market forces. Deregulation should include a review of other employment conditions including tenure.
- Funding for accounting research must be increased significantly by government, the profession and others.

APPENDIX 9.2

## ASA Requirements

10. SUBJECT DETAILS FOR PRESCRIBED MEMBERSHIP CATEGORIES BASED ON MINIMUM CORE OF KNOWLEDGE  
(A) *For a Provisional Associate* (new requirements to apply from 1 January 1990)

Prescribed Subject Areas	Code & Title of Subject	Subject Total Contact Hours	Contact Hours per Week	Method of Assessment	Approximate Percentage of Degree
a) <i>Accounting &amp; Finance</i>					
Basic Accounting	Accounting 1A				4.5
Advanced Accounting	Accounting 1B	112	4	Progressive	4.5
Studies in Cost & Management Accounting	Management Acctg. A	56	4	Progressive	4.5
Financial & Corporate Accounting	Management Acctg. B	56	4	Progressive	4.5
Theory Finance	Financial Acctg. B	56	4	Progressive	4.5
	Financial Acctg. A	56	4	Progressive	4.5
	Investments	56	4	Progressive	4.5
b) <i>Computer Information Systems</i>	Accounting IA and IB. Covered in Man. Acct. A and B				
	Econometrics I				
	Auditing				
c) <i>Introductory Law</i>					
including law of Contracts	Com. Law I	56	4	Progressive	8.3
d) <i>Economics</i>					
Micro and Macro	Econ I, II, III	336	4	Progressive	25
e) <i>Quantitative Methods</i>	Econometrics I	112	4	Progressive	8.3

**(B) For Associate Membership Status**

15 per cent of the total degree representing a coherent group or sequence of at least three subjects beyond the minimum required for provisional associate membership in one of the following:

Prescribed Subject Areas	Code & Title of Subject	Subject Total Contact Hours	Contact Hours per week	Method of Assessment	Approximate Percentage of Degree
a) Professional Accounting	Accounting I	112	4	Prog	9
	Man. Acct. A & B	112	4	Prog	9
Sequence in:	Fin. Acct. A & B	112	4	Prog	9
Taxation Law	Com Law I, II, & III	336	4	Prog	27
Business Assn., Law & Auditing	Auditing	56	4	Prog	4.5
or					
b) * Finance, or					
c) * Management Accounting, or					
d) * Information Technology, or					
e) * Other approved combination, e.g.					
Government Accounting Auditing					

\* Please note: latest available copy of subject outlines should be attached to this form.

**(C) For CPA Status**

Is the requirement identical with (a) above? If not, give details.

Prescribed Subject Areas	Code & Title of Subject	Subject Total Contact Hours	Contact Hours per Week	Method of Assessment	Approximate Percentage of Degree
a) Auditing					
b) Business Association Law					
c) Taxation Law					

**ICA REQUIREMENTS**

11. Please provide details of subjects in your course which you consider should be recognized for accreditation by the Institute. A copy of the 1988 "Approved Tertiary Courses" publication is attached. The subjects should be listed in year or stage order.

Subject Number and Name	Subject's Total Contact Hours	Method of Assessment e.g., Examination, etc.
<i>YEAR ONE</i>		
Accounting IA	56	
Accounting IB	56	
<i>YEAR TWO</i>		
Management Accounting A	56	
Financial Accounting A	56	
Investments	56	
<i>YEAR THREE</i>		
Financial Accounting B	56	
Management Accounting B	56	
Auditing	56	

All courses are given by the Department of Accounting.  
Changes in name are a consequence of the change to semesters.

*Please note:* The information to be provided for questions 12–14 is required by both the ASA and ICA.

12. PLEASE LIST ANY VARIATION TO SUBJECT CODES OR TITLES SINCE THE 1988 REVIEW INCLUDING ADDITIONS AND/OR DELETIONS OF SUBJECTS.

13. PLEASE LIST ANY EXTENSION SUBJECTS (FEE PAYING) RECOGNIZED BY THE SOCIETY AND INSTITUTE FOR MEMBERSHIP PURPOSES.

Accounting Theory  
Auditing  
Company Law  
Taxation Law

14. ANY FURTHER INFORMATION CONSIDERED RELEVANT.

NAME (PLEASE PRINT) ..... DATE .....

POSITION .....

SIGNATURE \_\_\_\_\_

ON COMPLETION OF THIS FORM, PLEASE RETURN PROMPTLY TO DEPUTY DIRECTOR: EDUCATION & MEMBERSHIP, ACCOUNTANTS HOUSE, 170 QUEEN STREET, MELBOURNE, VICTORIA 3000

# Accounting Education and Certification Process in Hong Kong

EDWARD K. C. CHIU AND ALFRED V. H. TRAN

## **Pre-college Level Education of Accountants**

Starting from the third year or the fourth year in secondary schools, students may follow different streams of studies. The three main streams of studies are:

- (a) Science — which includes subjects like physics, chemistry and biology.
- (b) Humanities — which includes subjects like literature, history and geography.
- (c) Commercial — which includes subjects like economics, business studies and principles of accounts.

Courses common to these streams include English, Chinese and mathematics. Accounting and other commercial subjects are also taught by technical institutes which provide technical education mainly at the secondary level.

Students who want to pursue a career in accounting may choose commercial subjects in their secondary education, but it does not matter which stream of studies they follow at this stage. To become a registered student of the Hong Kong Society of Accountants, the minimum requirements are two passes in advanced level subjects and three ordinary level subjects of the General Certificate of Education Examination or its equivalent, including English language and mathematics.

## **College and University Level of Accounting Education**

At the undergraduate level, students who major in accounting in the two universities enroll in the curriculum leading to the degree of Bachelor of Business Administration (BBA) and opt for the module of accounting and finance. Students in the two Polytechnics and other tertiary educational institutions may pursue professional diplomas or honors diplomas in

accountancy . . . some of these diploma courses are being gradually phased out to pave the way for degree courses in accountancy.

The duration of studies for the majority of these full-time degree and diploma courses majoring in accountancy is three years. Students normally complete seven years of secondary education before they can be admitted to one of the degree or diploma programs. The number of accounting graduates from universities, polytechnics and colleges in Hong Kong in 1988 is about 547.

A typical three-year undergraduate accounting program includes courses such as financial accounting, cost and management accounting, auditing, finance, business law, company law and taxation. To supplement the above accounting courses, students have to study economics, statistics, business mathematics, computing, information systems, organization and management courses. In each of the three years of study, students usually have to study six to eight courses. The duration of some of the courses is one year, while others are offered for only one semester. The duration of a semester varies from twelve to fifteen weeks. The mode of teaching is usually two to three hours of lecture plus one tutorial hour per week.

In most of the accounting curriculum, there is a progression in the depth of subjects covered. Thus basic financial accounting courses are followed by intermediate and advanced courses. In some institutions, auditing and taxation are taught at two levels of difficulty.

Accounting education at the postgraduate level can be obtained in the universities by research or by course work. Master of Philosophy (MPh) and doctor of Philosophy (PhD) are higher degrees by research. Master of Business Administration (MBA) is a degree mainly by course work. Students entering the MBA programs may be graduates of any disciplines. Courses available in an MBA program include economics, accounting, quantitative analysis, statistics, financial management, marketing management, production management, human resource management and information management.

The MBA program may be a two-year full-time program or a three-year part-time program. Approximately eighteen courses are to be completed to fulfill the requirements for the degree of MBA with about 400 hours of prescribed work. The minimum number of hours of prescribed work varies between universities and programs. Concentration in accounting is available in some MBA programs. Topics offered include seminars in financial accounting, management accounting, international accounting, and advanced financial management.

### **Accountancy Body in Hong Kong**

The Hong Kong Society of Accountants was incorporated in 1973 by the Professional Accountants Ordinance (Chapter 50 of Laws of Hong Kong). The Society is the only statutory body in Hong Kong that conducts professional examinations and admits candidates to membership of the



Society and to the register of professional accountants under the Ordinance. Before the formation of this local accountancy body, accountants in Hong Kong obtained their professional qualifications mainly from accountancy bodies of the United Kingdom and Australia.

### **Professional Examinations**

Since January 1982, the Hong Kong Society of Accountants has been operating an examination scheme jointly with the Chartered Association of Certified Accountants in the United Kingdom. The minimum requirement for registration as students to sit for the joint examinations is to pass in two advanced level subjects and three ordinary level subjects including English and mathematics, or, in case of mature candidates aged 25 or above, to pass in five ordinary level subjects. Candidates intending to sit for the joint examinations should register with both the Society and the Association. Upon completion of the joint examinations, candidates become eligible to the membership of both professional bodies. Additional conditions may be required by the issuing professional body in order to be certified to practice.

The joint examinations are held in June and December of each year. They are divided into three levels consisting of the following eighteen papers:

#### **Level 1 (The Preliminary Examination)**

- 1.1 Accounting
- 1.2 Costing
- 1.3 Economics
- 1.4 Law\*
- 1.5 Numerical Analysis and Data Processing

#### **Level 2 (The Professional Examination)**

- 2.1 Auditing\*
- 2.2 Company Law\*
- 2.3 Taxation\*
- 2.4 Management Accounting
- 2.5 One option from the following choices:
  - 2.5a Executorship and Trust Law and Accounts
  - 2.5b Organization and Management
  - 2.5c Managerial Economics
  - 2.5d Public Sector Accounting
  - 2.5e Insolvency
- 2.6 Quantitative Analysis
- 2.7 Systems Analysis and Design
- 2.8 The Regulatory Framework of Accounting\*
- 2.9 Advanced Accounting Practice\* (two 3-hour sessions)

#### **Level 3 (The Final Examination)**

- 3.1 Advanced Financial Accounting\*

- 3.2 Financial Management
- 3.3 Taxation and Tax Management\*
- 3.4 Auditing and Investigations\*

Except for Paper 2.9, all papers are examined in sessions of 3-hour duration. Hong Kong law variant and English law variant are options available for papers marked with an asterisk. Students are required to choose the law variant at the time of registration and no subsequent change is permitted. Candidates who have passed the examinations by sitting for the English law variant papers and who subsequently wish to practice in Hong Kong, will be required by the Hong Kong Society to take additional examinations in Hong Kong tax and company law for the award of Hong Kong practicing certificates.

At the first two levels of the professional examination, the papers may be taken in any order and combination, but all the papers at Level 1 and Level 2 must be passed (or exempted) in four and seven consecutive sittings respectively. The four papers at Level 3 are required to be passed in one sitting. Referral of one paper failed marginally may be allowed, but the referred paper must be passed within the next two consecutive sittings, otherwise all four papers must be re-taken. There is no limit on the number of times the Level 3 examination may be taken.

Exemptions from Level 1 and Level 2 papers are available to graduates of the following tertiary and post-secondary educational institutions:

- (a) University of Hong Kong.
- (b) The Chinese University of Hong Kong.
- (c) Hong Kong Polytechnic.
- (d) City Polytechnic of Hong Kong.
- (e) Hong Kong Baptist College.
- (f) Certain post-secondary colleges and technical institutes.

In general, graduates of universities and polytechnics can claim exemption from the whole of Level 1 examination. Exemptions from Level 2 papers are granted on a subject by subject basis depending on the courses taken by the candidates in their institutions. No exemptions are available from Level 3 papers.

As at 30 June 1988, the Society had a student population of 12,564. The December 1987 examinations were taken by 7,528 students and the June 1988 examinations by 7,597. During the year ended 30 June 1988, 539 students completed the joint examinations. The passing rate of Level 3 examination was about 22 per cent.

### **Requirements of Becoming Professional Accountants**

In order to be admitted as a member of the Hong Kong Society of Accountants and become a professional accountant, a person should have

attained the age of twenty-one, be of good character, have passed the Society's professional examinations and acquired a minimum of three years practical experience. Generally speaking, practical experience means work experience acceptable to the Council of the Society which has been gained by way of employment with a certified public accountant, or in the financial, cost and management accounting department of an organization in industry, commerce or the public service. A professional accountant is designated as an Associate of the Hong Kong Society of Accountants (AHKSA). After seven years approved membership status, the designation may be changed into a Fellow of the Hong Kong Society of Accountants (FHKSA) to indicate seniority.

Under the Professional Accountants Ordinance, the Society has the authority to admit full members of certain "approved institutes" as professional accountants in Hong Kong. These approved institutes include all recognized accountancy bodies in the United Kingdom and Australia. The Society also has absolute discretion to admit full members of other accountancy bodies having a standard similar to an approved institute, e.g. the Canadian Institute of Chartered Accountants, the New Zealand Society of Accountants, the South African Institute of Chartered Accountants, and the American Institute of Certified Public Accountants.

A professional accountant who has a total of four years full-time approved audit experience (or 30 months in case of post-qualification experience) may apply for a practicing certificate which has to be renewed annually. Approved audit experience means audit experience gained in the office of a certified public accountant who is in full-time practice. Only a holder of a practicing certificate can describe himself as a "certified public accountant" (CPA) and perform statutory audits as required by the Companies Ordinance (Chapter 32 of Laws of Hong Kong).

As of 18 October 1988, the Society had a membership population of 4,240, of which 911 are fellows and 3,329 associates. The number of members holding practicing certificates was 1,078. During the year ended 30 June 1988, the membership size increased by 437. The annual growth of membership in recent years has been in the range between 11 per cent and 12 per cent.

### **Continuing Professional Education**

In recognition of the rapid changes and expansion in the knowledge related to the work of professional accountants as a result of legislation, emergence of new accounting standards and guidelines, development in technology and increased public expectations of the work of accountants, the Society urges all members to participate in continuing professional education (CPE) which comprises "structured" as well as "unstructured" learning activities. Structured learning activities include attendance at long and short courses run by professional bodies, accounting firms, universities and polytechnics, or giving lectures and presenting technical papers in

conferences and seminars. Unstructured learning includes private reading and study, and technical research for practical work.

At present, continuing professional education has not been made compulsory by the Society, but in a Guideline issued recently, the Council of the Society recommends a target attainment of 40 hours CPE per annum, including 20 hours of structured and 20 hours of unstructured learning activities. The Society, through its Continuing Professional Education Committee, is providing some of the structured CPE by way of courses and seminars. During the period from October 1987 to October 1988, the total number of seminars and courses organized by the Society amounted to 41, with a total duration of 605 hours, and the total number of participants amounted to 5,259, of which 3,682 were members of the Society.

### **Future Directions in Accounting Education**

Currently there is a noticeable shortage of manpower at different levels in the accountancy profession in Hong Kong. A long-term solution to this problem is to attract more young persons to enter the profession and to provide more educational opportunities in the field of accounting, business and finance. To achieve these goals, a working party has been set up by the Hong Kong Society of Accountants and a Survey over the demand for and supply of accountants has been conducted. The Results of the survey have not been finalized, but initial analysis indicates that there is a shortage in the supply of accountancy students from local tertiary and post-secondary institutions. The 1986 Manpower Survey Report on Accountancy by the Accountancy Training Board of the Vocational Training Council recommended that tertiary and technical institutions should produce more graduates in accountancy. Thus additional government funding in accountancy education is called for.

In 1997 Hong Kong will become a special administrative region of the People's Republic of China. When the government of the future Hong Kong Special Administrative Region institutes its own methods of assessing and accrediting professional qualifications, the present linkage with a British accountancy body may eventually be discontinued. To enhance the professional standard of accountants in face of future challenges and to ensure continuing international recognition, a formal business and accounting education should be a pre-condition to taking the professional examination which for a long time has been the critical part of the certification process besides practical experience. Perhaps the accounting profession in Hong Kong should consider requiring a bachelor's degree in the field of business as a prerequisite for entry to the profession. The desired undergraduate education should provide prospective accountants with a broader background than what is provided in vocational training; it should aim to develop understanding of business decision-making processes, capacity for analytical and creative thinking, and skills of effective communication.

Accounting services are becoming broader and more specialized. To meet the growing public expectations of the services offered by accountants and to ensure that sufficient supply of qualified instructors is available to teach more advanced accounting and related business courses, it is time for accounting professionals and educators in Hong Kong to develop post-graduate accounting education, including master's degree mainly by course work and doctoral degree mainly by research.

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# Accounting Education in India

BHABATOSH BANERJEE

## Introduction

Education is necessary for all around development of human beings. It is aimed at development of human resources in keeping with societal needs. It amounts to imparting knowledge and development of aptitude and skills. The pattern of education open to an individual is largely determined by the policy of the country to which he belongs. It is greatly influenced by the social, cultural, economic and political factors of the country. So, a few lines on these may not be out of context before we examine the issues involved in this paper.

India was under British rule for about 200 years. So, its education system was greatly influenced by the British system. It became a sovereign federal state in 1947. Its population in 1981 was 685 million.<sup>1</sup> Out of this 64 per cent represented illiterates. Presently, it has 25 states and 6 union territories with a total area of 3.3 million square kilometers. It is predominantly an agricultural country with about 70 per cent of the population having dependence on agriculture.

India has successfully implemented seven Five-Year Plans. 1989–90 is the first year of the Eighth Five-Year Plans. It has developed a gigantic public sector. The contribution of the public sector to the country's economic development is phenomenal. At the end of 1985–86, there were 1020 Government Companies including 221 central operating companies in the country compared to 122,159 companies in the private sector.<sup>2</sup> The former represents a little over 79 per cent of the total corporate investment in terms of paid-up capital. Presently, several enterprises in the industrial sector are venture operations represented by the Government and the private entrepreneurs.

<sup>1</sup> According to one estimate, it is likely to be 1022 million in AD 2001. Vice R. Datta, "Population Projections up to 2001", *The Economic Times*, March 4, 1989, p. 5.

<sup>2</sup> *Company News and Notes*, Government of India, Vol. XXV, No. 1, July 1987, p. 9, result computed.

After a great deal of experiment over the last few decades, India has now adopted a 10+2+3+2 system, i.e., 10-year schooling, 2-year higher secondary, 3-year undergraduate (with honors) and 2-year graduate education system. This system is prevalent in most of the States and union territories although there may be some exceptions. Presently, only about 4 per cent of the Central Budget is spent on education. Higher education is the joint responsibility of Central and State Governments. The States and Central Government jointly spend only 13.67 per cent of the budgets on education.

The following paragraphs examine the major issues involved in this paper. They are as follows:

- the objectives of accounting education
- accounting education in the pre-independence period
- accounting education in the post-independence period: the role of professional institutes
- accounting education at the college and university levels
- perspectives for further development

### **Objectives of Accounting Education**

Accounting education throughout the world has assumed an added significance today because accounting is now broadly viewed as “the process of identifying, measuring and communicating economic information to permit informed judgments and decisions by the users of the information”. The functions of accounting are generally related to other parties’ demands for information about past, present and future economic activities. The modern economic activities are characterized by complicated organizational systems. The management of which calls for a large amount of quantitative information. The uncertainties that are found in the operations of modern enterprises require advance planning which is becoming more and more sophisticated. The type of information required and the nature of uses to which accounting and other quantitative information are being put these days have become so varied that specialized training is required. The role of the accountant in today’s society is essentially directed towards the management of national resources. He has to play a vital role today in the measurement of productivity, social cost-benefit analysis, pricing decisions, fiscal policy for economic growth and other related issues.

The role of an accountant is more important in a developing country than in an industrially developed one. The developing countries like India are constantly striving to make their economies self-reliant and in this process try to absorb the latest innovations in science and technology for faster growth. There is a constant endeavor in promoting large-scale development of industries and infrastructure required for such industries. For this purpose they are required to mobilize all the available resources and put them to the optimum use. Development plans have to be drawn up in advance and the cost of development kept under control. Once the

development projects become operational, pricing of the products become critically important to ensure that neither the consumer is over-charged nor the investment is denied a reasonable rate of return. Though the accounting profession has been rendering a useful service to the community in the above mentioned spheres of activity in India, there is scope for further improvement. These can be achieved by adoption of more sophisticated management techniques which are the outcomes of a good education system.

The objectives of accounting education should therefore be:

- i. development of human resources in keeping with societal needs;
- ii. help in solving business problems at the micro and macro levels.

Enthoven (1985) pointed out that in many developing countries, the educational system is geared towards financial reporting. Accounting education, he argues, should take into account socio-economic objectives and provide the necessary tools for economic development.

Before independence, accounting education in India implied mainly vocational education. Until the emergence of two national professional accounting Institutes in 1949 and 1959 respectively, a few premier Indian Universities used to impart commerce education to serve the vocational needs of trade and industry of our country. Nevertheless, the emphasis shifted with the emergence and growth of the two professional Institutes.

### **Accounting Education in the Pre-independence Period**

One of the primary objectives of accounting education and training should be to develop human resources to serve the corporate sector. The first corporate legislation was enacted in 1857. In the companies Act of 1857, there were some provisions for laying the statement of Income and Expenditure and the Balance Sheet before the company at the general meeting. But until the companies Act of 1913, the audit of the company accounts by qualified accountants was not made compulsory. At that time there were a few qualified accountants in the country. These accountants got their required training and certificate for practice from the Chartered Institutes in the UK or Canada. There was no recognized system of education and training to build up the professional accountants at home.<sup>3</sup> Accordingly, by virtue of section 144(i) of the Companies Act, 1913, the Governor General in council issued a notification entitling the members of the five chartered institutes in England and Wales, Scotland, Ireland and to

<sup>3</sup> Anandamohan, Pal. "Professional Accounting Education in India with particular reference to the role of ICAI", an unpublished paper, p. 2.



the Society of Incorporated Accountants and Auditors to act as auditors in British India.<sup>4</sup>

Within a few years, the Government of Bombay instituted a scheme for awarding Diploma in Accountancy on passing the qualifying examination known as Government Diploma in Accountancy (GDA) and on completion of articleship of three years under an approved accountant in practice. The Government of India approved the scheme of the Bombay Government and issued a notification on 17th October 1919 entitling the GDA to act as certified auditor. In the GDA examination, the subjects examined were Accountancy, Auditing and Mercantile Law. Up to that time as a transitional measure “restricted permanent and temporary” certificates were issued by the local government mainly on the basis of experience rather than qualification. The holders of the certificate, however, were eligible for admission to the examination for the GDA in order to get “unrestricted certificate of practice”. The condition of articleship was, however, exempted for them. The Government of India also approved the BCom degree of Sydenham College of Commerce and Economics, Bombay, and issued a notification, entitling a BCom degree holder, to practice in British India on completion of articleship. The B.Com. Examination at that time included accountancy and auditing as the main subjects. The Madras Government also started a college of commerce around 1920 for imparting education in commerce and for giving oral tuition for GDA Examination conducted by the Bombay Government. Thus, there were three classes of auditors permitted to audit the accounts of public companies, namely:

- (i) the members of the specified foreign Institutes and Societies in the United Kingdom by virtue of the notification of the Governor General in council were entitled to audit companies in India;
- (ii) the holders of the unrestricted certificate of practice issued by the local governments were entitled to audit companies throughout British India;
- (iii) the holders of restricted certificates were entitled to act as auditors only within the territory of the local government granting the certificate.

Thus, the first professional accountants qualified in India were the holders of GDA. Table 11.1 shows the position in this respect up to 1932 indicating wide variation in the annual growth rate. To remove some anomalies, through an amendment in 1930 of section 144 of the Indian Companies Act of 1913, the entire control and regulation of the profession was vested in the Central Government. Provisions were made under section 144(2A)

<sup>4</sup> They were: (1) The Institute of Chartered Accountants of England and Wales; (2) The Society of Incorporated Accountants and Auditors; (3) The Society of Accountants in Edinburgh; (4) The Institute of Accountants and Actuaries in Glasgow; (5) The Society of Accountants in Aberdeen; and (6) The Institute of Chartered Accountants in Ireland (vide notification No. 1626-6 dated 14.3.1914, Gazette of India, dated 14.3.1914, Part I, 405).

TABLE 11.1 GDA Holders Enrolled

Year	Number of Persons Enrolled	Annual Growth	
		Number	Per cent
1919	14		
1920	4	(-) 10	(-) 71.4
1921	8	4	100.0
1922	14	6	75.0
1923	10	(-) 4	(-) 28.6
1924	19	9	90.0
1925	19	0	0
1926	42	23	121.0
1927	43	1	2.4
1928	45	2	4.7
1929	37	(-) 8	(-) 17.8
1930	31	(-) 6	(-) 16.2
1931	36	5	16.1
1932	19	(-) 17	(-) 47.2

Source: G. P. Kapadia, *History of the Accountancy Profession in India*, ICAI, 1973, p. 316.

for framing rules for maintenance of a Register of Accountants (RA), for examination of candidates for enrollment in the Register, and for the formation of the Indian Accountancy Board. In pursuance of these amendments, the Indian Accountancy Board was constituted in 1932 and the Auditors Certificate rules were promulgated. Auditors' Certificate Rules 1932 prescribed a two-tier examination system, the First and the Final examination. Each of these examinations consisted of two groups — Group I and Group II — comprising a number of subjects as shown in Table 11.2. Compared to GDA examination we find a lot of change in the course structure of the RA Examination as mentioned above. This was in keeping

TABLE 11.2 Registered Public Accountants Examination

<i>Final Examination</i>		<i>Final Examination</i>	
<b>Group I:</b>	Bookkeeping Accounting & Auditing	<b>Group I:</b>	Advanced Accountancy Advanced Accountancy (2nd paper)
<b>Group II:</b>	Mercantile Law & Company Law General Commercial Law	<b>Group II:</b>	Taxation & Cost Accountancy Auditing Mercantile Law Company Law Economics

Source: G. P. Kapadia, *op. cit.*, pp. 321–322.

with the changing needs of the commerce and industry. The Accountancy Board also stipulated a period of practical training of three years for qualifying for enrollment on the Register. Thus, the following four classes of persons were entitled to be enrolled on the Register of Accountants maintained by the government of India and were called Registered Public Accountants (India):

- (i) persons holding the GDA awarded by the Government of India;
- (ii) persons satisfying the tests and completing the practical training prescribed under the Auditors' Certificate Rules, 1932;
- (iii) persons possessing equivalent qualifications recognized by the Central Government, namely, the members of the five Institutes and societies in the UK; and
- (iv) holders of restricted certificates provided the Government was satisfied with their competence.

The GDA Examination was discontinued in 1934 and the BCom Examination of Bombay University held after 1934 ceased to qualify for the award of Government Diploma. The Accountancy Board kept functioning in an advisory capacity to the Governor General in Council. His Excellency was assisted by the Board on all matters regarding administration and regulation of the profession. The accounting profession made some headway under the Accountancy Board. Table 11.3 shows the position of qualified professional accountants enrolled in a Register maintained under Auditors Certificate Rules 1932 for a period of 13 years, 1932–33 to 1946–47. The annual growth rate shows wide variations during the period.

TABLE 11.3 *Enrolled Professional Accountants*

As On Day, Month, Year	Number of Accountants Enrolled	Annual Growth	
		Number	Per cent
30.6.33	392	—	—
1.7.34	580	188	48.0
1.7.35	650	70	12.0
1.7.36	752	102	15.7
1.7.37	801	49	6.5
1.7.38	854	53	6.6
1.7.39	890	36	4.2
1.7.40	934	44	4.9
1.7.41	825	(-) 109	(-) 11.7
1.7.42	861	36	4.4
1.7.43	933	72	6.4
30.6.46	1,124	64	6.4*
30.6.47	1,143	19	1.2

\* Average for three years.

Source: G. P. Kapadia, *op. cit.*, pp. 456–457.

Over the years, need for an autonomous Association to administer and regulate the profession of accounting was increasingly felt and in 1936, a demand was put forward by the national party of the country (the Congress) in the Central Legislature for an autonomous accountancy profession. But no action was taken at that time. After the Second World War, the Accountancy Board also accepted the stand for the autonomy of the profession and pressed for necessary action by the Government. But no action was taken prior to Independence in 1947.

### **Development of Accounting Education: The Role of Professional Institutes**

In the previous section, we have mentioned the demand in the pre-independence period for an autonomous professional body for furthering the development of accounting education in India. It was only after independence that the Commerce Ministry of the Government of India, appointed an Expert Committee to examine the scheme. Ultimately, on May 1, 1949, the Chartered Accountants Act of 1949 received the assent of the Governor General and the Institute of Chartered Accountants of India (ICAI) was formed, pursuant to the provisions of the said Act, as an autonomous body of the first accounting profession in India. The Institute was entrusted with the task of development of accounting profession and building up qualified professional accountants. A few years later, the Government felt the need for creating another professional institute for development of the cost and management accounting profession in keeping with the changing needs of the country. In 1959, another institute, namely, the Institute of Cost and Works Accountants of India (ICWAI) was formed by an Act of Parliament. Before we deal with the roles of these two Institutes in the development of professional accounting education in the post-independence period, let a few words be said about the prerequisites for a successful accounting profession in a developing country like India.

According to Engleman,<sup>5</sup> the prerequisites for a successful accounting profession in developing countries are:

1. a full comprehension of accounting goals over and above the mere recording of cash in and cash out;
2. understanding of the role of accounting for management purposes;
3. recognition of the principles of business economics; and
4. acknowledgement of the public responsibilities involved in the profession.

According to Enthoven,<sup>6</sup> accounting education requires both a theoretical and a practical emphasis. To enhance accounting training and the profession,

<sup>5</sup> Engleman, K., "Accountancy Problems in Developing Countries", *Journal of Accountancy*, January 1962.

<sup>6</sup> Enthoven, A. J. H., "Accounting in Developing Countries", in C. W. Nobes and R. H. Parker (ed.) *Comparative International Accounting*, Phillip Allen/St. Martin Press, Oxford, New York, 2e, 1985.

Enthoven advocates that accounting education should take into account the following:

1. a conceptual socio-economic foundation of accounting education and training;
2. a further specialization in the various branches of accounting;
3. a closer link among the institutional, professional and educational programs and continuous education; and
4. a greater focus on forecasting techniques, of both an internal and external nature.

In order to assess the effectiveness of the two professional institutes let us examine the structure of syllabus adopted by the institutes from time to time to impart professional education and training and keeping with the socio-economic needs of the country. We shall also examine the trend in the enrollment of students as one of the measures of its popularity over a period of about three decades and growth in membership as a criterion for providing qualified accountants to serve the growing demand from different sectors of the economy. This is done separately for the two premier professional accounting institutes in the following paragraphs.

### ***The Role of the Institute of Chartered Accountants of India (ICAI)***

The Chartered Accountancy Examination conducted by ICAI is now divided into three parts: Entrance or Foundation, Intermediate and Final. In 1949 it was divided into only two parts — First Examination and Final Examination. Initially, the entry qualification to the C.A. course was graduation. In addition to the graduates, (1) holders of Diploma in Commerce Examination, (2) those who were eligible to sit for GDA Examination, (3) persons admitted to the First Examination under Auditors Certificate Rules 1932, (4) persons admitted to articleship before April first 1949 and (5) persons with less qualification who had rendered recognized military service or 7 years service as audit clerks or articled clerks were also entitled to seek admission to the course. Over the years, the entry qualification has been changed to 10+2 standard with a provision for a Foundation Course under the proposed scheme. Presently, admission to the Entrance Examination is restricted to university graduates or one undergoing university education. Commerce graduates securing not less than 50 per cent score and other graduates securing not less than 55 per cent score may take up the Intermediate Course directly. Coaching has been made compulsory since 1956. Prior to that, the Institute continued with the system of recognizing private institutions for providing theoretical education to its students. The first Preliminary Examination was held in November 1956. The qualifying score in each of the two Intermediate and Final Examinations have been prescribed at 50 per cent. In regard to

TABLE 11.4 Comparative View of ICAI Course Structure

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1949

**A. First Examination**

**Group I:**

1. Bookkeeping
2. Accountancy and Auditing

**Group II:**

1. Mercantile Law and Company Law
2. General Commercial Knowledge

**B. Final Examination**

**Group I:**

1. Advanced Accountancy
2. Advanced Accountancy
3. Taxation and Cost Accounting
4. Auditing

**Group II:**

1. Mercantile Law
2. Company Law
3. Economics

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(4 + 7 = 11 papers)

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1956

**A. Preliminary Examination**

1. English
2. Elements of Bookkeeping
3. Elements of Economics and Modern Administration
4. Commercial Arithmetic
5. Economic and Commercial Geography

**B. Intermediate Examination**

1. Accounting
2. Accounting
3. Auditing
4. Mercantile Law and Company Law
5. General Commercial Knowledge

**C. Final Examination**

**Group I:**

1. Advanced Accounting
2. Advanced Accounting
3. Taxation
4. Cost Accounts and Statistics
5. Auditing

**Group II:**

1. Mercantile Law
2. Company Law
3. Economics

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(5 + 6 = 11 papers)

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TABLE 11.4 (Continued)

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1962

**A. Preliminary Examination**

Same as 1956 structure

**B. Intermediate Examination**

A paper on Cost Accounts and Statistics was added (paper 3) to the 1956 structure.

**C. Final Examination**

**Group I:**

1. Advanced Accountancy
2. Advanced Accountancy and Management Accountancy
3. Costing
4. Auditing
5. Taxation

**Group II:**

1. Commercial Laws and other Direct Taxes Acts
2. Company Law
3. Economics

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(6 + 8 = 14 papers)

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1973

**A. Preliminary Examination**

1. Elements of Accounting
2. English
3. Logic and Elementary Business Mathematics
4. General Commercial Knowledge and Economics

**B. Intermediate Examination**

**Group I:**

1. Accounting
2. Accounting and Elements of Income Tax Laws
3. Cost Accounting
4. Auditing

**Group II:**

1. Mercantile Law, Company Law and Industrial Law
2. Business Mathematics and Statistics
3. Organization and Management

**C. Final Examination**

**Group I:**

1. Advanced Accounting
2. Financial Management
3. Auditing

**Group II:**

1. Company Law
2. Direct Taxes Laws
3. Economics and National Accounting

TABLE 11.4 (Continued)

**Group III:**

- (i) *Combination A:*
  - 1. Corporate Management
  - 2. Financial Economics
  - 3. Secretarial Practice
- (ii) *Combination B:*
  - 1. QR and Statistical Analysis
  - 2. System Analysis and Data Processing
  - 3. Cost Records and Cost Control
- (iii) *Combination C:*
  - 1. Management Information & Control System
  - 2. Tax Planning & Tax Management
  - 3. Management & Operational Audit

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(7 + 9 = 16 papers)

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**1985**

**A. Entrance Examination**

- 1. Elements of Accounting
- 2. English
- 3. Elementary Business Mathematics
- 4. General Commercial Knowledge and Economics

**B. Intermediate Examination****Group I:**

- 1. Accounting
- 2. Accounting and Elements of Income Tax Laws
- 3. Cost Accounting
- 4. Auditing

**Group II:**

- 1. Mercantile Law, Company Law and Industrial Law
- 2. Business Mathematics and Statistics
- 3. Organization and Management and Economics

**C. Final Examination****Group I:**

- 1. Advanced Accounting
- 2. Management Accounting
- 3. Auditing
- 4. Company Law

**Group II:**

- (i) *Combination A:*
  - 1. Direct Tax Laws
  - 2. Corporate Management
  - 3. Managerial Economics and National Accounting
  - 4. Secretarial Practice



TABLE 11.4 (Continued)

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(ii) <i>Combination B:</i>
1. Direct Tax Laws
2. OR and Statistical Analysis
3. System Analysis and Data Processing
4. Cost Systems and Cost Controls
(iii) <i>Combination C:</i>
1. Direct Tax Laws
2. Management Information and Control Systems
3. Tax Planning & Tax Management
4. Management and Operational Audit

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(7 + 7 = 14 papers)

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**Proposed New Syllabus**

**A. Foundation Examination**

1. Fundamentals of Accounting
2. Mercantile Law
3. Mathematics and Statistics
4. Economics

**B. Intermediate Examination**

**Group I:**

1. Advanced Accounting
2. Auditing
3. Corporate and other Laws

**Group II:**

1. Cost Accounting
2. Income Tax and Central Sales Tax
3. Organization & Management and Fundamentals of EDP

**C. Final Examination**

**Group I:**

1. Advanced Accounting
2. Management Accounting
3. Auditing
4. Corporate Laws

**Group II:**

1. Advanced Cost Accounting
  2. System Analysis, Data Processing and QT
  3. Direct Taxes
  4. Indirect Taxes
- 

(6 + 8 = 14 papers)

syllabi, a number of significant changes have taken place since those eventful days when the profession was given autonomy and the ICAI was set up. Table 11.4 gives a comparative view of the syllabi adopted (including the present proposal) from time to time by the Institute.

TABLE 11.5 *Students Enrolled for the CA Course*

Year	Students Enrolled Annually	Average Annual Increase	
		Number	Rate (%)
1949–50	257	–	–
1964–65	2,822	171	11.76
1969–70	2,915	19	0.66
1974–75	3,464	110	3.51
1979–80	10,133	1,334	21.75
1983–84	8,660	368	(–) 3.84
1987–88	12,753	1,023	10.1
Compound Annual Growth Rate			10.9

Source: Annual Reports of the ICAI.

Table 11.5 shows the position of annual enrollment of students since the Institute was set up in 1949. The Table 11.5 shows that while the number of students entering the profession has considerably grown over the years, the growth rate has not at all been consistent. The average rate of increase was higher (21.75 per cent) during the period 1974–75 to 1979–80. In 1983–84 the number went down substantially compared to what it was in 1979–80. The position, however, substantially improved by 1987–88. The entry to the profession is partly dependent on the number of students graduating in various disciplines. Among the various disciplines, commerce students are predominant. A random sample of members' qualifications shows that about 85 per cent of the members have commerce backgrounds. The fast growth in the number of students can be attributed to the growth in commerce as a discipline at the graduation level during this period. Table 11.6 shows the growth in the number of commerce students since 1950. The annual growth rate increased considerably in some years from 8.0 per cent to 31.5 per cent. The said rate declined abruptly in 1975 and 1976. The growth rate shot up to 21.6 per cent in 1977 from a very negligible figure of 1.6 per cent in 1976.

Table 11.7 summarizes the position since 1950 at five-yearly intervals (with the exception of the first two years). A membership of 1685 in 1949–50 had at the end of 1987–88 increased more than 29 times to 49,324. The annual compound growth rate has been 9.2 per cent. From the above trend, it appears that the profession will be having a much bigger number of members at the turn of the present century. For example, taking a little lower annual compound growth rate, say 7 per cent, the membership of the Institute is expected to reach 111,200 by AD 2000.

The growth in the profession does not depend on input alone — the availability of gainful opportunities to the candidates is another vital factor that contributes to growth. As far as the gainful opportunities for the candidates are concerned, there are two avenues — statutory practice avenues as auditor and employment opportunities as Accountant. Based on

TABLE 11.6 *Commerce Graduates in India*

Year	Number of Students Graduating in Commerce	Average Annual Increase	
		Number	Percentage
1950	7,786	—	—
1955	7,743	311	10.1
1960	12,715	995	10.4
1965	16,673	1,192	8.0
1970	34,273	3,120	12.9
1971	40,644	6,371	18.6
1972	50,732	10,088	24.8
1973	66,722	15,990	31.5
1974	83,125	16,403	24.6
1975	83,381	256	0.3
1976	84,691	1,310	1.6
1977*	103,002	18,311	21.6
Compound Annual Growth Rate			11.2

\* Data for subsequent years could not be obtained.

Source: Reports prepared by the University Grants Commission.

TABLE 11.7 *Numbers of the ICAI*

As on (1st April)	Number of Chartered Accountants	Average Annual Increase	
		Number	Percentage
1950	1,685	—	—
1951	1,948	263	15.6
1956	3,379	286	11.7
1961	4,942	313	7.9
1966	7,332	478	8.2
1971	11,227	779	8.9
1976	16,763	1,107	8.4
1981	25,438	1,735	8.7
1986	40,278	2,968	9.6
1988	49,324	4,523	10.7
Compound Annual Growth Rate			9.2

Note: Chartered Accountants include both the categories — those who are in service and those who are in practice.

Source: Annual Reports of ICAI.

the joint stock companies at work in the last three decades the number of companies per chartered accountant is shown in Table 11.8.

If one compares the figures in Table 11.8 in column 3 for 1961, 1971 and 1981 with those presented in column 2 in Table 11.7 for the relevant years, about 66 per cent, on an average, of the chartered accountants are in practice while the remaining 34 per cent are in service or otherwise. It has

TABLE 11.8 *Avenues of Practice by Chartered Accountants*

Year	Number of Companies	Number of CA in Practice	Companies per CA in Practice
1961	26,149	3,380	7.7
1971	30,322	7,421	4.1
1981	62,714	16,636	3.8
1986	122,159	28,722	4.2

Sources: Company News and Notes, Government of India and Annual Reports of ICAI.

been observed that in the past an annual growth rate of about 3.5 per cent in the economy and that of 6 to 7 per cent in the industrial sector has been adequate to absorb an annual compound growth of about 9 per cent in the number of chartered accountants without any difficulty.<sup>7</sup>

The Government has been envisaging a much higher growth rate now, which may seem to be adequate for absorbing the projected growth in the membership. The demand for chartered accountants is also dependent on the shift of economic activities and on the complexities of socio-economic and legal environments. In the years to come, the increased emphasis on proper accounting, financial management etc. coupled with the complexities of economic laws would help sustain a demand for chartered accountants.

### ***The Role of the Institute of Cost and Works Accountants of India (ICWAI)***

The cost and management accounting is primarily a product of the twentieth century. The First World War brought an enforced contest of industrial growth and increasing demand for maximum efficiency. In the Second World War, much of defence requirements had to be evaluated in terms of cost. This injected a great fillip to the profession of cost and management accountancy in India and created scope for requisitioning the services of cost and management accountants. In 1944, a company limited by guarantee, and known as "Institute of Cost and Works Accountants", was set up with the objectives of promoting, regulating and developing the profession of cost and management accountancy. With the passing of the Cost and Works Accountants Act, 1959, the Institute of Cost and Works Accountants of India (ICWAI) came into being on May 28, 1959 and took up the responsibility of "promoting, regulating and developing" the profession. The ICWAI is the only recognized statutory professional examining and licensing body in India specializing exclusively in Cost and Management Accountancy.

The cost accountancy examination is divided into three parts: Preliminary,

<sup>7</sup> Gupta, K., "The Profession in 2001 A.D. — A Quantitative Profile", The Chartered Accountant, March 1982, p. 595.

Intermediate and Final. The entry qualification is university degree, but with a 10+2, one can become a candidate with a preliminary examination. Like ICAI examinations, the qualifying score have been fixed at 50 per cent. Tutoring has also been made compulsory for all candidates. In regards to syllabi, a number of significant changes have taken place over the decades. Table 11.9 gives a comparative view of the syllabi adopted and proposed by the Institute.

TABLE 11.9 *Comparative View of ICWAI Course Structure*

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<b>1961</b>	
<b>I. Intermediate Examination</b>	
<b>Group I:</b>	<ol style="list-style-type: none"><li>1. Office Method &amp; General Knowledge of Commerce &amp; Finance</li><li>2. Economics of Industry &amp; Commerce and Industrial Revolution in India</li><li>3. Industrial and Commercial Law</li></ol>
<b>Group II:</b>	<ol style="list-style-type: none"><li>1. Bookkeeping &amp; Accountancy</li><li>2. Practical Mathematics</li><li>3. Elements of Engineering</li></ol>
<b>Group III:</b>	<ol style="list-style-type: none"><li>1. Costing — Prime Cost</li><li>2. Costing — Overheads</li><li>3. Costing — Methods</li></ol>
<b>II. Final Examination</b>	
<b>Group I:</b>	<ol style="list-style-type: none"><li>1. Company Law</li><li>2. Advanced Accountancy</li><li>3. Advanced Accountancy</li></ol>
<b>Group II:</b>	<ol style="list-style-type: none"><li>1. Costing — A</li><li>2. Costing — B</li><li>3. Costing — C</li></ol>
<b>Group III:</b>	<ol style="list-style-type: none"><li>1. Management Accounting</li><li>2. Principles &amp; Practice of Management</li><li>3. Statistical Methods</li></ol>
<hr/> <b>(9 + 9 = 18 papers)</b> <hr/>	
<b>1976</b>	
<b>I. Intermediate Examination</b>	
<b>Group I:</b>	<ol style="list-style-type: none"><li>1. Business Organization</li><li>2. Economics</li></ol>

TABLE 11.9 (Continued)

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	3. Industrial Law
	4. Mercantile and Company Law
<b>Group II:</b>	1. Elementary Mathematics & Elementary Statistics
	2. Bookkeeping and Accountancy
	3. Factory Organization & Engineering
	4. Cost Accountancy — Prime Cost
	5. Cost Accountancy — Overhead
	6. Cost Accountancy — Methods
<b>II. Final Examination</b>	
<b>Group I:</b>	1. Cost Audit and Management Audit
	2. Advanced Accountancy
	3. Taxation
<b>Group II:</b>	1. Mathematics & Business Statistics
	2. Financial Management
	3. Principles and Practice of Management
<b>Group III:</b>	1. Costing Systems, Methods and Control
	2. Applied Costing
	3. Quantitative Techniques and Data Processing

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**(10 + 9 = 19 papers)**

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1986

**Preliminary Examination (optional)****Paper I:**

English

**Paper II:**

Elements of Mathematics

**Paper III:**

General Knowledge

**I. Intermediate Examination****Group I:**

1. Economic Environment of Business
2. Business Math and Statistics
3. Business and Economic Laws
4. Bookkeeping and Accountancy

**Group II:**

1. Cost Accountancy — Prime Cost and Overheads
2. Cost & Management Accountancy — Methods & Techniques
3. Production, Productivity and Effectiveness
4. Principles & Practice of Management

TABLE 11.9 (Continued)

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**II. Final Examination**

**Group I:**

1. Financial Management & Corporate Planning and Policy
2. Quantitative Techniques, MIS and Data Processing
3. Advanced Accountancy
4. Tax Laws and Tax Planning

**Group II:**

1. Principles of Audit and Internal Auditing
2. Cost Audit and Management Audit
3. Advanced Cost & Management Accountancy — Analysis & Control
4. Advanced Cost and Management Accountancy — Methods, Techniques and Applications

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(8 + 8 = 16 papers)

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**Proposed New (1990–1991)**

**Foundation Course (optional)**

1. Basic Business Knowledge
2. Basic Economics
3. Basic Mathematics
4. Basic Accountancy

**Intermediate Examination**

**Stage I:**

1. Management and Organization
2. Business and Economic Legislation
3. Quantitative Methods
4. Cost Accounting

**Group II:**

1. Managerial Economics
2. Advanced Financial Accounting
3. Business Taxation
4. Cost and Management Accounting

**Final Examination**

**Stage III:**

1. Information Technology and Computer Application
2. Operations Management and Control
3. Project Management & Control
4. Cost Audit

**Stage IV: (Advanced Management Accounting)**

1. Techniques and Application
2. Financial Management
3. Strategic Management
4. Internal Audit and Management Audit

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(8 + 8 = 16 papers)

TABLE 11.10 *Students Enrolled for ICWAI Examinations*

Year	Number of Students Enrolled	Average Growth	
		Number	Percentage
1968-69	7,068	-	-
1973-74	13,783	(+) 1,343	14.3
1976-79	22,278	1,699	10.1
1983-84	37,856	3,116	11.1
1984-85	25,062	(-) 12,794	(-) 34
1985-86	18,744	(-) 6,318	(-) 25
1986-87	18,344	(-) 400	(-) 2
1987-88	21,065	(+) 2,721	15
Compound Annual Growth Rate			5.6

Source: Annual Reports of ICWAI.

The students' response for the course as measured by the enrollments is shown in Table 11.10. Up to 1983-84, the annual growth in enrollment was 11.8 per cent, on an average. It declined to negative figures in the three consecutive years that followed. In 1987-88 the growth rate was satisfactory. One of the reasons for the significant reduction of the number of students in 1984-85 was the introduction of the preliminary course and examination at that time. However, over a period of four years the position appeared to have been settled. It cannot be denied that, from the students' point of view, cost accountancy course has some distinct advantages over the other professional courses, because candidates can take the course while in employment; pursue other courses simultaneously; and no age limit or compulsory training are imposed on candidates. In spite of these, the response from the students does not appear to be convincing. One reason might be very low success rates among the students. For example, the percentage of students completing the final examinations to the number registered over the period, 1968-72 to 1984-86, was only 2.76.<sup>8</sup> The low success rate is also corroborated by the number of members of the Institute. Table 11.11 shows the profile for members of the Institute since 1944. This decreased gradually reaching an all time low figure in 1985. Thereafter, the position showed an improvement over time. The rate of growth in membership was the highest in the period 1944-1960. The compound rate of growth was 13.9. If we compare this rate with the compound rate of growth of 9.2 per cent in the membership of ICAI, the growth rate of ICWAI membership appears to be satisfactory. Even then, there is scope for further growth

<sup>8</sup> Bajaj, D. C. and K. M. Pranamurty, "Cost and Management Accountancy in Free India — Retrospect and Prospect", 30th National Convention of ICWAI, New Delhi, 1988, p. C.4.3, Table 11.2. Results computed.



TABLE 11.11 *Membership Profile of ICWAI (Average)*

Year (As on April)	Total Members	Average Annual Growth	
		Number	Percentage
1944	25	—	—
1960	433	26	20.9
1970	2,272	184	18.4
1980	4,804	253	7.8
1985	6,018	243	4.6
1986	6,405	387	6.4
1987	6,853	448	7.0
1988	7,438	585	8.5
Compound Annual Growth Rate			13.9

of the cost and management accounting profession in furthering the economic development of the country. Taking a little lower compound rate of growth, say 10 per cent growth factor, the number of members expected at AD 2000 may be estimated at 23,300. This number may be considered to be inadequate in view of the rate of growth of joint-stock companies in the country. In this connection, mention may be made of a special provision contained in the Indian Companies Act, relating to maintenance of cost records and audit of cost accounts. There is a provision [sec. 209 (1) (d)] in the Companies Act for maintenance of cost records by the elected companies in the prescribed manner as and when felt necessary. By another provision (section 233B) in the said Act, the government has also assumed power to order audit of these accounts by a qualified person. Up to March 31, 1987, 35 industries have been brought under the purview of maintenance of necessary cost records. There were 5,367 companies in respect of which cost audit was ordered for the last 10 years from 1977 to 1987 indicating that on an average 481 units per annum have been brought under the preview of cost audit.<sup>9</sup> The statutory cost audit has so far been selective. It is also not necessary that a cost audit of a company be conducted every year as a regular feature. A proposal for continuous audit has been pending before the Government and the Institute has been trying hard to get it through. As an interim measure, the Government has recently agreed to order cost audit as a biennial feature. The demand for cost auditor is likely to increase in the coming years arising out of change in government policy as mentioned above. About 12 per cent, of the total members of the ICWAI, about 12 per cent represents those holding certificates of practice.

<sup>9</sup> Ghosh, B. C., W. C. Young and B. Banerjee, "Mandatory Audit of Cost Accounts — An Indian Experiment", Pan Pacific Conference Papers and Proceedings, Sydney, 1989, p. 246.

It is very likely that this ratio will change in favor of the practicing accountants in the years to come.

### **Accounting Education at the College and University Level**

Accounting education at the college and university level has been offered generally as part of the undergraduate (BCom) and the graduate (MCom) programs in commerce. The Universities of Madras, Bombay and Calcutta offer BCom degrees. The University of Calcutta was inaugurated in 1922 as a Department for graduate studies in commerce. Simultaneously the university made arrangements for undergraduate studies in commerce for which sufficient facilities were not available in the affiliated colleges in Calcutta. For more than twenty-five years these classes were maintained in the graduate department. But gradually undergraduate commerce departments were opened in different affiliated colleges and the university felt that its own classes for BCom students might be discontinued without any detriment to the interests of commerce education. Accordingly, BCom. classes were abolished from the university in 1950.<sup>10</sup> One striking feature was that the Department of Commerce was run for many years as ancillary to the graduate Department of Economics. It was separated from the Economics Department in 1950.

Prior to independence, the British system dominated the commerce education in the country. Professional education played a more important role in the field of accounting education. Accounting was not recognized as a separate discipline. A few premier Indian universities used to impart commerce education to serve the vocational needs of trade and industry in India. This attempt was sporadic in nature. In some cases, commerce courses were more or less ancillary to the economics courses, as mentioned earlier. This naturally stood in the way of proper development of commerce education in the country.

The position, however, changed after independence particularly since the 1960s. In the early 1970s the universities began recognizing the lacunas in the commerce curriculum in the light of new demands on accounting education that emerged and started the process of restructuring their courses.<sup>11</sup> Accountancy is included as a core subject at all levels — higher secondary, undergraduate and graduate courses. There is a great deal of diversity among the course structure and course contents among the universities (see Appendix 11.1).

There is scope for bringing about improvement in the field of accounting education in the country. In doing so, one has to keep in mind the problems of the present college and university education system. Some of them are

<sup>10</sup> University of Calcutta, *Hundred Years of the University of Calcutta*, Supplement, 1957, p. 177.

<sup>11</sup> Sishtla, V. S., "Economic Planning and Accounting Education in Universities:", *Indian Journal of Accounting*, June 1988, p. 4.

human problems and some are environmental. The important ones are as follows:

1. Unlike the United States of America and many other advanced countries like Japan, Australia and the UK, India does not have a separate discipline of accounting education. At the college and university level in India, accounting education virtually becomes a part of commerce education which tends to include a large number of subjects, and, in the process, an attempt is made to make the students jack of all trades but master of none. There are, of course, a few exceptions to this general tendency from the point of view of structural position. For example, in a few universities in Rajasthan, one of the States of India, we find Departments of Accountancy and Statistics instead of Departments of Commerce.
2. Nowadays, the craze of guardians for getting their wards admitted into colleges with science with an eye on engineering or medical studies creates a situation in which it is difficult to get a sufficient number of good quality students for business studies.
3. The course descriptions and the syllabi on many subjects at the undergraduate and graduate levels are traditional and do not satisfy the societal needs in many cases. Accounting courses are heavily problem oriented stressing more on computational skills and procedural aspects and less on conceptual aspects or on decision situations. There is little coordination at different levels of education — secondary, higher secondary, undergraduate and graduate levels. This stands in the way of imparting a balanced accounting education to the students.
4. College and university libraries are not well-equipped with adequate numbers of text and reference books.
5. Teaching methodology is not also scientific in that it depends predominantly on lecturing and problem-solving, the latter taking away even as much as 80 per cent of the class time. Use of audio-visuals and case method of teaching are used infrequently. The evaluation system gives very little scope for testing the depth of logical thinking and conceptual background on the subjects.
6. There is no scope for providing practical training in accounting areas at the undergraduate or graduate level due to low rapport with industry and businesses. There are financial constraints to start accountancy laboratories and provide practice sets to the students at any level in order to make learning more effective by making it practice-oriented.

The University Grants Commission (UGC) is now giving more attention to improve the state of commerce education in the country. More financial assistance, recurring and non-recurring, is being given to colleges and universities nowadays. With a view to improving the teaching methodology it has of late, formed 5 nodal academic colleges (one each in Rajasthan, Delhi, Andhra, Madras and Assam) to impart periodical training to commerce teachers. In a seminar held in April 1989 at New Delhi, the UGC Commerce-panel Experts and some invited academics have suggested a model course structure (see Appendix 11.2) for both BCom and MCom together with some PG Diploma course proposals. While restructuring

their courses the Universities are now expected to give due consideration to the model proposals which may provide some basis for our search for a better commerce course in the country. This may also help reduce the diversity in the course structure among different universities.

Research is considered as the key to developments in any education system. It may be of a basic and applied nature. Although there is wide scope for research in accounting in Indian universities, efforts made at different quarters so far do not show an encouraging picture. According to a survey made by Indian Council of Social Science Research (ICSSR) in 1976, completed research projects and doctoral theses awarded by Indian universities in accounting and allied areas were only 24 in number.<sup>12</sup> The position, however, changed significantly in the late 1970s and early 1980s. But in the absence of any such publication in the later period it is difficult to get a complete picture of the present state of accounting research in the country. A reference, however, was made to 25 selected universities seeking information in this respect. Reply from only 5 universities was received. Appendix 3 shows the position in respect of these respondents. Although the position has improved compared to that shown by the ICSSR survey, there is scope for undertaking more and more research projects in accounting in India. There are some problems in this area too. Some of them are as follows:

- (1) Teachers are given very little incentive in terms of lesser workload and infrastructural support. Shortage of faculty, inadequate space, unavailability of adequate funds generally stand in the way. These can be overcome gradually over a long period of time.
- (2) Publications of theses are few and far between. This stands in the way of dissemination of knowledge. Formerly, the Indian Council of Social Sciences Research (ICSSR) used to provide financial assistance for publication of theses admitted into PhD. With the withdrawal of the scheme, very few theses are coming out in printed form. UCG or ICSSR should introduce a similar scheme to promote research in accounting.
- (3) There is lack of proper coordination between industry and academic institutions, the result being that there is very little effort for application of the theory/knowledge into practice. Industry response for supplying data and for funding research projects is not also worth mentioning. Apart from personal/institutional contacts, the "confidence" of the industry has to be created through better research work in order to bring about an improvement in the field of accounting and research.

### **Perspectives for Further Developments**

Some structural changes are required to be made to improve the state of accounting education in the country. At the graduate level, a separate

<sup>12</sup> Bhandari, S. K. R., *A Survey of Research in Accounting Theory*, ICSSR, New Delhi, 1976, pp. 22-24.

Accounting Department should be formed under the College of Business Studies to impart accounting education. Present graduate courses in most universities help candidates to take professional courses simultaneously or after completing the graduate study. The universities should no longer serve as feeder organizations to professional institutes. In designing future courses, more attention should be given to conceptual foundation of the accounting subjects. The graduate courses should be meant for those who want to either enter the teaching profession or pursue research for doctoral degrees. In order to ensure effective teaching, the present practice of having more than 100 students per section in some universities should be discontinued and the number should be restricted to 50.

There is lack of coordination between the curriculum framed at the higher secondary level and that framed at the undergraduate and graduate levels. A better coordination is desirable to impart necessary training to the students. Presumably due to lack of well-defined objectives and proper coordination at various stages, the commerce education in India does not command its due respect from commerce and industry. The curricula up to graduate level should be designed in such a way that it partly meets the requirements of the professional institutes and partly the requirements of higher education in that those who will come out successful at the graduation level may either pursue higher education or may shift for professional qualification. Also, the curricula should give more emphasis on theoretical and research aspects.

Another important aspect relates to teaching methodology. The teaching of what and how questions are important. The what question is concerned with teaching objectives: determining what is to be learned in order to bridge the gap between the initial state and the desired state in the knowledge of the learner. The how question is concerned with methods to be adopted in teaching in order to attain the defined objectives. A good teacher should be able to motivate the students, prepare their readiness to receive information, assist in the information storage and retrieval, develop the ability to transfer information to new problems and monitor and direct the learner's activities. Therefore, a deliberate plan of how to perform the teaching functions could contribute to teaching effectiveness. The learning process in a course can thus be facilitated in course planning which is very much lacking in most universities in India. There should, therefore, be proper course planning for accounting education right from the higher secondary level. The audio-visual system should be introduced, and once in a week or fortnight the students should be exposed to short films which may be produced on various aspects of accounting education. Group discussions, debates, quizzes, seminars, workshops and continuing education, which are few and far between in the present system, should also be part and parcel of the education program.

Although accounting education systems in India have undergone many remarkable changes as highlighted earlier, they are still characterized by a degree of procedural orientation. Accounting students in India are at

present required to learn more about “hows” than about “whys”.<sup>13</sup> This approach to learning should be changed as far as possible for proper development of the skills of the accounting students to meet the changing needs of the society.

Accounting education should be consistent with national and international developments and environments. As accounting training will find itself increasingly part of the total socio-economic scene, it also needs to respond to dynamic changes and to be future-oriented. Research of a basic and applied nature in accounting will have to be viewed as the key to future developments and improvements. Continuing education should also become a major force in accounting education. Our aim should, therefore, be to produce accounting educators, researchers and academic accountants. If we continue to follow the traditional practice of imparting training with professional orientation, accounting graduates would not get due recognition from industry. We should frame the structure and curriculum of accounting education accordingly to the current needs of the society. A few suggestions in this respect are made in the paragraphs that follow.

In the last few decades, accounting has seen a number of changes. A lot of efforts have been made in the USA and the UK to develop a comprehensive accounting theory. These efforts have resulted in a major change in teaching and practice of accounting. Many universities have started adopting accountancy theory as part of their accounting education curricula. The ICAI and ICWAI are yet to follow suit. One can easily foresee that in the years to come there will be a greater clarity in articulation of accounting concepts resulting in qualitative changes in the teaching and practice of accountancy. There is widespread lack of attention to International Accounting issues in the present accounting curriculum. The formation of the International Accounting Standards Committee (IASC) in 1973 to formulate and publish basic accounting standards is another noteworthy development having bearing on the accounting education. Up to January 1987 the IASC have published 26 Accounting Standards which are to be observed by the member countries in the preparation and presentation of financial statements of corporate enterprises. The major accounting policy decisions concerning measurement of income and financial position have now become permissible only within the norms laid down in the accounting standards formulated by the IASC or by the national accounting bodies. Thus, greater emphasis on Accounting Standards should be given in the course structure of professional examination so as to make accounting measurements more precise, more credible and more comparable.<sup>14</sup> Certain other areas of accounting like human resource accounting (HRA) and social accounting (SA) should also be incorporated. While HRA aims at accounting for people as an organizational resource, SA deals with

<sup>13</sup> Basu, A. K., “Accounting Education in India”, an unpublished paper, p. 1.

<sup>14</sup> Gupta, K., “The Profession in 2001 A.D.”, *The Chartered Accountant*, July 1978, p. 6.

measurement and communication of the total performance of an enterprise in terms of its contribution to the society. We have mentioned earlier that India has developed a public sector all by herself to suit her own requirements. Both HRA and social accounting are, therefore, more important in the context of enterprises belonging to the public sector. Some public enterprises (e.g., Bharat Heavy Electricals Limited, Steel Authority of India) have started incorporating HRA and SA within the formal accounting and reporting system. But the way they are doing it leaves much room for criticism. It is presumably because the formal education system has not given due emphasis on this area. Another area that requires proper attention is Management Accounting and Financial Management. In a developing country resources are scarce and they are required to be allocated to priority sectors for balanced development of the economy. While the ICWAI in its proposed course has given due emphasis on them, the ICAI is lagging behind. It cannot be denied that the areas of Management Accounting in our country is underdeveloped — more so in government accounting systems — which we have discussed later on. Introduction of proper management accounting techniques in Government activities would result in a much better management of the economy. During the last few years, there has been considerable change in the policy of the Government with regard to installation and use of computers in Government and semi-Government organizations. But we do not have an adequate number of trained accountants to handle the situation. The accounting education system should take care of this new development and courses should be designed accordingly. It should be emphasized that use of computers is bound to bring in changes in the process of accounting, and analysis and interpretation of results. This should bring in consequential changes in auditing also. For example, in the changed environment the auditor has to obtain evidence regarding the reliability of the EDP system and its output through specially designed techniques like test packs and controlled processing. On-the-job training through computers is, therefore, essential to impart proper training of computer application.

That India is predominantly an agricultural country cannot be conceived from the courses designed by either the professional bodies or by the universities. There is total lack of emphasis being given on this sector which provides vitals to the 70 per cent of the country's population. Thus, the areas of farm accounting, farm management, farm costing can no longer be afforded to be left out of the accounting courses in India. The sooner it is done the better it is for the health of the economy. Another area to be developed is accounting and management problems in the unorganized sector of the economy. This sector is represented by small and cottage units and self-employed professionals. A better management approach, application of formal accounting systems will have a far-reaching effect on the profitable operations of these units. At present, only a small segment of the total economic activity in India has adopted proper accounting and reporting systems. In the unorganized sector the persons engaged in bookkeeping

and accounting, known as the “munims”, have a very low level of general education. They follow our simple traditional methods of bookkeeping for drawing up of final accounts. Some of them even follow elementary costing methods. There are no training establishments for them and the art is learned by observation and oral tuition by the senior “munims”.<sup>15</sup> The unorganized sectors should, therefore, be brought within the umbrella of accounting education as early as possible.

Another important area that requires careful consideration is the Public Sector Accounting.<sup>16</sup> We have mentioned earlier the significance of public sector in the economic development of India. The public sector employs about two-thirds of the workers employed in the organized sector of the Indian economy.<sup>17</sup> A big chunk of the same relates to accounting functions in the public enterprises, statutory corporations and Government departments. Government companies and statutory corporations follow the same principles with regards to maintenance and presentation of accounts as private sector companies. This is partly due to requirements in the Companies Act of 1956. Government companies and statutory corporations are not run by the Government for commercial considerations only. The existing accounting education and training method given by the professional institutes and universities suit the private sector accounting better than that of the public sector. Accounting methods followed in Government departments, popularly known as Government Accounting, is characterized by rigid legal principles with a bias towards accounting and budget requirements of the Government. Significantly enough, there is hardly any coverage of Government Accounting in the present accounting education and training system. A change in outlook with consequential changes in syllabi and training methods are, therefore, a necessity of the day.

<sup>15</sup> Bhandari, S. K. R., “Education for Accounting in India — A Perspective for Development”. Presidential address, Third Annual Conference of IAA, February 1973, p. 12.

<sup>16</sup> Sarker, J. B., “Public Sector Accounting and the Accounting Education in India”, an unpublished paper, p. 5.

<sup>17</sup> Nigam, R. K., “Farewell to the Public Sector”, Facts, Annual Number 1988–89, June 1988, p. 70.



APPENDIX 11.1

## Accounting Curricula: High School Level to Postgraduate Level

### HIGHER SECONDARY CURRICULUM IN WEST BENGAL (2-year course)

Language	400 marks
3 Compulsory Elective Papers	600 marks
1 Optional Elective Paper	200 marks
<b>TOTAL</b>	<b>1,200 marks</b>

N.B. Commerce subjects that may be taken as Elective papers are: Business Economics, including Business Mathematics, Business Organization, Accountancy and Economic Geography.

### BCOM PASS & HONORS, CALCUTTA UNIVERSITY

#### *2-year pass course*

#### *3-year Honors Course*

#### Compulsory:

#### Pass Papers

1. Business Mgmt. Group	300 marks	1. Business Mgmt. Group	300 marks
2. Economics & others	400 marks	2. Economics & others	<u>400 marks</u>
3. Principles & Practice of Accounting	<u>100 marks</u>		700 marks
	800 marks		

#### Honors Papers (Part I)

Four papers (including Accountancy) of 100 marks 400 marks

#### *Elective Group*

Four groups exist, one group is to be selected.

#### Honors Paper (Part II)

(Of four groups, one to be selected)

**Papers of Accountancy Group:**

1. Advanced Accountancy and Costing (70:30)	100 marks
2. Auditing & Taxation (70:30)	<u>100 marks</u> 200 marks
TOTAL	1,000 marks

**Papers of Accountancy Group:**

1. Business Math & Statistics	100 marks
2. Higher Accountancy	100 marks
3. Accounting Theory & Mgmt. Accountancy	100 marks
4. Costing & Taxation	<u>100 marks</u>
TOTAL	1,500 marks

**MCOM, CALCUTTA UNIVERSITY**

(Eight paper course divided into Part I and Part II Exams. Each paper 100 marks).

**Part I**

1. Organization Theory and Business Management
2. Business Environment
3. Corporate Taxation & Costing
4. Statistics and QM in Business

**Part II**

5. Managerial Economics and Economic Legislation and,  
Optional group of 3 papers of 100 marks each.

**Papers of Accountancy Group:**

6. Financial Management & Advanced Accounting Problems
7. Accounting Theory & Auditing
8. Advanced Cost and Management Accounting

(in effect from 1984–1985)

**MCOM, MADRAS UNIVERSITY**

(Ten paper course, each paper 100 marks.)

**First Year**

1. Legal Environment of Business
2. International Trade and Finance
3. Marketing and Marketing Research
4. Financial Planning & Control
5. Quantitative Methods

(Ten paper course, each paper 100 marks.)

**First Year**

1. Quantitative Methods
2. Business Economics
3. Industrial Organization
4. Business Management
5. Organizational Behavior

*Bhabatosh Banerjee*

**Second Year**

6. Business Data Processing
7. Taxation & Tax Planning
8. Organizational Behavior
9. Managerial Cost Accounting
10. Auditing and Control Systems  
or  
Advanced Corporate Accounting  
or  
Project Report

(in effect from 1988–1989)

**Second Year**

6. Personnel Management and Industrial Relations
7. Business Finance
8. Marketing Management  
and  
Optional two papers, of which  
accountancy papers are:
9. Advanced Financial Accounting and Accounting Systems and Techniques
10. Advanced Cost Accounting and Management Accounting

APPENDIX 11.2

Suggested Curricula at the Seminar on Commerce Education held on April 7, 1989 at Delhi University, South Campus (sponsored by the UGC)

**BCom (Honors) 3-year**

*Elective Group*

1st year Business Organization & Mgmt.  
Business Laws  
Business Economics  
Environmental Studies  
Financial Accounting  
Business Math & Computer  
Awareness  
Communication Skill

2nd year Higher Financial Accounting  
Cost Accounting  
Production Management  
Financial Management  
Monetary Economics  
Statistics

3rd year Income Tax Law  
Auditing  
Personnel Management  
Marketing Management  
International Trade  
Public Finance

**BCom (Professional) 3-year**

1st year Business Organization & Mgmt.  
Business Laws  
Business Economics  
Environmental Studies  
Financial Accounting

3rd year I *Accounting*

Company Accounting  
Computer Concepts and  
Cobol Programming  
Auditing  
Taxation (Customs and  
Excise)  
Taxation (Income Tax)  
Taxation (Wealth, Gift,  
Tax & State  
Excise)

Central

Sales

or

II *Business Studies*

Personnel Management  
Labor Laws  
Industrial Relations  
Marketing Practices  
Advertising Management  
Sales Management

or

III *Business Economics*

Foreign Trade and its  
Financing  
Import Policy & Procedures

*Bhabatosh Banerjee*

Business Math & Computer  
Awareness  
Communication Skill

Export Policy & Procedures  
Commercial Banking  
Operations  
Banking Law and Practice  
Cooperative Banking

2nd year Cost Accounting  
Accounting Practices for Small  
Units  
Financial Management  
Factory Organization & Mgmt.  
Statistics  
Indian Financial System

**MCom (Accounting)**

1. Higher Company Accounts
2. Accounting Theory
3. Management Accounting
4. Management Control Systems
5. International Accounting
6. Operations Research & Computer Application
7. Financial Management
8. Theory and Practice of Statistics
9. Direct Tax Laws
10. Tax Planning and Management
11. Investment Management

**MCom (Business Studies)**

1. Principles of Management
2. Organizational Behavior & Industrial Psychology
3. Financial Management
4. Marketing Management
5. Personnel Management
6. Production & Operational Management
7. Business Policy and Environment
8. Accounting for Business Decisions
9. Management Information System
10. Public Enterprise Management
11. Security Analysis & Portfolio Management
12. Theory and Practice of Statistics

**MCom (Business Economics)**

1. Micro Economics
2. Macro Economics
3. Industrial Economics
4. Theory & Practice of Statistics
5. Economic Growth of Planning

6. Financial Markets and Institutions
7. International Economic Relations
8. Industrial Relations & Personnel Management
9. Public Enterprise Management
10. Public Budgeting
11. Monetary Policy

**Four paper Postgraduate Diploma Courses**

1. Accountancy and Internal Audit
2. Insurance
3. Cost Accounting
4. Personnel Management
5. Portfolio Management
6. Entrepreneurship & Small Business Management
7. Public Enterprise
8. Foreign Trade

## APPENDIX 11.3

Research works in Accounting and Finance receiving PhD awards in a few Universities in India up to June 30, 1989.

### A. Calcutta University

Out of 40 PhDs, 24 were in Accounting and Finance, e.g.,

1. Nature and Behavior of Capital Structure of Indian Jute Industry, 1959–1968
2. Replacement Accounting for Fixed Assets
3. Cash Management — Derivative of Case Studies
4. A Survey of Material Accounting Method towards a Homogenous Process
5. Accountants' Enterprise, Income and the Value-Added Concept — A Comparative Study
6. Capital Intensity as a Criterion for the Choice of Technique for Industrial Development of Underdeveloped Countries like India
7. An Analysis of the Nature and Changes of the Capital Structure of the Central Government Companies, 1960–61 to 1969–70
8. Effect of Turnover on the Valuation of Goodwill
9. Development Rebate — An Incentive Towards Industrial Growth in India
10. Development of Corporate Financial Reporting in Bangladesh in the Context of that in India and Other Countries
11. A Study of the Significance of the Financial Ratio Analysis in Relation to Lending Decision
12. Changing Profiles of the Accounting Function — An Evolutionary Process
13. Practice and Policy of Depreciation in Bangladesh
14. Dividend Policy as a Factor Influencing Corporate Finance with Particular Reference to Sterling Tea Companies
15. The Current Ratio and its Significance Under Indian Conditions
16. Public Deposits as a Source of Working Capital in India
17. Accounting for Management of Debtors
18. Treatment of Provisions in Fund Flow Statements — Effect on Working Capital Management
19. Cattle Depreciation — Conceptual Propriety and Treatment in Farm Accounting

20. Effect of Inflation on Foreign Participation
21. Indian Accounting System
22. Debt-Equity Ratio
23. Profitability of State Public Enterprises in West Bengal
24. Role of Institutional Finance in India

**B. Brudwan University**

Out of 13 PhDs awarded, 6 were in Accounting and Finance, e.g.,

1. Role of Commercial Banking in the Planned Economy of India
2. Management of Small Enterprises in West Bengal
3. Personnel Management and Productivity in Public Sector Undertakings in India
4. IMF and the Problem of International Liquidity with Reference to India
5. Study of Capital Structure of Private Sector and Public Sector Steel Companies
6. Inflation Accounting — A Cash Flow Apostasy

**C. Andhra University**

Out of 58 PhDs, 9 related to Accounting and Finance, e.g.,

1. Indian Railway Finance
2. A Decade of Industrial Finance in India
3. Costing System in Indian Shipbuilding Industry — A Case Study of Hindustan Shipyard Limited, Visakhapatnam
4. University Finances — A Case Study of Andhra University
5. Management of Finance in Indian Railways
6. Structure and Flow of Agricultural Credit: A Case Study of Anakepalla Taluk
7. Human Resource Accounting — A Case Study of Hindustan Shipyard Limited, Visakhapatnam
8. Financial Management in Ports — A Case Study of Visakhapatnam Port
9. Performance Evaluation of State Financial Corporations in India: A Comparative Study

**D. Gauhati University**

Out of 29 PhDs, awards up to July 10, 1986, three related to Accounting and Finance, e.g.,

1. Study of Assam Financial Corporation
2. Commodity Taxation in Assam
3. Development of Banking in Assam Through the Nationalization — An Enquiry About its Role as an Institutional Financier



# Accounting Education and Training in Japan

IZUMI WATANABE\*

## Introduction

The Japanese economy has grown greatly both in strength and volume, with a high rate of growth of manufacturing, stable prices and increased foreign trade.<sup>1</sup> As a result of this economic growth, the nominal GNP is now the highest in the world. An important factor encouraging this economic growth is the Japanese system of education and especially the expansion of the higher education and the high proportion of school leavers who proceed to the universities (male, 33.4 per cent; female, 15.2 per cent; in 1990). There are two reasons for this high rate of educational advancement; one is that promotion of knowledge assists with the expansion of export trade and the other is that an academic background is highly respected within Japanese society. Generally speaking, Japan is a unitary nation regarding race, language and religion; (there are many different religions in Japan but there is no serious conflict between their adherents as one finds in many other countries). The high valuation of academic background is accepted by the Japanese people, notwithstanding the many contradictions engendered by this attitude.

Great respect for an academic background leads to excessive competition via the so called “examination hell,” and that in turn gives rise to social problems, such as holding back of the development of human relations. It is important that the system supplies business with high quality staff and the doctrine of competition contributes much to the training of business executives of either sex.

The remainder of this article explains the purpose and function of education and training in accountancy within the Japanese educational system.

<sup>1</sup> Economic Planning Agency, *Economic Survey of Japan (1988–1989)*, Printing Bureau of Finance, 1990, pp. 4–5.

## A Short History of Accounting Education in Japan

Formal education in accountancy began in the Meiji-era (1868–1912) when double entry book-keeping was introduced to Japan. Before that, traders kept records by methods special to Japan, different from the Italian method of debtor and creditor; this was “Cho-ai” (book-keeping and checking) of Japanese origin with the dual structure of income calculation.<sup>2</sup> There was no formal system of accounting education during the Tokugawa Shogunate era (1603–1867). Students understudied how to keep books from their superiors through a live-in arrangement in a master’s house. In those days merchants employed some resident apprentices. One reason for the lack of general business book-keeping system was that the big merchant houses were not allowed to disclose their procedures outside their premises. Each big merchant house had a basic general system of business book-keeping methods similar to double entry book-keeping in the West<sup>3</sup> to keep track of their transactions by dual structure of income calculation. The transactions were kept by single-entry systems. That is to say, there were some different forms of applications of book-keeping methods in the merchant houses, because book-keepers in those days learned the system of keeping transactions by “on-the-job training” (OJT) as a major education system in Japan. There were many apprentices in the large merchant houses. They engaged themselves in different tasks by “job rotation” system and learned the basic and general knowledge which was required in business management. Consequently, there was no way for apprentices to obtain knowledge of their tasks without learning it from their superiors because of the absence of schools. This resulted in the existence of many styles of book-keeping methods in Japan in those days. Highly developed book-keeping systems as well as elementary ones were used during the same period. It is noteworthy that the accounting education supported by the OJT method has basically prevailed until the present day.

In order to build up the economy of the country, the new democratic government in the Meiji-era introduced a modern banking system in 1873. The banks adopted the modern system of accounting. The First National Bank, the first modern company established in Japan, used the double entry book-keeping system of a Scottish banker, Alexander Allan Shand.<sup>4</sup>

Accounting education in the early Meiji-era gradually spread to other parts of the country and double entry book-keeping was adopted by many government agencies and companies. During this period, several European and American books on accounting were translated into Japanese. Examples

<sup>2</sup> We can find such an original high-level book-keeping system in Japan as Mitsui from the second half of 17th century and Nakai House from the first half of 18th century.

<sup>3</sup> Takatera, Sadao, *Kaikeigaku Paradoxes (Paradoxes on Accounting)*, Dobunkan, 1984, p. 18.

<sup>4</sup> Kurosawa, Kiyoshi, *Nihon Kaikei-seido Hattenshi (Historical Development of Accounting System in Japan)*, Zaimu-shohosya, 1990, p. 6.

of these are “Ginko-Boki-Seiho” (Banking Book-keeping Method), the Japanese version of a book by Shand, mentioned above, and “Choai-no-ho,” Yukichi Fukuzawa’s 1873 translation of “Bryant and Straton’s Common School Book-keeping; embracing single and double entry” by Henry Beadman Bryant and Henry Dwight Straton, published in New York in 1871.

Shand’s system was adopted by many of the numerous banks established under The National Bank Act. After that, the book-keeping system spread not only to banks but also to other companies.<sup>5</sup> This development was important because it was necessary for the central government to establish a banking system for financing in order to promote industrial development in Japan and to provide a new system of taxation.

“Choai-no-ho” on the other hand, was published not only to give instruction in the art of double entry book-keeping but to encourage modern entrepreneurship. The book had a strong impact on accounting education and it also resulted in textbooks on accounting. In July 1871, the Ministry of Education, Science and Culture was established, and in August 1872, a new educational system was promulgated and consequently, the present Japanese educational system was established.<sup>6</sup>

### **Pre-college and College Education of Accountants**

The Japanese school system established at the beginning of Meiji-era has since developed and improved. Figure 12.1 shows how it is structured:<sup>7</sup>

The school year in Japan begins in April and ends in March of the following year; therefore most big companies make a practice of hiring new graduates every April. Years of school are as follows; elementary schools, six years: lower secondary schools, three years: upper secondary schools, three years: junior colleges, two years: universities, four years. Post-graduate education (at “graduate schools”) lasts five years (a master’s course takes two years and a doctorate three years respectively). Elementary and secondary education have three terms a year, and junior colleges and universities have two a year. Graduates from junior colleges are admitted, on passing an examination, to the third year of university courses.

Book-keeping and accounting are subjects included in the curricula of commercial courses in upper secondary schools and courses in the Department of Commerce, Management and Economics are included in the curricula of junior colleges and the universities.

<sup>5</sup> Aoki, Shigeo, *Nihon Kaikei Hattatsushi (Historical Development of Accounting in Japan)* Doyukan, 1976, p. 12.

<sup>6</sup> Nishikawa, Kojiro, *Nihon Bokishidan (History of Book-keeping in Japan)*, Dobunkan, 1971 p. 248.

<sup>7</sup> Ministry of Education, Science and Culture, *Japanese Government Policies in Education, Science and Culture, 1989*, Printing Bureau, Ministry of Finance, p. 5.

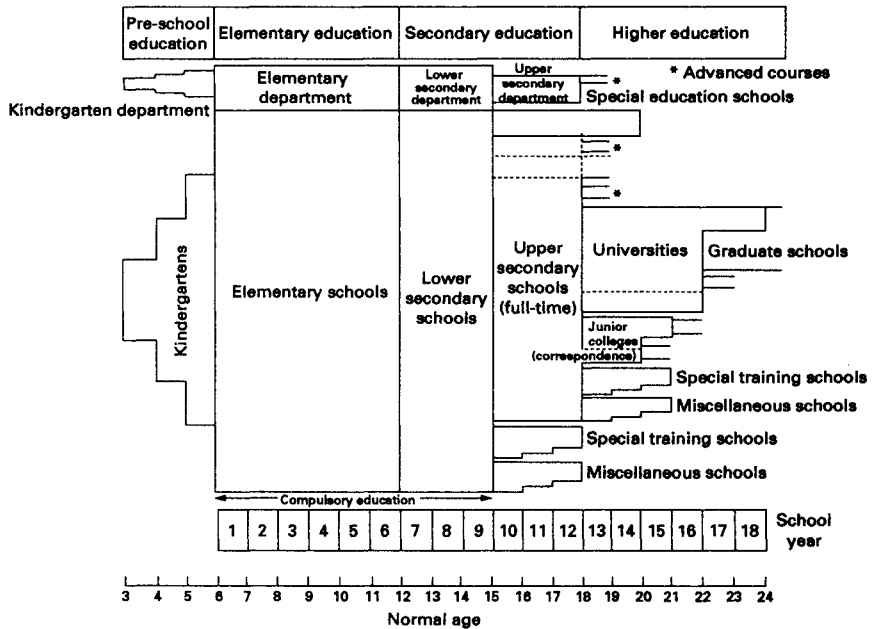


FIG 12.1 Organization of School System in 1989

There are some differences between the curricula of the various schools in book-keeping and accounting courses. However, they all include courses on book-keeping, accounting, and tax accounting. One of the principal objectives of the teaching of commercial subjects in upper secondary schools is to prepare students for the examinations established under the auspices of the Japan Chamber of Commerce and Industry, and the National Union of Commercial Upper Schools. The curricula include, in addition to book-keeping and accounting, subjects within the field of commerce, information processing, marketing and general business courses.

Education in accountancy at the universities varies, reflecting different ideas about education in general. However, the differences are minor. The curriculum of the Osaka University of Economics, for example, begins with book-keeping in the first year; financial accounting, cost accounting and history of accounting are covered in the second year; and accounting theory, managerial accounting, auditing, international accounting, analysis of financial statements and special topics of accounting are covered in the third and fourth years.

Generally speaking, education in accountancy in Japan is intended not only to prepare students for the professional accounting examinations, but to teach basic and fundamental accountancy theory. This is because it is very difficult to teach students all the systems of accounting used by the many different companies, which vary greatly in size and industry-type. For this reason the Japanese are dissatisfied, from the practical point of view,

with accountancy education in their country. The recent trend in Japan is to make accountancy education more practical and to emulate the trend in the business schools.

The author's view, on the contrary, is that basic and fundamental accountancy education best supports the development of the Japanese economy. Too much emphasis on practical aspects inhibits creative ideas in business activities. From this point of view, the latest trend in accountancy education in the United States appears to be inevitably towards basic training.<sup>8</sup> There, companies want the students to be trained as generalists, not specialists, and consider concrete accounting knowledge being best acquired through training after entering employment. Education confined to practical and concrete knowledge leaves a knowledge gap in an individual's professional development. What is of overriding importance is flexibility of thought and the ability to react quickly to economical change.

### **Education for Professional Certification**

In the social system of Japan, certified public accountants (CPAs) are recognized as the professional accountants, but there also exist tax advisors. CPAs render the following services: 1) auditing and certification services of financial statements subject to the Commercial Law and the Securities and Exchange Act; 2) tax advising service, and 3) management consulting services.<sup>9</sup> The practice of tax advisors, on the other hand, is to act as an attorney in connection with various tax matters, such as making declarations and filing tax returns. CPAs are also qualified to be tax advisors.

It is believed that the earliest group of professional accountants in Japan appeared in 1907 but "it was not until 1927 when the Accountants Act was enacted that a fledgling institute of professional accountants came into existence."<sup>10</sup> This Act did not make passing examinations a condition for qualifying as an accountant, and consequently gave birth to many "accountants" with no knowledge of accountancy. This became a matter for public concern, and in 1948 the Certified Public Accountants Act was enacted, following precedents in some European countries and the United States of America. The CPA Act was also a response to calls for modernization of the accounting system and financial policy; that is, the disclosure of financial information and the introduction of foreign capital<sup>11</sup> in Japan. After its enactment, most of the accountants who were qualified without the examination, re-qualified as CPAs by passing a special examination imposed by the Government as a relief measure; the 1927 Act was repealed and the old Accountants Act was abolished in 1966.

<sup>8</sup> We can find some revolutionary changes in accounting education in USA. For example, see the essay by A. Tom Nelson, "The Human Resource Dilemma in Accounting", *Journal of Accountancy*, August 1989, pp. 46-52.

<sup>9</sup> JICPA ed., *CPA Profession in Japan*, Tokyo, 5th ed., 1987, pp. 9-10.

<sup>10</sup> *Ibid.*, p. 1.

<sup>11</sup> *Ibid.*, p. 1.

The Tax Agent Act was enacted in 1942 to provide supervision of tax collecting services and also to deal with the complexity of the systems of taxation. Similar to the 1927 CPA Act, the Tax Agent Act did not make passing examinations a condition of qualifying. The Tax Agent Act was amended in 1951 and a new examination system under the Tax Advisor Act was introduced.<sup>12</sup>

Few Japanese universities have curricula for the specific purpose of enabling students to pass examination for CPAs or for tax advisor. Students intending to become professional accountants must either study for this by themselves, or attend a special school. Naturally, the subjects for the CPA examinations, i.e., book-keeping, financial accounting, cost accounting, auditing, management, economics and commercial law, are subjects within the curricula of universities that have faculties of commerce, management and economics. The subjects for the qualifying examinations for tax advisors are: book-keeping, financial accounting and tax law (individual income tax, corporate income tax, inheritance tax, enterprise tax, fixed assets tax, and consumption tax). These subjects are also within the curricula of most of the universities with faculties of commerce, management and economics. Because Japanese universities attach more importance to theory than to practical training, their curricula are not always appropriate as preparation for the professional qualifying examinations.

### **Characteristics of Accounting Education and Qualification Examination in Japan**

The system of CPAs was established in Japan in 1948 in order to protect the investing public when, following the Second World War, they were enabled to purchase shares on the dissolution of the “Zaibatsu” system (a giant family trust). In the same year the Securities and Exchange Act and the CPA Act were enacted. The Japanese Institute of Certified Public Accountants (JICPA) was established in the following year (1949) in response to the Act. The CPA Act was amended in 1974 to introduce a rule that certain classes of companies must have their accounts audited by CPAs. A scale was prescribed which now provides that companies with capital exceeding 500 million Yen or with liabilities totalling more than 200 million Yen must have an audit.<sup>13</sup>

Three examinations must be passed for a candidate to qualify as a CPA. The first examination is to test whether or not an examinee has sufficient literary ability to sit for the second examination; the subjects are Japanese language, mathematics and an essay. University graduates, university

<sup>12</sup> Yokoyama, Kazuo, *Konin-Kaikeishi Shiken no Tebiki (A Guide for The Examination of CPA)*, Zeimu-keiri-kyokai, 1990, pp. 3–4.

<sup>13</sup> The Act on Special Cases of the Commercial Law for the Auditing of Corporations, Article 2.

students with sufficient credits in the liberal arts, and persons who have passed the first examination for the judiciary, are exempted.<sup>14</sup>

The purpose of the second examination, which is held every September, “is to determine whether or not an applicant has sufficient expertise to qualify as a Junior Certified Public Accountant (Junior CPA).”<sup>15</sup> In this examination the subjects are book-keeping, financial accounting, cost accounting, auditing, management, economics and commercial law. A score of 60 per cent or more is a passing grade. Success or failure in the examination is decided not by the results of individual test papers, but by the overall result of all papers. The numbers of successful candidates taking the second examination and the numbers passing it in the years from 1981 to 1990 are shown in Table 12.1.<sup>16</sup>

TABLE 12.1

	Number of candidates for examination	Number of successful candidates (female)	Pass rate
1981	4,076	241 ( 9)	5.9%
1982	3,814	214 (12)	5.6%
1983	3,700	241 (17)	6.5%
1984	3,712	288 (16)	7.8%
1985	3,969	317 (19)	8.0%
1986	4,282	452 (57)	10.6%
1987	4,635	394 (33)	8.5%
1988	5,205	378 (39)	7.3%
1989	5,735	596 (80)	10.4%
1990	6,449	634 (97)	9.8%

JICPA ed., *Just you*, 1991, p. 24.

The third examination is taken by junior CPAs after they have trained for three years as assistants to CPAs. This is broken down into one year of training and two years of practical audit experience. During the three years, junior CPAs are trained by the OJT method.

The examination is “a test of technical competence and is comprised of four areas as follows:

- a) Auditing practice, procedures and reporting.
- b) Financial analysis.
- c) Other accounting practices, which include (1) book-keeping, (2) accounting systems, (3) practices relating to financial statements and (4) taxation.
- d) Essay”.<sup>17</sup>

<sup>14</sup> The Certified Public Accountants Act, Article 5.

<sup>15</sup> JICPA ed., *op.cit.*, p. 11.

<sup>16</sup> JICPA ed., *op.cit.*, p. 11.

<sup>17</sup> *Ibid.*, p. 12.

There are two types of audits by CPAs in Japan. One is the statutory audit, required by the Commercial Law and the Securities and Exchange Act. The other is voluntary and is done when judged necessary or desirable by companies and individuals. As previously stated, audit required by the Commercial Law is aimed at corporations whose capital amounts to more than 500 million yen or whose liabilities amount to more than 200 million yen. On the other hand, audit under the Securities and Exchange Act is mainly for the listed companies (i.e. companies listed by the Tokyo or Osaka Stock Exchange). The purpose of the latter audit is to protect investors, to ensure fairness in securities transactions and to facilitate the negotiation of securities.

## **Conclusions**

There were no formal education systems in Japan in the Edo-era (i.e. before the Meiji-era). Consequently, apprentices learned the method of keeping books by “on-the-job training” (OJT). Thus, they obtained their knowledge individually through their superiors by working as office boys in their master’s house. The dominant characteristic of accounting education in Japan has been the OJT method. This method is required in order for the “job rotation” system to function well, and has prevailed to the present time.

On the other hand, systematic education in accounting began in Japan with modern democracy in the Meiji-era, when the double entry book-keeping system began to be used for modernization of the economy. Shand’s “Ginko-Boki-Seiho” in 1873 and Fukuzawa’s “Choi-no-ho” in 1873, have had a significant influence on the accounting practice and its education in Japan. The former contributed not only to the modernization of bank accounting systems but also to the establishment of the corporation accounting systems, and the foundation of accounting practice. The latter played a major role in the modernization of accounting education.

There are two major differences in accounting education between Japan and other countries. One is the substance of accounting lectures in universities; the other is the importance of the OJT method in Japan after entering a company. That is to say, Japanese students learn not practical accounting techniques but basic accounting theory at university. They acquire the practical techniques of accounting after graduation through the OJT method. This method has played a very important role in practical accounting education in Japan. Whether the method functions well in a company depends upon the employees and their ability to apply the basic accounting theory they have learned at university. A knowledge of basic accounting theory usually leads to a wide application in business activities.

It is no exaggeration to say that a basic accounting education in university and practical training of the OJT method in enterprises have made substantial contributions to the development of the Japanese economy. It



provides what is required for the Japanese system of business management; flexibility of response to and the ability to deal with every twist and turn of the economic environment.

\* The author expresses thanks to Professor Sadao Takatera of Tokyo University for his advice, and to his friend E. Oliver Stocker for his help.

# A Global Perspective of Accounting Education and Certification Process: Focus on Pakistan

KHAWAJA AMJAD SAEED

## **Pakistan's Economy**

Pakistan appeared on the political map of the world as a sovereign state on August 14, 1947 after partition of the then British India. The beginning was very humble and Pakistan received only a seven per cent share of industries of British India and had only thirty-four factories employing 21,400 persons.

Seven 5-year development plans have been formulated to accelerate the socio-economic conditions of the country and its people. Primarily the country is agricultural based. However, the development of an industrial sector of various components and its infrastructure, the country has made steady progress in transforming its economy.

In 1989 the population of Pakistan was 107 million with an annual growth rate of 3.1 per cent. The literacy ratio was 26.2 per cent in 1989. It had a civilian labor force of around 31 million out of which 30 million were employed. Its GNP growth during 1988–1989 was 5.1 per cent. Its GNP at market price in the said year was Rs. 97 billion<sup>1</sup> with a corresponding figure of GDP at market price of Rs. 94 billion. Agriculture during this period registered a growth of 7.8 per cent. Production of major crops in respect to the above period consisted of 14.40 million tons of wheat, 3.06 million tons of rice, 33.70 million tons of sugar cane, 8.27 million bales of cotton, and 1.12 million tons of maize.

Using 1980–81 as a base, the manufacturing sector registered an annual growth of 3.1 per cent and the manufacturing index for the said period was 185. A well developed manufacturing sector exists in Pakistan at the moment and this includes all categories of industries. Internal

<sup>1</sup> Equivalent of Pakistan Rupee to one US dollar was around 22 as of August 14, 1989.

outstanding debt was Rs. 310 billion and external outstanding debt was US \$16 billion.

The educational sector has also undergone steady development. Relevant statistics in this sector are: Primary Schools, 87,545; Middle Schools, 6,560; High Schools, 5,183; Secondary Vocational Institutions, 235; Art and Science Colleges, 599; Professional Colleges, 99 and Universities 22.

In 1989 the Federal Government announced a forward looking and enlightened industrial policy. Policy statements for encouraging direct private foreign investments have also been issued and the program through disinvestment of public sector units for Rs. 1.5 billion was announced to be implemented during 1989–90. Efforts are also being made to strengthen small business to ameliorate the plight of unpossessed and under-privileged section of the society.

### **Accounting History in Pakistan**

The history of the accounting profession in Pakistan can be divided into six phases as explained below:

1. 1850–1881: The first Companies Act in the then British India was enacted in 1850. One of the provisions included in the Act was a half-yearly audit and a report on the accounts audited to be given by the Auditor. In the Indo-Pak sub-continent there were a few British firms of accountants, but they were so busy that their services were not available to the general public. The public companies used to appoint European auditors for safeguarding the interests of the European shareholders, and Indian auditors with the objective of safeguarding the interests of the Indian shareholders.
2. 1882–1913: The Companies Act of 1882 was passed. Regulations 83–94 of Table “A” containing the First Schedule to the Act provided for the audit of accounts of companies adopting that Table and for the appointment, remuneration and duties of the auditors. It was not necessary for a company auditor to be an accountant as some companies employed lawyers as their auditors.
3. 1913–1932: The Companies Act of 1913, was passed to become effective on April 1, 1914. No person could act as the auditor of a public limited company unless he held an auditor’s certificate granted by the Government. The Provincial Governments were empowered to grant Auditors’ Certificates but the Central Government reserved the right to recognize members of certain professional bodies as qualified to function as company auditors without obtaining an Auditor’s Certificate from the Government. Consequently, the members of the English, Scottish and Irish Institutes of Chartered Accountants and of the English Society of Incorporated Accountants and Auditors were recognized as qualified auditors.

Section 130 of the Companies Act, 1913, required that every company should keep proper books of account with respect to:

- (a) all sums of money received and expended by the company and the matters concerning receipt and expenditure;
- (b) all sales and purchases of goods by the company;
- (c) the assets and liabilities of the company.

Thus, the maintenance of book of accounts was made mandatory under the Company Law.

For some years after 1914 the Provincial Government granted Auditors' Certificates to persons who possessed some knowledge of accountancy. There was no provision of any kind for the training and examination of the Accountants. The government of Bombay was the first Provincial Government to take a constructive step in the direction of organizing the profession. In 1918 it instituted the Government Diploma in Accountancy (GDA) and made regulations for the examination and training of those who wanted to obtain that Diploma and certificate to practice.

The action taken by the Government received the approval of other Provincial and Central Governments. The result was that GDA Diplomas became the requisite qualification for the grant of Auditor's Certificates through British India. An Accountancy Board was set up by the Government and was attached to the Sydenham College of Commerce and Economics, Bombay. This functioned until 1932. The Board was required to register apprenticeships and conduct the required examinations. The successful candidates were granted the GDA Diploma and could practice if they had previously received training as apprentices with a practicing accountant. The Accountancy Board was also required to advise the Government on all matters relating to accountancy and the Government.

4. 1932–1947: Until 1932 there was no centralized control over the profession of accountancy, but the necessity for such control was increasingly being felt because of changing requirements and growing needs of the economy. Consequently the Government framed Rules under Section 144 of the Companies Act of 1913, called "Auditors' Certificates Rules, 1932". The objectives of these Rules were as follows:

- (a) Registering apprenticeships.
- (b) Conducting examinations.
- (c) Controlling and regulating the auditing profession.

The Accountancy profession was then being supervised and controlled by the Ministry of Commerce of the Central Government. With a view to helping the Government in discharging the necessary responsibilities in respect to the accountancy profession, the India Accountancy Board was established. This Board consisted of officials and practicing accountants

nominated by the Government. In 1939 appointment of a majority of the members on the Board was made on the elective principle. The Board was only an advisory body. The Auditors' Certificate Rules of 1932 contained provisions meant to regulate and control the profession. It required the passing of the Registered Accountants first and final examinations. It further laid down the tenure of the prescribed training which was required to be completed during the period of apprenticeship.

5. August 14, 1947 to 1972: Pakistan emerged as a sovereign State and adapted the Auditors' Certificate Rules of 1932. Amendments were made in 1950 and the affairs of the accountancy profession were administered under the Auditors' Certificate Rules of 1950. These were published in the Gazette of Pakistan on December 30, 1950 for regulating the accountancy profession in Pakistan. These Rules were generally based on the old rules with some amendments incorporated therein. A person who passed the Registered Accountants first and final examination and satisfied the Ministry of Commerce and the Central Government of Pakistan that he had completed the prescribed practical training could have his name placed on the register maintained by the Ministry and was entitled to use the designation, "Registered Accountant" (RA).

The Companies Act, 1913, as adapted by Pakistan allowed only a Registered Accountant to act as the auditor of a public limited company. His services could also be utilized to audit private companies, partnership concerns and traders. Under the law, as it stands now, it is not compulsory for private limited companies to get their accounts audited by a qualified accountant. However, under Section 13-A of the Income Tax Act, 1922, all private limited companies, whose paid-up capital was two million or more, were required to get their accounts certified by a Chartered Accountant or an Industrial Accountant.

In 1952 the Registered Accountants formed a private body known as "Pakistan Institute of Accountants" with the object of looking after their own interests and taking up matters affecting the accountancy profession with the Ministry of Commerce and the Government of Pakistan. It was realized that the accountancy profession had hitherto been well nursed by the Government, but the Registered Accountants in the profession had in their mind the ultimate goal of having the autonomous association in the country.

The Government also realized that the profession was rapidly growing in its stature and importance and in June 1959 the Department of Accountancy was established in the Ministry of Commerce with a Controller of Accountancy to deal with the profession instead of a Section Officer.

The Pakistan Institute of Accountants persisted with the idea of establishment of an independent body. An advisory body called the "Council of Accountancy" was set up under the Auditors' Certificate Rules of 1950, which recommended the establishment of the Institute of Chartered Accountants in Pakistan. The Government accepted the recommendations

and the Department of Accountancy assisted by the officials of the Institute and a number of its members prepared the Draft Ordinance to be passed.

The Chartered Accountants Ordinance, 1961, received the assent of the President of Pakistan on March 3, 1961 and was published in Part I of the Extraordinary Gazette of Pakistan on March 10, 1961. The Institute of Chartered Accountants of Pakistan came into being on July 1, 1961. A draft of the Chartered Accountants By-Laws was prepared and published for inviting public comments. The amended version, also called The Chartered Accountants By-Laws (1961), was published in Part I of the Extraordinary Gazette of Pakistan, and came into force on July 1, 1961. As of that date the Department of Accountancy and the Pakistan Institute of Accountants were liquidated.

The Institute of Chartered Accountants of Pakistan is now a statutory autonomous body and is administered by a Council of seventeen members. The Council is assisted by the three standing committees known as Executive Committee, Examination Committee and Investigation Committee. The Chartered Accountants By-Laws also provide for the formation of regional committees to look after the interests of their members. At present there are two such committees one each in Karachi and Lahore. The members are divided into two classes, Associate and Fellows (ACA, FCA).

The Pakistan Institute of Industrial Accountants was registered in 1951 by a group of Government and business executives for the advancement of Accounting and Cost Accounting. In July 1966 the National Assembly of Pakistan passed an Act entitled the Cost and Industrial Accountants Act, 1966, (XIV of 1966) to regulate the profession of Cost and Industrial Accountancy.

The Finance Ordinance, 1972 empowered its members to certify the accounts of private limited companies with capital of two million Rupees or over for the purposes of Section 13-A of the Income Tax Act, 1922, now replaced by the Income Tax Ordinance, 1979.

In December 1984 the Companies Act of 1913 was replaced by Companies Ordinance 1984. Through this, consolidation of various laws in one company code was undertaken. Salient features of the relevant legal provisions governing accounting profession are summarized below:

1. Maintenance of accounting record was extended to mandatory provision for cost accounting record in respect to manufacturing industries. Currently the Government is considering prescribing cost accounting records under section 230 (e) of the Companies Ordinance 1984.
2. Legal provisions also require cost audit and cost accounting records on annual basis by a Chartered Accountant or Cost and Management Accountant.
3. The fourth schedule annexed to the above Ordinance includes detailed requirements governing information disclosure relating to preparation of balance sheet and profit and loss account. For listed companies in Pakistan these requirements are very extensive and listed companies are legally

obliged to follow them. The total number of listed companies on the Karachi Stock Exchange as of August 14, 1989 was 418 with market capitalization of Rs. 45 billion.

4. The fifth schedule annexed to the Companies Ordinance 1984 contains requirements for preparation of financial statements in respect to unlisted companies.
5. For listed companies, the above Ordinance states that National Accounting Standards and other standards developed and notified by the Corporate Law Authority, Ministry of Finance, and the Government of Pakistan are mandatory requirements for compliance of national accounting standards and various other standards prescribed by the Institute of Chartered Accountants of Pakistan and the Institute of Cost and Management Accountants of Pakistan.
6. Preparation of funds flow statements has been made mandatory in respect to listed companies in Pakistan.
7. Release in half-yearly un-audited financial statements is the legal necessity for listed companies in Pakistan.
8. A prescribed form (Form 35 A) has been issued by the Corporate Law Authority, Ministry of Finance, and Government of Pakistan Islamabad as the Auditor's Report for listed companies.

The country is determined to follow the enlightened path of disclosure in the financial statements and development of professional standards with the passage of time. The country is linked with international, regional and sub-regional bodies. Two professional Institutes of the country — the Institute of Chartered Accountants of Pakistan and the Institute of Cost and Management Accountants — are members of the International Federation of Accountants, New York. The Institute of Cost and Management Accountants of Pakistan is also represented on the Finance and Management Accounting Committee. Pakistan has made a good contribution at various forums of the above Committee. The two Institutes are members of the Confederation of Asian and Pacific Accountants (CAPA).

### **Pre-College Level Education of Accountants**

The overall educational system of Pakistan follows three tiers. The first tier consists of a ten year education (categorized into 5 years primary, 3 years middle and 2 years matriculation).

Up to 8th grade education, emphasis is placed on the teaching of Mathematics and Algebra. During 9th and 10th grade, the development of students' mental skills for higher level mathematics and algebra are emphasized. This emphasis includes preparation of profit and loss accounts relating to sole traders and partnership. However, there is a great need to introduce elementary accounting for pre-college level education. This area is at present unexplored.

### **College and University Level Education of Accountants**

The second tier is The College level (generally known as undergraduate) and consists of four years education. The degree awarded is Bachelor of Arts (BA), Bachelor of Science (BSc) or Bachelor of Commerce (BCom). During the four year study at a College after the 10th grade, there are three streams of education (see Table 13.1).

TABLE 13.1 *Streams of Education*

Stream	Emphasis
1	Commerce
2	Arts
3	Science

\* Streams 2 and 3 do not include accounting as a subject.

In stream 1 there is a two year course entitled Intermediate in Commerce (ICom). Examination is conducted by the Board of Intermediate and Secondary Education as a public examination. A student may study in a College or undertake private study. The Course of study is for two years (see Table 13.2).

TABLE 13.2 *Intermediate in Commerce  
(2 year course)*

Course	Marks (Points)
English	200
Urdu	100
Islamiyat & Pakistan Studies	100
Principles of Accounting	200
Principles of Commerce (Business Method & Banking)	200
Economics and Commercial Geography	200
	<u>1,000</u>

\* The medium of instruction and examination is both Urdu and English.

Another sub-stream of the above is a two year Diploma in Commerce (DCom Course) which is operated by the board of Technical Education in various provinces. After finishing the above examination a person can become an accounting technician and is capable of maintaining accounting records. There is another one year course which is known as Certificate in Commerce (CCom).



TABLE 13.3 *Bachelor of Commerce*  
(2 year course)

<i>BCom Part I</i> <i>Course</i>	<i>Marks (Points)</i>
Accounting	100
Banking, Currency and Finance	100
Business Communication and Report Writing	100
Business Mathematics and Statistics	100
Economics	100
Introduction of Business	100
Islamiyat and Pakistan's Studies or Ethical Behavior for Non- muslims	<u>100</u>
<b>TOTAL</b>	<b><u>700</u></b>
<i>BCom Part II</i> <i>Course</i>	<i>Marks (Points)</i>
Business Taxation	100
Business Law	100
Economics of Pakistan	100
Fundamentals of Cost Accounting	<u>100</u>
<b>TOTAL</b>	<b><u>400</u></b>

**Special Subjects:**

Two courses are to be selected from any one of the following groups:

<b>Group 1: <i>Advanced Accounting and Auditing</i></b>	100
Advanced Accounting	<u>100</u>
<b>TOTAL</b>	<b><u>200</u></b>
<b>Group 2: <i>Insurance</i></b>	
Insurance Principles and Life Insurance	100
Property and Liability Insurance	<u>100</u>
<b>TOTAL</b>	<b><u>200</u></b>
<b>Group 3: <i>Marketing</i></b>	
Principles of Marketing	100
Sales Promotion	<u>100</u>
<b>TOTAL</b>	<b><u>200</u></b>
<b>Group 4: <i>Transport</i></b>	
Transport Economics	100
Land, Air and Water Transport	<u>100</u>
<b>TOTAL</b>	<b><u>200</u></b>
<b>GRAND TOTAL</b>	<b><u>800</u></b>

Later a student can pursue a two year course in Commerce and obtain a Bachelor of Commerce (BCom) degree (see Table 13.3).

The medium of instruction and examination in English, except for Islamiyat and Pakistan's Studies in which Urdu is used. After studying various courses in Accounting, Advanced Accounting and related subjects, a student may either continue his/her further education at the postgraduate level, pursue professional examinations (the third tier of accounting education) or take up employment as an accounting supervisor. A candidate at this level in Pakistan is quite capable of handling accounts of sole traders and partnership concerns and may also be employed as an accounting executive in the corporate sector.

There are two popular courses at the master's level in Pakistan, namely Master of Commerce (MCom) and Master in Business Administration (MBA). Both courses enjoy national prominence and consist of twenty courses together with a compulsory eight-week supervised internship program. At present MCom is being offered by six Universities and MBA by nine Universities in Pakistan, including one private University (see Appendix 13.1). This course package is followed in the University of the Punjab and other Universities. The Allama Iqbal Open University, Islamabad operates a flexible pack of MBA Programs for in-service employees through correspondence courses together with some workshops. Accounting courses are also offered in the master's degree in Public Administration (MPA) and Master in Business Education.

At the Hailey College of Commerce, for middle career accountants, a nine-month Diploma Course in cost and Management Accounting (DCMA) is followed. This consists of three papers in Cost Accounting, Managerial Accounting and Industrial Management. The diploma is open to commerce graduates or graduates in Arts and Science of any recognized university in the Second Division having a minimum of three years practical experience in accounting.

### **Professional Accounting Education**

At present there are six professional Institutes approved for imparting professional education in Pakistan:

1. The Institute of Chartered Accountants of Pakistan was established under the Chartered Accountants Ordinance, 1961. It is governed by a Council and offers professional qualifications to enable persons to become Associate (ACA) and Fellow (FCA) members.
2. The Institute of Cost and Management Accountants of Pakistan was established in 1966 under the Cost and Management Accountants Act, 1966. It offers a course package leading to professional qualification to become Cost and Management Accountants.
3. The Institute of Corporate Secretaries of Pakistan has a license under section 42 of the Companies Ordinance, 1984 and produces qualified

Corporate Secretaries to man the corporate sector of Pakistan. Its course package includes Basic and Advanced Accounting subjects.

4. The Institute of Bankers in Pakistan offers a Diploma in Banking and has also been established under section 42 of the above Ordinance. Its course package includes two compulsory courses in the area of Accounting namely: Bookkeeping and Accounting and Higher Accountancy.
5. The Institutes of Marketing Management and The Institute of Taxation Management in Pakistan offer course packages which include courses in Accounting, Advanced Accounting and Management Accounting. Their products specialize in marketing and taxation, and develop accounting perspectives for decision-making.

At present only the Institute of Chartered Accountants of Pakistan and the Institute of Cost and Management Accountants of Pakistan can certify professionals as qualified Chartered Accountants and Cost and Management Accountants.

### ***Institute of Chartered Accountants of Pakistan***

The above Institute offers a course package to graduates for qualifying as Chartered Accountants. Currently, every candidate is required to undergo training for four years if he is a commerce graduate, holds an equivalent qualification approved by the council, is a member of the Institute of Cost and Management Accountants of Pakistan, an MBA or BBA, and five years if he is a graduate in other subjects.

A candidate and his principal have to execute a contract for undertaking training. There is a prescribed format which contains comprehensive details governing duties to be performed by a candidate and the obligations by a principal.

No member of the Institute of Chartered Accountants of Pakistan is entitled to train students unless he has been in practice as a Chartered Accountant either independently or in partnership with a firm of Chartered Accountants for a period of not less than three years and has been permitted by the Council, upon application and on payment of such fee as may be prescribed by the council, to train candidates. No principal shall have more than ten candidates under his training at any point in time.

A candidate is required to serve in his principal's office or his principal's business of public accountancy. During training, he is not permitted to practice as a public accountant or engage in any other business or occupation. An exception has been made for spending a period not exceeding six months total in such industrial, commercial, or other suitable organization as the council may approve and subject to such conditions and control as the council may impose or exercise. There are two stages of Professional Examination, namely, Intermediate and Final (see Table 13.4).

There is at present a blueprint for introducing basic accountancy courses before registration of a candidate to undergo training for the Chartered

TABLE 13.4 *Professional Examinations*

---

*Intermediate*

*Group I*

1. Accounting — 2 papers
2. Auditing
3. Cost Accounting & Taxation

*Group II*

1. Mercantile Law
2. Economics, Business Organization and Management
3. Business Mathematics and Statistics

*Final*

*Group I*

1. Advanced Accounting — 2 papers
2. Auditing
3. Company Law and Secretarial Practice

*Group II*

1. Cost Accounting
  2. Management Accounting
  3. Mercantile Law
  4. Taxation
- 

Accountancy Examination. A Special Committee on Education and Training of Chartered Accountants has issued a report which is being currently debated by the members of the Institute in Pakistan.

To prepare candidates for appearing in the professional examination, the Institute offers compulsory correspondence courses in all subjects. It is obligatory for candidates to attend refresher courses before appearing for the examination. The courses are offered in Karachi, Lahore and Islamabad.

As of June 30, 1989 the total number of members (Associate and Fellow) of the Institute was around 1,400. The Institute follows high qualitative standards in examination and the pass percentage is generally below 10 per cent. Its members are rendering excellent services at home and abroad.

***The Institute of Cost and Management Accountants of Pakistan***

A group of enlightened private sector Cost and Management Accountants established the Pakistan Institute of Industrial Accountants in 1852. The object was to produce Cost and Management Accountants to serve the growing needs of the country. In 1966 this Institute was renamed the Institute of Cost and Management Accountants of Pakistan and was established under the Cost and Management Accountants Act, 1966. It is governed by a council of twelve persons who serve for a tenure of three years. It has so far produced around 1,000 Cost and Management Accountants. Candidates are required to attend classes for preparation of

examination. Where such coaching classes are not available, a candidate must enroll through correspondence courses for which adequate logistics exist. The study program consists of four parts and contains good emphasis of accounting, cost and management accounting and related subjects.

All types of graduates are eligible to register for the Institute. The only exception is foreign candidates. The course structure for qualifying as a Cost and Management Accountant of the Institute is given in Table 13.5.

TABLE 13.5 *Cost & Management Accountant Qualification*

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*Part I*

1. Accounting — 2 papers
2. Economics
3. Industrial and Commercial Law

*Part II*

1. Cost Accounting — 2 papers
2. Business Communication and Report Writing
3. Business Mathematics and Statistics

*Part III*

1. Advanced Accounting — 2 papers
2. Production Technology and Management
3. Taxation

*Part IV*

1. Advanced Cost and Management Accounting — 2 papers
  2. MIS Data Processing and Quantitative Techniques
  3. Corporate Law and Secretarial Practice
- 

Members of the Institute are categorized into Associates and Fellows. The members of the Institute are serving in the private and public sectors of business and industry.

### **Continuing Professional Education**

Continuing Professional Education (CPE) is necessary to stay updated after qualifying as a professional. Professional Institutes in Pakistan are aware of this need and continue to conduct CPE programs described below:

#### ***Institute of Chartered Accountants of Pakistan***

Over two dozen CPE programs have been conducted throughout Pakistan by the Institute. The topics covered are comprehensive and include Computer Appreciation, New Frontiers of Auditing, International Accounting Standards, International Audit Guidelines, Corporate Financial Reporting, Expectations of the Users relating to Financial Statements and Audit, Resource Mobilization, Taxation Provisions, etc. To benefit the members throughout the country, CPEs have been conducted in several

principal cities. Conferences have been held periodically on important themes. Recently the CPE Committee of the Institute has developed broad guidelines for smooth operation of CPEs for the benefit of members and other working executives. The Institute is fully alive to serve the cause of advancing frontiers of CPEs. Recently members have been contacted to identify new talents for conducting CPEs.

### ***Institute of Cost and Management Accountants of Pakistan***

The continuing professional education is conducted through voluntary programs known as “Continuing Professional Development” (CPD). CPEs have been conducted under the overall supervision of the Seminar and Conference Committee of the Institute. Topics include Strategic Financial Management, Taxation, Cost, Audit, Productivity, International Accounting Standards, Human Resource Accounting, Zero Based Budgeting and related subjects of Cost and Management Accounting. These programs have been conducted throughout Pakistan in major cities. The Institute has been conducting International Conferences on Management Accounting. To date, five such conferences have been held and participants from home and abroad have benefited from them. Every year an effort is made to find a scholar of International repute to deliver the Shoaib Memorial Lecture. Mr Shoaib was the founding President of the Institute and served as Finance Minister of Pakistan for nearly one decade during the 1950s and 1960s. Nine Shoaib Memorial Lectures have been delivered by reputable scholars from every continent of the world.

The two Institutes have conducted joint CPE programs for their members. The main emphasis of the CPE programs was on International Accounting standards. There is a joint CPE Committee of both the Institutes which draws up programs in this respect. Both institutes are playing important roles in promoting CPE programs with much enthusiasm on the part of members and working executives.

### ***CPE and South Asian Federation of Accountants (SAFA)***

There is a special regional body known as the South Asian Federation of Accountants (SAFA). Since 1985 several seminars and conferences have been held in SAFA countries. Pakistan hosted the first SAFA Seminar in the middle of 1985 in which several papers were presented and the seminar was well attended. Subsequently, one conference in 1987 and a seminar in 1989 have been hosted and were beneficial to Continuing Professional Education.

### **Meeting the Country's Socio-economic Needs**

Accountants, at all levels are needed to play a positive role in meeting the socio-economic needs of the country, in terms of quantifying results, highlighting performance and exhibiting financial position.

### **Government Sector**

There are training Institutes in the Government Sector which render useful services in developing accounting skills. In the Government Service of Pakistan, young and dynamic graduates qualify and specialize in Audit and Accounts Service (PAAS). Some of these graduates are sent abroad to refresh and update their Accounting knowledge. Others equip themselves with modern techniques of Accounting and Auditing through training in the local professional Institutes. In the past few years, under the leadership of the Auditor General of Pakistan, guidelines for Performance Audit have been developed (15 volumes) through technical support received from Holland. Government Accounting as a discipline is taught and is developing as a part of accountability in the country. The annual accounts of Government Departments and Ministries are prepared and the Public Accountants Committee (PAC), a constitutional body, reviews these accounts to ensure the optimal and efficient resource allocation and utilization in the country. There is a growing emphasis on the three E's, namely Efficiency, Economy and Effectiveness in the Pakistani government sector through the use of accounting information.

### **Public Sector**

Public enterprises exist in industrial, mining, agricultural, shipping, air transportation, insurance, banking and service sectors. These enterprises were largely taken over and later nationalized during 1972 and 1975. They were established under the corporate laws of the land or were born under an Act of Parliament. They employ qualified financial accountants and cost and management accountants who have played a useful role in recording the results of their performance and in highlighting their financial position. Annual Reports are published by these enterprises and the Government of Pakistan publishes useful analysis. There are encouraging signs that these enterprises will maintain Cost Accounting records and undertake steps to achieve improved results through an emphasis on efficiency, economy and effectiveness.

### **Private Sector**

The enlightened private sector in Pakistan has benefited from the expertise of commerce and business graduates as well as professionally qualified accountants. The supply of accountants has lagged behind demand in Pakistan as more professionally qualified persons become needed for ensuring efficiency, accountability and productivity in private sector enterprises. Many professionally qualified accountants after joining as Finance Managers have risen to the position of Chief Executives.

## **Services Sector**

There is a well developed services Sector in the fields of Banking, Insurance and Marketing and Advertising in Pakistan. To meet their growing needs, accountants from the world of academics and professional institutes have rendered useful services in meeting the socio-economic needs of the country. However, there is a great shortage both at the accounting technician level as well as at higher executive level.

## **Meeting the Challenges of the Future**

The present democratic set up of Pakistan requires a strong concept of accountability. The implementation of the Seventh Five Year Plan (1988–93) requires the services of a greater number of accountants. It is estimated that about 25,000 accountants will be needed in the country. The big gap between demand and supply of accountants is likely to persist because of the country's inability to produce the required number within five years.

The growing challenges of the 1990s and the twenty-first century require a greater number of accountants of different profile. The changes in the information technology have posed great challenges. The role of accountants will also undergo a change because they will have to focus and concentrate on strategic financial management. In the long-run, the twenty-first century accountant will be expected to provide managerial leadership to government and industry. In this respect, the existing educational infrastructure needs to be redesigned and redeveloped for meeting the needs of the future.

## **Recommendations**

The following recommendations are made to improve the role of the accounting profession in Pakistan:

1. Accounting courses in the Universities should be periodically improved and updated so that better products are produced.
2. Accounting teachers should be provided periodical refresher courses.
3. Indigenous accounting literature should be developed in qualitative terms.
4. Accounting labs should be introduced in colleges, so that practical work can be encouraged.
5. Use of computers should be encouraged as an integral part of accounting programs.
6. Pakistan Accounting Association should be established for promoting the cause of accounting education in the country.
7. Qualitative improvement in professional education should be introduced to improve pass per centage and reduce the drop-out rate.
8. The professional Institutes should develop a perspective plan to meet the growing needs of the accountants in Pakistan.
9. Accounting programs should place a great emphasis on producing managerial leadership.



10. Greater emphasis on business environments should be given in accounting course programs.
11. Cases should be developed for training Accountants' decision making and stimulate analytical thinking.
12. Professional accounting firms in the country should allocate some of their income for imparting in-service training to potentially qualified accountants.
13. Libraries with updated material and accredited accounting journals should be established in various places in Pakistan.
14. Specialized courses for accounting technicians should be started in the country.

## Master's Degree Course Packages

### *First Semester*

1. Business Administration I
2. Principles and Practice of Marketing
3. Statistics Analysis for Business
4. Economic Growth of Development
5. Islamic Principles of Trade and Commerce

### *Second Semester*

1. Business Administration II
2. Financial Statement Analysis
3. Business Finance
4. International Trade and Exchange
5. Company Law

### *Third Semester*

1. Industrial Management I
2. Industrial Accounting I
3. Operation of Banks and Financial Institutions
4. Insurance Management
5. Business Communication
6. Marketing Management
7. Computer Programming with Business Application

Three courses are to be selected from above and two courses are to be selected from any one field of concentration.

### *Fourth Semester*

1. Industrial Management II
2. Industrial Accounting II
3. Public Finance
4. Labor Laws and Industrial Relations
5. Industrial Resources of Muslim World and their Development

Any three courses from the above may be selected along with two courses from any one field of concentration. Several fields of concentration include the following:

*Accounting*

1. Advanced Accounting Theory
2. Advanced Accounting Problems
3. Advanced Auditing Problems
4. Managerial Accounting
5. Business Tax Law
6. Business Tax and Problems
7. Corporate Accounting

*Finance*

1. Financial Policies and Problems
2. Investment and Security Analysis
3. Business Tax Laws and Problems
4. Public Financing in Islam
5. Insurance Management

*Marketing*

1. Advertising
2. Retail Management
3. International Marketing
4. Marketing Logistics Management
5. Marketing Research and Analysis
6. Hotel and Restaurant Management

*Computer Science*

1. Electronic Data Processing in Business
2. System Design
3. Basic Programming
4. Business System Programming

*Transportation*

1. Principles of Transportation
2. Problems in Traffic Management
3. Air Transportation
4. Road Transportation
5. International Transportation

The students being admitted to the MBA program as of 1989 will need to study the following courses:

*First Semester*

- |              |   |
|--------------|---|
| B. Admn. 501 | Financial Accounting                      |
| B. Admn. 502 | Essentials of Management                  |
| B. Admn. 503 | Economic Analysis (Micro and Macro)       |
| B. Admn. 504 | Mathematics and Statistics for Management |
| B. Admn. 505 | Business Communication and Report Writing |

*Second Semester*

B. Admn.	506	Cost Accounting
B. Admn.	507	Marketing Management
B. Admn.	508	Methods in Business Research
B. Admn.	509	Financial Management — I
B. Admn.	510	Computer Based Management Information Systems

*Third Semester*

B. Admn.	601	Behavioral Sciences for Management
B. Admn.	602	Development Economics
B. Admn.	603	Financial Institutions

Two courses are to be selected from the area of Specialization indicated below.

*Fourth Semester*

B. Admn.	604	Production Management
B. Admn.	605	Corporate Laws & Islamic Ethics in Business
B. Admn.	606	Managerial Policy

Two courses are to be selected from the area of Specialization indicated below.

*I: Finance*

B. Admn.	607	Financial Analysis
B. Admn.	608	Investment and Security Analysis
B. Admn.	609	Taxation Management
B. Admn.	610	Seminar in Finance
B. Admn.	611	Financial Planning and Controls
B. Admn.	612	Corporate Finance
B. Admn.	613	Auditing
B. Admn.	614	Financial Management II
B. Admn.	615	Managerial Accounting
B. Admn.	616	International Business Finance

*II: Marketing*

B. Admn.	617	Marketing Research
B. Admn.	618	Export Marketing
B. Admn.	619	International Trade and Finance
B. Admn.	620	Sales Management and Advertising
B. Admn.	621	Seminar in Marketing
B. Admn.	622	Costing & Pricing for Exports
B. Admn.	623	International Economic & Commercial Policy
B. Admn.	624	Consumer Behavior

*III: Quantitative Business Analysis*

B. Admn.	625	Statistical Inference
B. Admn.	626	Quantitative Analysis for Business Decision

B. Admn.	627	Business Forecasting
B. Admn.	628	Advanced Statistics
B. Admn.	629	Managerial Economics
B. Admn.	630	Operations Research

*IV: Computer Science*

B. Admn.	631	Computer Programming I
B. Admn.	632	Computer Programming II
B. Admn.	633	System Analysis and Design
B. Admn.	634	Management of Computer Systems
B. Admn.	635	Seminar in Systems

*V: Industrial Management*

B. Admn.	636	Industrial Laws: Emphasis Negotiation Skills
B. Admn.	637	Labor Economics
B. Admn.	638	Personnel Management
B. Admn.	639	Labor Management Relations
B. Admn.	640	Seminar in Industrial Relations
B. Admn.	641	Public Enterprise Management

*VI: Accounting*

B. Admn.	642	Managerial Accounting
B. Admn.	643	Advanced Accounting
B. Admn.	644	Auditing
B. Admn.	645	Advanced Cost Accounting
B. Admn.	646	Corporate Accounting
B. Admn.	647	Seminar in Accounting

*VII: Banking*

B. Admn.	648	Banking Law and Practice in Pakistan
B. Admn.	649	Credit Analysis
B. Admn.	650	Portfolio Management
B. Admn.	651	Seminar in Banking
B. Admn.	652	Development Finance — National and International Development Financial Institutions

*Compulsory*

B. Admn.	653	Thesis: Internship Program (Equivalent to two courses)
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# Accounting Education & Professional Certification Process in the Philippines

FORTUNATO B. CRUZ

## **The Economy**

The Philippine economy is basically agricultural. The state adheres to the principle of free enterprise. It promotes industrialization and recognizes the role of the business sector in economic development.

Thus, one of the policies adopted to enhance this role is the privatization of business which involves transfer of government-owned entities to the private sector.

The prolonged worldwide recession during the 1980s increased protectionism and depressed commodity prices. High international interest rates as well as the impact of the country's foreign debt crisis seriously hampered the growth of the economy. However, with change in government administration and the restoration of democratic processes in 1986, the economy showed very good signs for resuming growth.

Against the social backdrop of economic recovery, the accounting profession is expected to play a significant role towards rebuilding the nation and improving the economy.

The need to bring the national economy back to recovery poses a greater challenge to the accounting profession. Currently, the profession is under pressure to provide reliable financial data on the activities of the business sector as well as on the administrative processes of government in the interest of the public. In this connection, the profession's responsibility over the accountability of both public officials and corporate managers is being emphasized. The accounting profession is also expected to act as steward of the economic and financial resources of the country. It is believed that by being able to redirect allocation of financial resources to activities that would benefit a greater number of people, the profession would serve as a catalyst in promoting economic growth.

## **Origin**

Accountancy in the Philippines was already evident during the pre-Spanish era when the single entry bookkeeping system was then in use. The coming of the Spaniards, however, and the early Western merchants from Europe and the Americas gradually influenced the country's trade and commercial system, as well as local business and tax laws and accounting practices. As a consequence, today's accounting profession bears the imprints of foreign accounting systems, predominantly of American origin.

In the early 1900s, a few professional accountants accredited in England, Scotland and the United States introduced limited accounting practices in Manila. However, it was not until March 1923 that accounting was recognized as a profession by virtue of Republic Act 3105. This act also created the Board of Accountancy and furnished it with the authority to issue the Certified Public Accountant (CPA) certificate and to regulate the practice of accountancy. It defined the accountancy profession and set the professional and ethical standards for its practice.

Several laws governing the practice of accountancy were also passed. Republic Act No. 3302, issued in 1926, granted the use of the abbreviation "CPA" only to those who qualified by examination. Commonwealth Act No. 342, which was passed on May 23, 1938 granted foreign CPA's or holders of a similar degree or certificate in their home country, the right to register as such without having taken the CPA examination in the Philippines. In August, 1967, a new accountancy law, Republic Act no. 5166 limited the practice of the profession to Filipino citizens. At present, the Revised Accountancy Law (Presidential Decree 692), which was promulgated in June 1975, regulates the practice of accountancy in the Philippines, standardization of accounting education and examination for registration of CPA's. PD 692 also maintains that the Professional Regulation Commission shall adopt rules to effect the integration of the CPA's in the country.

## **Accounting Education**

Formal education is necessary to prepare a student to enter the field of accounting. It consists of three levels: elementary, secondary and tertiary or higher education. An individual is required to undergo at least 14 years of schooling in order to obtain a degree in accounting.

### ***Elementary Education***

The first level of compulsory, formal education is primarily concerned with providing the basic education generally corresponding to six or seven grades including a pre-school program. The core curriculum is focused on the development of basic skills especially reading, writing and mathematics.

## **Secondary Education**

This stage corresponds to four years of high school and is concerned primarily with continuing the basic education and developing one's gainful skills. It also prepares the individual for tertiary level of education.

## **Tertiary Education**

This pertains to post-secondary schooling leading to a degree in a specific profession or discipline. It embraces the one or two-year vocational/technical courses to degree and professional programs including graduate education at the masters and doctoral levels.

Passing the National College Entrance Examination is a requirement for admission to the tertiary level. This test is held yearly to identify those who can be accommodated in college. Admission requirements for accounting students vary among schools. Most universities subject the first year applicant to a series of admission test requirements of their respective colleges and universities. Others admit anyone who meets the minimum qualifications set by the government. After meeting the minimum admission requirements, the applicants are formally admitted to the institution of higher learning.

In order to obtain a degree in accounting, one must take up Commerce or Business Administration with accounting as the major field of study. In most colleges and universities, a four-year degree program in accounting education is offered. The first two years of college work expose the student to the minimum requirements of an accounting program geared to the preparation of general purpose reports as suggested by the Philippine Association of Collegiate Schools of Business (PACSB) and approved by the Department of Education, Culture and Sports (DECS). These basic courses introduce the student to a framework within which accounting functions in an enterprise. The last two years are aimed primarily at students who will presumably sit for the CPA board examination.

The curriculum approved by the DECS for the undergraduate accounting education program is a total of 162 academic units. The breakdown of curricular requirements into subject areas are as follows:

---

### **A. Liberal Education**

- |   |    |
|---|----|
| 1. Languages  |    |
| a) English  | 15 |
| b) Spanish  | 12 |
| c) Filipino   | 6  |
| 2. Mathematics  | 12 |
| 3. Behavioral/Social Sciences (History, Political Science, Business Psychology, Sociology, Personality Development, Logic and Ethics) | 15 |



4. Other Liberal Studies (Natural Sciences)	6	
5. Rizal	3	
		69 units
<hr/>		
B. Business Education — core		
1. Accounting	12	
2. Business Law	9	
3. Economics	6	
4. Banking and Finance	6	
5. Management	6	
6. Marketing	3	
7. Statistics	3	
8. Taxation	6	
		51 units
<hr/>		
C. Major	30	
<hr/>		
D. Professional/Free Electives	12	
<hr/>		
Total		162 units

Most member schools have adopted the model curriculum developed by the PACSB. Some schools have accounting programs that are superior to the PACSB model.

After successfully completing an accounting degree, one has the option to pursue a postgraduate course in business. Admission requirements for the master's and doctoral levels vary among institutions. Aside from meeting the minimum required grade and number of years of working experience, the usual practice is to subject the applicant to an entrance examination and interview.

The minimum curricular requirements for the master's and doctoral programs in business or related fields are as follows:

	Master's Program		Doctoral Program	
	no. of Subjects	Units	no. of Subjects	Units
Core subject	3	9		
Major subjects	5	15	10	30
Cognates	2	6	2	6
Philosophy subjects			3	9
Research & thesis		6		
Graduate seminar				3
Dissertation				12
		36	60	

## **Professional Certification**

### ***Regulation of the Practice of Accountancy***

The Professional Regulation Commission (PRC) is the government licensing agency for the practice of all professions in the Philippines. It regulates the integration of CPA's through the Board of Accountancy.

The Board of Accountancy sets professional standards and promulgates rules and regulations necessary for the practice of accountancy in the Philippines. In addition to administering CPA examinations, it is also responsible for the promulgation and observance of professional ethics. More specifically, it is charged to investigate violations of the Accountancy Law and to suspend, revoke or reissue certificates of registration, for causes provided for by law.

### **Professional Examination**

To be able to practice the profession in the Philippines, a person should pass the licensure examination which is given twice a year by the Board of Accountancy. All candidates for the CPA examinations should be holders of a bachelor's degree in commerce or its equivalent with accounting as the major field of study. No formal training is required for admission to the professional examinations although most candidates enroll in CPA review classes in preparation for the examination.

The examination covers theory of accounts, business law, taxation, management services, auditing theory and practice, and practical accounting. A candidate must obtain a general weighted average of 75 per cent and above without any rating below 65 per cent on any subject in order to be entitled for registration as CPA. A candidate who obtains the rating of 75 per cent and above in at least 4 subjects receives a conditional credit for the subjects passed. However, he should take an examination in the remaining subjects within 2 years from the preceding examination.

A candidate who fails in 2 complete CPA board examinations is required to take a refresher course. He should submit satisfactory evidence to the Board of Accountancy that he has re-enrolled in and completed at least 24 units of subjects given in CPA board examinations.

Upon passing the examinations, a certificate of registration is issued by the Board of Accountancy to the candidate except if he was found to be convicted of any criminal offense involving moral turpitude, guilty of immoral or dishonorable conduct or insane.

### **Continuing Professional Education**

Continuing Professional Education (CPE) became mandatory for all CPA's effective January 1988. It was required of all CPA's as a condition for the renewal of their license with the PRC. The Philippine Institute of Certified

Public Accountants (PICPA), the recognized professional organization of all licensed CPA's, through its CPE Council discharges the function of implementing the CPE program among accountants.

### ***Minimum CPE Credit Hour Requirements***

Under Resolution No. 110, Series of 1987, of the Board of Accountancy, a CPA has to earn a minimum of 120 credit hours of CPE for each three-year period, except that in the first three-year period, the minimum credit hours is 90. The CPE Council issues certifications to CPA's on CPE credit hours earned for each three-year period.

### ***CPE Programs or Activities***

Structured learning activities authorized by the Accreditation Committee for CPE credits consist of the following:

1. Formal programs — are learning activity programs designed specifically for CPA's which comply with established standards for their development, presentation, measurement and reporting of credits. These programs may be either:
  - a. Group programs — where the participant learns through interaction with an instructor and other participants, e.g. Computer Audit Programs, Basic Auditing Skills.
  - b. Self-study programs — where the participant learns without major interaction with an instructor.
2. Technical subject matter meetings. These are meetings at which a technical subject matter or topic is discussed or presented by a person or persons qualified to discuss or present the same. Based on the level of organization and type of participation involved, such meetings could be: a) local; b) national; and c) international. Examples are PICPA Annual National convention; PICPA Regional Conference; seminars/workshops given by a standing or special committee of PICPA; lectures arranged by a standing committee of PICPA; similar accredited activities sponsored or arranged by sectoral associations of CPA's and other professional organizations or by outside organizations such as educational institutions, professional firms, industrial, commercial or business organizations and other private or government institutions with professional development facilities or training centers.
3. Academic courses  
Fully or partially completed courses which are allied or related to the practice of accountancy and taken at any school, college or university recognized by the DECS, e.g., MBA, MSC, or PhD.
4. Authorship of technical/professional books, monographs, articles, papers and instructional or similar materials published or unpublished.

### ***Exemptions from CPE Requirements***

A CPA may be exempted from complying with the CPE requirements either permanently or temporarily.

1. Permanent exemptions
  - a. CPA's elected to the PICPA Hall of Fame
  - b. CPA's over 60 years of age who are retired and are no longer practicing the profession.
2. Temporary exemptions  
Subject to the approval of PRC, the CPE Council may grant temporary exemption to any CPA for any of the following reasons:
  - a. Prolonged illness or disability
  - b. Work assignment in a foreign country for longer than one year.

The CPA has to make a written application for such exemption. The application has to be supported by a certificate from a licensed physician or hospital in case of physical disability and a certificate from the employer in case of assignment in a foreign country.

### **The Present Accounting and the Country's Socio-economic Needs**

Financial accounting standards have been promulgated to serve as guide in reflecting what is fair and true regarding certain transactions. They have economic consequences in as much as they are used in preparing and presenting financial statements or reports. Financial statements have a significant social impact since they are needed in making business and economic decisions. The Accounting Standards Council (ASC), the body authorized to formulate accounting standards in the Philippines continues to search for appropriate solutions to various accounting problems resulting from complex business activities. To date, the ASC has issued 18 statements of Financial Accounting Standards.

Not to be disregarded are the various auditing standards adopted by the Auditing Standards and Practices Council, the official standard-setting body in the country. To a certain extent, they serve as a deterrent for corporate irregularities. Similarly, the profession's Code of Professional Ethics somehow touches and tests the CPA's personal values in these times of economic constraints, financial insecurity and social pressures.

Despite the existence of these standards, however, a sizable number of leaders of the accounting profession in the Philippines feel that the quality of the profession still need to be upgraded in order to be more responsive to the socio-economic needs of the country. There should be proper monitoring on the strict adherence to prescribed standards and ethical norms. In this connection, the role of the Board of Accountancy as the government body responsible for the regulation of the practice of accountancy must be enhanced.

### **How Accounting Education Meets the Challenges of the Future**

Many accounting leaders and businessmen have expressed deep concern about the need for improved accounting education in the country. A

number have observed that the present products of the accounting curriculum are unable to meet and cope with the demands and expectations of the public. Analyses made by various leaders of the profession about the root causes of the problem can be summed up as follows:

1. Defective accounting educational system  
This has been identified to be in the main cause of the weaknesses of present-day accounting students. The current accounting program fails to orient the student about the business environment in which he will operate. The approach to accounting education is too technique-oriented and mechanical. Students' lack of ability to analyze problems may be traced to the "spoon feeding" form of teaching procedure. The short-run aims of preparing students for immediate employment and the CPA examinations are overemphasized, thus leading to the criticism that accounting is too narrowly specialized. Many accounting graduates lack computer literacy because of the inability of business schools to offer computer courses. The basic deficiency of accounting graduates on effective communication skills has also been cited.
2. Lack of competent faculty  
Faculty turnover is high. Competent, highly motivated and committed professionals are lured to join business firms which offer higher paying jobs. Business schools have resorted to hiring part time faculty members. However, due to full time employment or excessive teaching loads, they barely have the time for self-development, research and sometimes even for class preparation and attendance.
3. Need for quality students  
Unlike the programs for other professions, many accounting education programs don't employ adequate screening process for evaluating entering students. Almost anyone can become an accounting major though they lack the interest, capacity and aptitude to take professional level accounting activity. Very few are prepared to pass the CPA board examinations. Hence, many non-CPA's are forced to accept jobs outside the scope of accounting.

### **What Organizations Have Done**

The PACSB had continuously reviewed the business curriculum. It had also previously requested the Bureau of Higher Education to exempt instructors in accounting and business law from the master's degree requirement until such time as the educational qualifications of faculty can be upgraded.

Late in 1985, PICPA's Long Range Planning Committee held a symposium attended by a sizable number of leaders of the accountancy profession in the Philippines to formulate proposals for upgrading academic preparation of accountants and promoting professional proficiency. Two proposals were presented as follows:

1. That the curriculum be lengthened from 4 years to 6-7 years; and

2. That different examinations be given to would be and already CPA's to qualify them to practice in the different areas of the profession.

The PICPA Committee on Education also addresses the problem by holding an annual accounting educators' conference which serves as a forum for discussion by accounting educators and practitioners of the different aspects of the problems and finding ways and means of solving them. PICPA's annual convention also often includes the topic of accounting education and professional development in their technical sessions.

The Board of Accountancy in consonance with the PICPA, spearheaded the movement for a systematic CPE program by promulgating a resolution covering the rules governing CPE for CPA's. CPE was required of all CPA's to keep them abreast of the innovations and advances in their particular field of interest and practice. The adoption by the PICPA of a formal program for monitoring mandatory CPE effective January 1988 is an important step towards professional development. This is conceived as a way to upgrade the technical skills and knowledge of accounting educators to help them meet the challenges of the profession. This may also be a road which will bridge the gap between the academe and practice.

## **Recommendations**

Various proposals and suggestions have been written on how to improve accounting education. Some of them are as follows:

1. Restructuring the curriculum

The accounting curriculum should include subjects which are more relevant to accounting practice. More specifically, computer courses and courses on values, ethics and social responsibility should be integrated in the curriculum. Considering that the English language is universally accepted as the language of business, it should be reinforced further to improve the student's communication skills. The restructuring of the curriculum is not the sole responsibility of the academe. Advisory committees composed of interested experts from various sectors of the profession should be involved in the planning of a revised curriculum. Moreover, accounting programs offered in various business schools as well as the course content of technical and major subjects should be periodically reevaluated to identify which are irrelevant in the light of changing conditions in the environment and in the practice of accounting.

2. Selective admission of students

Business schools should be more selective in accepting students who will take up accounting. Adequate admission procedures should be employed to attract the most promising students and discourage the less promising ones. In this connection, a qualifying test may be conducted or a minimum grade requirement may be set for students who may be admitted to major in accounting. This could help solve supplementary problems such as lack of classrooms or large sizes of classes and consequently give the faculty more time for each student.

3. Enhancing the effectiveness of the faculty

School administrators should select and employ only good and competent teachers who are known and proven experts in their field of specialization. The faculty should be required to have recent, relevant and practical experience which they could share with their students. They should also be encouraged to undertake accounting research so they could appreciate current developments fully enough to disseminate them to their students. Business schools should make a career in accounting education more attractive by raising the economic status of the teachers to a level which is at least competitive with the business world.

Upgrading the quality of accounting education is not an easy task. All the sectors of the accounting profession must work closely with the accounting educators in order to come up with the desired results. An improved accounting education is critical in order to meet the future challenges of the profession.

# Accountancy in New Zealand

SONJA NEWBY

## Brief History

Accountancy has been practiced in New Zealand since 1842 — only two years after the signing of the Treaty of Waitangi by which New Zealand became a British Colony. The first professional organization, the Incorporated Institute of Accountants, was founded in 1894. This compares with the founding of early professional accountancy organizations in other countries as follows:

- \* Royal Charters granted to societies of accountants in Edinburgh and Glasgow — 1854
  - \* Institute of Chartered Accountants in England and Wales. — 1880
  - \* Association of Accountants (Montreal, Canada) — 1880
  - \* American Association of Public Accountants — 1887
  - \* Institute of Accountants in South Australia — 1889
- (Sidebotham 1970: 25–27)

In 1898 the Accountants' and Auditors' Association was formed in Auckland with 39 members, and in 1902 it admitted two women members; the first women to be admitted to any accountancy body in the British Commonwealth (Graham 1960: 16–17).

The New Zealand Society of Accountants (“NZSA”) was established by Act of Parliament in 1908. Statutory recognition and the impact of the 1933 Companies Act restricting audit work normally to members of NZSA eventually led the other associations of accountants to amalgamate with NZSA. Now NZSA is the sole representative body of accountants in New Zealand, strengthened through wide involvement by non-practitioners (see Table 8), and giving the profession a unified voice.

Under Section 3 (4) of the New Zealand Society of Accountants Act 1958, it is the principal responsibility of NZSA “to control and regulate the practice of the profession of accountancy in New Zealand.” Part of this task



is responsibility for the development, promulgation and review of accounting standards. New Zealand has a 1955 Companies Act (currently under review), which prescribes disclosure requirements, and a Securities Commission which has power to investigate companies as part of its function to review and report on practice in the securities industry. However, there is no regulatory authority that systematically enforces adherence to accounting standards. Thus NZSA also performs an important regulatory role in that its standards are binding on members, and that monitoring and disciplinary action do occur.

### **Socio-economic Environment**

New Zealand is an independent nation within the British Commonwealth. Its democratic political system is based on the British model, as is the legal system. The present Labor Government came to power in 1984 and has undertaken major economic reforms in line with free market, deregulated policies. Recent changes include:

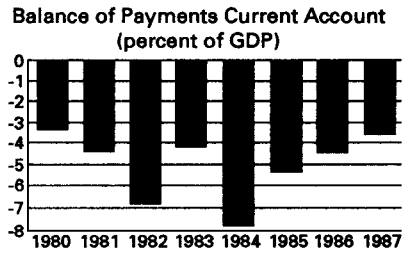
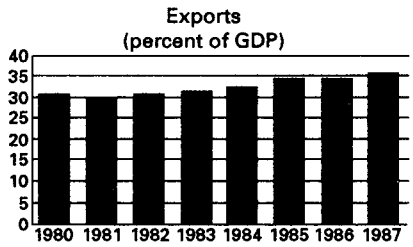
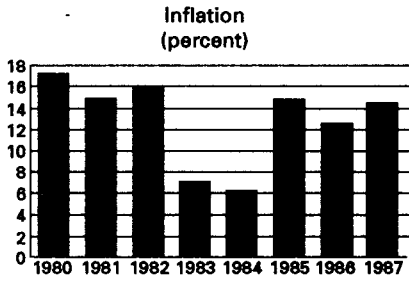
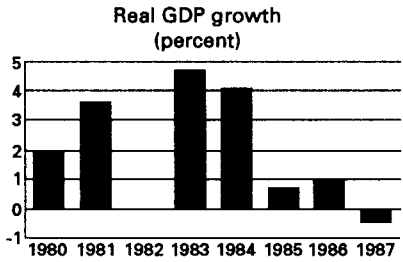
- the creation of State Owned Enterprises to separate some of the trading activities of the State from its social functions;
- major changes in the taxation structure including a lowering of tax rates and closure loopholes;
- freeing up of capital markets and foreign exchange controls, including the establishment of new banks;
- a gradual tariff-reduction program; and
- stepping up free trade with Australia under the Closer Economic Relations Treaty.

For more than 30 years previous, policies had been highly interventionist. Traditional agricultural and manufacturing industries have been particularly hard hit during economic restructuring which has resulted in relatively high unemployment and erosion of New Zealand's productive bases. The economy is still reliant on traditional primary product exports such as wool, lamb, mutton, butter, beef and veal. These account for over a third of total exports, down from the 45 per cent share they held eight years ago, though this is mainly due to price declines. Other primary commodity exports such as paper and aluminum have increased, so that primary products still account for 47 per cent of total exports (SRI 1988: 44). Economic indicators are summarized in Table 15.1.

Evidence that commerce has an increasingly important role in New Zealand's socio-economic environment is provided by a survey of university graduate employment (New Zealand Vice-Chancellors' Comm. 1987) which reports a steady increase in the proportion of commerce graduates each year. The survey also identifies 77 different employment sectors entered by commerce graduates and suggests that "employers see these graduates as being able to apply their skills to an increasingly divergent

TABLE 15.1 *Economic Indicators for New Zealand<sup>a</sup>*

1987		Major Trading Partners: 1986 (percent of total)			
Population (million)	3.3	Exports		Imports	
GDP (billion US\$)	\$35	U.S.	18.0	Japan	24.3
GDP per capita (US\$)	\$10,700	Australia	17.5	U.S.	20.2
		Germany	16.3	Australia	16.3



<sup>a</sup> SRI International, 1988, p. 45

range of occupations” (ibid: 5). Table 15.2 summarizes the occupations of commerce graduates over the past six years.

Accountants make up the single largest occupational group of employed graduates of all New Zealand universities, being 8.2 per cent (759) of all employed graduates in 1987. There are some 32 occupational groups identified in all (ibid. p. 15).

Furthermore, the University of Auckland study of graduate employment (Career Advisory Service, 1987) states “there are more Commerce graduates than ever before. The Commerce/Finance market appears capable of absorbing a higher number of graduates, with a high emphasis on those with accounting skills.”

### Entry to the Profession

Under the 1958 Act only members of NZSA may call themselves a chartered accountant (s. 32), and only members who hold a Certificate of

TABLE 15.2 *First Occupations of Commerce Graduates<sup>a</sup>*

	1982	1983	1984	1985	1986	1987 <sup>b</sup>
Accountants	240	248	216	262	308	312
Cost Accountants	2	9	4	3	3	1
Auditors	181	177	171	237	179	225
Clerical and Related Workers	12	18	28	23	32	23
Credit Accountants	6	5	3	5	4	6
Tax Examiners	24	16	19	15	30	36
Bookkeepers, Cashiers and Related	37	64	56	47	56	69
Clerical Supervisors	7	8	9	9	14	17
Economists	23	22	15	15	15	6
Educationalists	18	13	25	25	17	28
Government Executive Officials	12	34	30	31	38	49
Industrial and General Managers and Trainees	50	89	71	76	86	112
Market Research Analysts	23	17	15	33	24	23
Personnel, Training and Safety Officers	26	13	24	22	23	25
Sales Workers	53	72	95	99	133	120
Statisticians, Mathematicians and Related	25	44	50	51	74	71
Teachers — Secondary	7	13	6	12	8	7
Other	73	93	108	120	90	103
Sub-total NZ Graduates in Employment	819	955	945	1,086	1,134	1,233
Secondary Teachers' College	16	9	8	7	3	8
<b>TOTAL</b>	<b>835</b>	<b>964</b>	<b>953</b>	<b>1,093</b>	<b>1,137</b>	<b>1,241</b>

<sup>a</sup> New Zealand Vice-Chancellors' Committee, 1987, p. 16

New Zealand Vice-Chancellors' Committee, 1984.

<sup>b</sup> 97%–98% response rate each year of all graduates for all New Zealand Universities (Total graduating: 1982; 9,224, 1983; 9,396; 1984; 9,382, 1985; 9,907, 1986; 9,565, 1987; 9,939). Of total graduating for each year % in employment = 53%–58%.

Public Practice may offer accountancy services to the public (s. 14A) (except that professional fees below specified limits may be received for public accounting services performed outside usual employment or by "retired" member (NZSA 1988e: 11). Accordingly the requirements of the Act, and NZSA rules are very significant for those wishing to enter accountancy in New Zealand. Qualifications required for membership of NZSA include:

- good character and reputation;
- compliance with accountancy examination requirements; and
- completion of the practical experience requirements.

TABLE 15.3 *Age and Gender Distribution of Membership of the New Zealand Society of Accountants*

	1987 <sup>a</sup>	1988 <sup>b</sup>
<i>Age</i>		
20–40 years	49%	49%
41–60 years	32%	32%
61–70 years	12%	11%
70+ years	7%	8%
<i>Gender</i>		
Male	89%	88%
Female	11%	12%

<sup>a</sup> NZSA, 1987, p. 54.

<sup>b</sup> NZSA, 1988f, p. 27.

Persons who have already been admitted to a recognized association of accountants overseas, or who hold overseas qualifications, may apply for exemptions to part or all of the examination and experience requirements.

In July 1988, NZSA membership reached 15,777 — up 4 per cent from 15,189 in 1987 (NZSA 1988f: 17). An analysis of membership is summarized in Table 15.3.

Members use the designatory letters ACA (Associate Chartered Accountant) or FCA (Fellow Chartered Accountant). Fellowship status is conferred on members nominated for their service to the profession or their standing in the community. The pathways to membership of NZSA are set out in Figure 15.1.

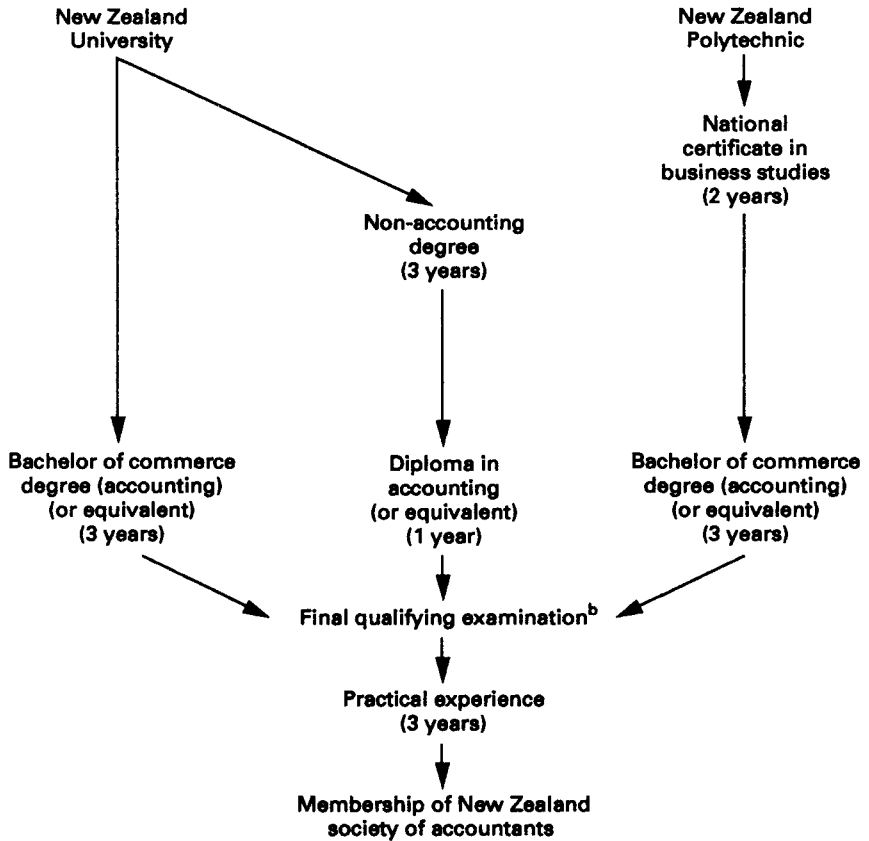
### Accounting Education

NZSA has prescribed a Body of Knowledge, being the minimum knowledge every new member ought to have, including;

- an adequate general education;
- literacy, numeric and communication skills;
- a firm grounding in the various business study areas; and
- advanced training in several areas of specialization.

A broad outline of the presently prescribed Body of Knowledge is given in Table 15.4. This knowledge may be acquired by any of the paths depicted in Figure 15.1, i.e. at university or at a polytechnic. Although accountancy courses cater for potential members of NZSA it is recognized that not every student aspires to membership and may wish to study accountancy as part of a general education in business studies. Accordingly courses are available which may be terminated at lower stages. Also, postgraduate studies in accountancy are available. Distance study by correspondence is available

Pathways to a career in accountancy<sup>a</sup>



Note: The periods shown in brackets denote the minimum time frame for completion.

<sup>a</sup> NZSA, 1988a, p.8.

<sup>b</sup> Pass required for admission to membership after 1 July 1991.

FIG 15.1 Pathways to a career in accountancy<sup>a</sup>

TABLE 15.4 *The Body of Knowledge<sup>a</sup>*

The following is a broad outline of the Body of Knowledge required of an entrant to the New Zealand Society of Accountants.

**COMPULSORY CORE TOPICS:**

Entrants must have thorough knowledge of *all* of the following core topics:

*Accounting*

- fundamentals
- introductory financial accounting
- introductory management accounting
- analysis and interpretation of financial statements
- elements of taxation
- elements of auditing
- introduction to current theoretical issues in accounting

*Economics*

- basic economic problems
- the market economy
- aggregate economic activity
- money and banking
- government and the economy
- international trade
- the New Zealand economy

*Law*

- the nature and sources of law relating to business
- the law of contracts
- the law of finance
- the law of organizations

*Business Information Systems*

- nature and purpose of business information systems
- the technology of information systems: hardware
- the technology of information systems: software
- system applications and their development

*Management*

- the nature of organizations and organizational structures
- the nature of management
- managerial decision making
- developments in management theory
- the ethical and social responsibilities of management

*Mathematics*

- statistical and mathematical techniques relevant to business

*Communication*

- communication principles and barriers to communication
- oral communication
- written communication
- reading skills
- listening skills

TABLE 15.4 (Continued)

- logical thinking and analysis
- negotiating skills

*Professional Knowledge: (The Final Qualifying Examination)*

**ELECTIVE TOPICS:**

Entrants must have a thorough knowledge of:

(a) *four* of the following advanced topics:

*Financial Accounting*

- current issues, pronouncements and controversies

*Management Accounting*

- accounting concepts and methods for managerial control and decision-making.

*Advanced Auditing*

A critical study of professional audit requirements, audit planning and audit procedures.

*Advanced Taxation*

*Advanced Business Information Systems*

*Business Finance*

- the theoretical foundations of business finance
- the management and control of financial resources

(b) *eight* of the following:

- Any topic area from section (a) above not already covered.
  - *Accounting*: liquidations, receiverships and insolvencies
  - *Accounting*: public sector accounting and finance
  - *Accounting*: trust and farm accounting
  - *Economics*: managerial economics
  - *Specialist Topics in Business Law*: further advanced business law as approved by the Society
  - *Specialist Topics in Business Information Systems*: further advanced topics as approved by the Society
  - *Management*: marketing management
  - *Management*: operations management
  - *Management*: personnel management and industrial relations
  - *Other Business-related Topics* approved by the Society
  - *Up to Two Non-business-related Topics*
- 

<sup>a</sup> NZSA, 1988b

for polytechnic and some university courses, to eligible students under certain conditions.

### **High School Education Requirements**

Generally the minimum high school education required for accounting course entry is good grades in the twelfth year of schooling (known as Sixth Form Certificate). Many students stay for a thirteenth year of schooling to

prepare for university bursary, or scholarship examinations. Apart from special cases, success in these examinations is essential for enrolment into commerce at a university, and may give exemption from or earn credits to university or polytechnic course papers. It is recommended that prospective accountancy students take mathematics and English at school, but not necessarily accounting (NZSA, 1988g: 10).

### **University Courses**

Many potential members of NZSA prefer to satisfy the academic requirements through a university course because they gain both academic and professional qualifications. Of the 777 new admissions to NZSA in 1988, 75 per cent were university graduates (1972: 42 per cent). Of the total membership, 53 per cent have a university degree (NZSA, 1988f: 17).

There is, however, intense competition for entry to selected commerce faculties and nationwide nearly 2,000 candidates were refused entry in 1988. For example, at the University of Auckland the number of applicants for the Bachelor of Commerce course rose from 1,040 in 1986 and 1,150 in 1987, to 1,488 in 1988 when only 685 new entrants could be accepted due to restricted funding and staff shortages (NZSA, 1988c).

There are no private business schools in New Zealand. The seven state-run universities each offer a degree in commerce recognized by NZSA for examination accreditation purposes. NZSA performs a regular assessment of the quality and appropriateness of university degree courses to ensure the Body of Knowledge requirements are being met, and has prepared a schedule for each university, setting out the particular course of study required. The range of papers offered and degree programs differ for each university; however, the professional accreditation process generates some standardization. To indicate the general nature of accounting courses available the University of Auckland program is detailed below.

### **University of Auckland Accounting Program**

The Bachelor of Commerce degree takes a minimum of three years full-time study to complete, or may be undertaken over a longer period on a part-time basis. Students must pass at least 21 papers including seven Stage 1 papers for Part I as set out in Table 15.5.

The requirements for Part II are to pass no fewer than 14 papers at any stage (1, 2 or 3) and at least three of these must be Stage 3 level papers selected from the subjects accounting, economics, management science and information systems, management studies and labor relations, and marketing and international business, provided that one of the Stage 3 papers is a Stage 3 paper in Commercial Law. Thus it is not necessary to major in one subject. Enrollment in a Stage 3 paper usually requires a pass in the related Stages 1 and 2 papers.

Where a student seeks to satisfy NZSA examination requirements the



TABLE 15.5 *Core Papers for Part I of Bachelor of Commerce Degree<sup>a</sup> — University of Auckland<sup>b</sup>*

---

Part I consists of seven stage 1 papers as follows:

- (a) Two quantitative papers selected from:  
Mathematics; Applied  
Mathematics; Pure  
Economics; 13.102 Statistical Methods, or  
13.105 Mathematical Methods in Economics  
Computer Science; 07.100 Introduction to Programming, or  
07.105 Introduction to Computer Science  
Management Science and Information Systems; 74.100 Business Computing
- (b) Accounting; 01.100 Accounting Foundations, and  
01.101 Management Accounting  
Commercial Law; 02.100 Introduction to Law, or  
02.204 Legal Environment of Business  
Economics; 13.100 Microeconomics, and  
13.101 Macroeconomics
- 

<sup>a</sup> Before taking any other paper for Part I, students must pass or enrol concurrently in the two papers from (a) above, and before proceeding to Part II must pass or enrol concurrently in the papers from (b) above.

<sup>b</sup> University of Auckland, 1988, p. 17.

papers specified in the NZSA schedule should be included in the degree. For Auckland these are any two of the four Stage 3 accounting papers offered being financial accounting, auditing, cost and management accounting, and investment analysis and either Stage 3 taxation and estate planning or the following three Stage 2 law papers; contract law, finance law and law of business organizations. Given specified prerequisite and corequisite papers an NZSA candidate has 13 to 15 papers preselected (depending on choices from the schedule), which leaves 8 to 6 elective choices to complete the minimum 21 papers.

Each paper typically involves two hours of lectures and one hour of tutorials or workshops per week for the 26 week academic year.

To retain a place in the Faculty of Commerce, each student must maintain a minimum standard of progress. Three rules are applied:

1. In the first year, any student enrolled full-time for BCom must pass a minimum of three papers.
2. Full-time students must complete Part I of the degree in two years.
3. In their previous two years of enrolment, all full-time students must pass papers equivalent to a full-time course of study (usually defined to be a minimum of six papers passed in each two-year span).  
Part-time students have similar conditions applied pro-rata.  
(U. of A. 1988: 16)

## Postgraduate Studies at the University of Auckland

The Master of Commerce degree is available to those who have graduated Bachelor of Commerce or equivalent from another university, and who have majored in their appropriate discipline with a "B" average or better. The Master of Philosophy degree is available to graduates suitably qualified in disciplines other than commerce. Both degrees take between one and two years to complete by passing either five papers and a research essay, or four papers and a thesis. Typically for each paper seminar classes of two hours duration are held once a fortnight where students are required to present their work. Accounting papers on offer for 1988 are listed in Table 15.6.

TABLE 15.6 *Master's Level Accounting Papers Offered at University of Auckland<sup>a</sup>*

---

01.400 Accounting Theory
01.401 Contemporary Financial Accounting Issues
01.402 Management Accounting
01.403 Contemporary Price Level Accounting Issues
01.404 History of Accounting Thought
01.405 Accounting Information Systems
01.406 Behavioral Accounting
01.407 Budgetary Control
01.408 Auditing
01.410 Evaluation of Accounting Information
01.411 Contemporary Issues in Accounting for the Primary Industry
01.413 Management Accounting Techniques and Public Sector Situations
01.414 International Accounting

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<sup>a</sup> University of Auckland, 1987.

The degree of Doctor of Philosophy (PhD) is available to those who have attained a first or second class pass in their master's degree. Once a proposal has been accepted a course of study is directed by an appointed supervisor and must last at least two years full time. A thesis containing the results of some original research is required to be presented for examination by a committee appointed by Senate.

The other universities also offer master's and doctoral degrees. There is some movement towards coursework-type PhD's. Massey University for example offers what they term a "structured doctoral program" in which candidates are required to complete at least two graduate papers as well as a thesis (Massey University, 1988: 2). In 1988 eight candidates were enrolled in the program; enrollment is expected to increase to 12 in 1989. Throughout New Zealand there are fewer than 20 candidates in doctoral programs in accounting.

The completion of a non-accounting degree followed by a Diploma in Accounting, identified as an alternative path to membership of NZSA in Figure 15.1, is also available (only at Victoria University of Wellington in

1988). The diploma is an 18 month full-time intensive course in the study of accounting (NZSA, 1988g: 12).

### **Polytechnic Courses**

Prior to 1987 NZSA conducted its own professional accountancy examinations in 23 subjects. With the introduction of two new qualifications in accounting through polytechnics NZSA offered examinations for the last time in 1987. Transitional provisions gave students until the end of 1990 to complete the 20 papers of the Professional Examination by taking equivalent papers in the new courses.

The National Certificate in Business Studies (NCB) was introduced at 21 polytechnics in 1987. It is a broadly based commerce qualification for business technicians designed to replace a number of alternative courses previously available at the introductory level. The qualification provides entry to many career options, and also to further specialist study at the Diploma level. The program consists of six compulsory papers and six elective papers. It takes two years full time to complete and students must complete a minimum of 3 papers in 2 years in order to continue in the program.

The National Diploma in Accountancy was introduced at eight polytechnics in 1988. It too consists of twelve papers of which six to eight are compulsory depending on whether papers 210 and 211 (see Table 15.7) are included in the NCB. The course is equivalent to two years full time study, and each paper will involve at least 60 hours in class. The requirement for admission is completion of the NCB or the equivalent Professional Examinations, or completion of a university degree.

To satisfy NZSA examination requirements through a polytechnic a student must pass the papers specified in Table 15.7.

### **Final Qualifying Examination**

After July 1991 all people seeking membership of NZSA must have passed the Final Qualifying Examination. The Examination consists of one paper dealing with professional knowledge requirements, and is being offered for the first time in 1989 (NZSA 1988a: 13).

The current Body of Knowledge prescription for the Examination encompasses the following:

- the constitution of the profession in New Zealand
- technical pronouncements of the New Zealand Society of Accountants
- international professional accounting organizations
- relationships of the New Zealand Society of Accountants with Government, statutory bodies and commissions and with the community
- current issues facing the profession

(NZSA 1988b: 3).

TABLE 15.7 Specified Course at a Polytechnic to Satisfy NZSA Examination Requirements<sup>a</sup>

	Prerequisites
<i>For the National Certificate in Business Studies:</i>	
(a) the six compulsory papers:	
100 Accounting 1 (a)	—
110 Introduction to Commercial Law	—
120 The Economic Environment	—
130 Organization and Management	—
140 Business Communication	—
250 Business Computing	100
(b) the following four elective papers:	
101 Accounting 1 (b)	100
160 Quantitative Business Methods	—
201 Financial Accounting	100, 101
202 Management Accounting	100, 101
(c) two further elective papers from those on offer	
<i>For the National Diploma in Accountancy:</i>	
(a) the compulsory core:	
301 Financial Accounting	201
302 Management Accounting	202
303 Financial Management	201
304 Accounting Information Systems	250
305 Auditing (301 & 304 corequisites)	201
306 Taxation	201
and if not completed in the NCB:	
210 Company and Partnership Law	110
211 Business Law	110
(b) elective papers from the following to make up twelve papers in total:	
307 Insolvency	201
308 Public Sector Accounting & Finance	
309 Trust & Farm Accounting	201
340 Special Topic	
341 Special Topic	
231 Marketing Management	130
232 Operations Management	130
233 Personnel Management	130
220 Managerial Economics	120
2XX Industrial Relations	130

<sup>a</sup> ATI, 1987.

## **Practical Experience Requirements**

Prospective members must have completed not less than four years' practical accounting experience (reducible to three years in the case of a university graduate or the holder of a National Diploma in Accountancy).

Acceptable practical experience may be gained in the service of a chartered accountant in public practice, or in a public sector or private sector organization, which in the opinion of the membership committee is satisfactory experience (and may include accounting teaching experience). Included in the practical accounting experience must be not less than twelve months' advanced professional experience involving the exercising of professional judgement at a senior level. NZSA rules (1988d: 27) outline the degree of responsibility expected.

The experience may be gained concurrently with study or after academic qualification, except the advanced professional experience which should be obtained after completion of the examination requirements and during twelve months' continuous employment with the same employer (NZSA 1988d: 28).

## **Certificate of Public Practice**

Only members of NZSA who hold a Certificate of Public Practice may offer accountancy services to the public. Conditions for the issue of the Certificate include:

- New Zealand residency
- intention to offer accountancy services to the public,
- suitable premises from which to operate the practice,
- membership of NZSA for not less than two years,
- not less than two and a half years' acceptable experience in the office of a chartered accountant in public practice within the preceding ten years,
- attendance at a Course for New Practitioners within the preceding ten years.

The two-year membership and practical experience requirements may be reduced or dispensed with on application, where NZSA is satisfied to do so would be in the best interests of the public and the profession. There is also provision for deferral or dispensation from the course attendance requirement where it would cause undue hardship. (NZSA 1988d: 13–14). The Course for New Practitioners is a two-day residential course run by NZSA and is available two times a year. It is designed to prepare members for the practical aspects of public practice and to develop appreciation of ethical and professional responsibilities to clients, NZSA, and to fellow members. The course includes the following topics:

- NZSA Act, Rules, Code of Ethics, Fidelity Fund, administration,
- professional independence, Standards,

- practice management and technology,
- tax practice and investigations,
- interpersonal skills.

(NZSA 1988e: 11).

### Continuing Professional Education Requirements

NZSA (1988e: 14) recommends that all members achieve a minimum of 30 hours continuing professional education annually. The issue of compulsory continuing education has been debated, and rejected because of the practical difficulties of determining individuals' requirements, accreditation of external continuing education programs, and monitoring attendance (NZSA 1984: 105).

A comprehensive program of courses is offered by NZSA, generally of half to full-day duration, on updates in core areas such as taxation, insolvency, and technical issues, as well as personal skills development, practice management, etc. Of total registrations for the 1988 year 43.8 per cent were for taxation topics (NZSA 1988f: 12). In addition specialist residential courses are organized when needed, and Summer School is a regular annual event.

Also on offer is an audio cassette subscription service for keeping members up-to-date with the latest developments in accounting and business.

TABLE 15.8 *Occupational Grouping of New Zealand Members of NZSA at 1.7.88<sup>a</sup>*

Public Practice:		1988 <sup>b</sup>
Partners	11%	27%
Sole Practitioners	5%	
Employees	11%	
Private Sector		31%
Commercial	15%	
Industrial	9%	
Service	7%	
Public Sector:		7%
Local Government	1%	
Government Department	4%	
Government Corporation or Statutory Board	2%	
Educators		1%
Overseas (63 Countries)		16%
Retired		17%
% of Total Membership		99%
Total Membership		15,777

<sup>a</sup> Unchanged from 1987 percentages

<sup>b</sup> NZSA, 1988f, p. 28.

TABLE 15.9 *General Public Awareness and Usage of Accounting Services in New Zealand<sup>a</sup>*

	Familiarity to the public %	Usage by the public %
Taxation	77	25
Basic Accounting Services	64	14
Audits and Investigations	53	4
Management Accounting	51	6
Trusts and Estates	50	6
Office and Clerical Services	44	5
Insolvency Work	44	1
Company and Secretarial Services	39	6
Other Management Services	39	3
Computer Processing	31	2

<sup>a</sup> NZSA, 1984, p. 18

### Accounting Now and Challenges of the Future

The present profile of membership of NZSA is portrayed by the occupational groupings in Table 15.8. The major groupings are 27 per cent of members in public practice and 31 per cent in the private sector. Acceptance of the NZSA qualification is indicated by representation in 63 overseas countries.

Evidence of how well accountancy meets current socio-economic needs is provided by the *Horizon 2000 — and Beyond* study (NZSA 1984). The study was commissioned by NZSA to establish the present role of the profession and anticipate the future role in order to set policies in place so that challenges of the future will be met by members.

In relation to the public practice grouping, general public awareness of accounting services in New Zealand is reported to be high. Table 15.9 lists ten categories of accounting services in order of familiarity to the public, and details actual usage (ibid: 18).

Of those members of the public who had used accounting services, 57 per cent were completely satisfied, and 34 per cent were reasonably satisfied. The small proportion who were dissatisfied referred to problems of poor quality advice, expense and slowness of response. (ibid: 19)

In relation to the private sector, business leaders who employ internal accountants and interact with auditors and tax consultants were also surveyed and they rated well to the accountancy profession as compared to others who provide services for the business community (ibid: 23). Of particular concern to business leaders, however, is that accountants should focus more on “interpretation and decision making based on the accounting information provided, not just on the provision of information” (ibid,

p. 24). The study predicts that the “collection and processing of information, which might today occupy as much as 80 per cent of professional time, will have shrunk to almost nothing, and the higher level judgmental and managerial tasks will have expanded greatly from their present 20 per cent” (ibid: 17).

Overall, the study results indicate that satisfaction with the “personal integrity, professionalism, and technical competence of accountants” (ibid: 30) but not with their communication and people handling skills, nor responsiveness to change (ibid: 26). These findings have helped shift education policy towards a broader, less technical base so that future accountants will have a better foundation from which to specialize or progress to other paths.

A potential threat to the accounting profession in New Zealand is the shortage of accountants. The shortage is indicated by such factors as:

- the relatively high number of advertisements for accountants in the newspapers,
- competition among employers of accounting graduates,
- multiple job offers received by accounting graduates, and
- the influx of accountants from overseas.

The shortage has abated somewhat in the economic downturn following the stock market crash in October 1987.

Nevertheless, the unmet demand for accountants has resulted in higher than average salary increases creating another incentive for entry to the profession. As a consequence there is heavy pressure for places on accounting courses. On the one hand it is argued that present competitiveness among students for accounting training will lead to a general improvement in the caliber of members (ibid: 71). On the other hand the same attractive salaries have led to disturbing downward trend in the percentage of commerce students undertaking postgraduate study (from 6.5 per cent of faculty in 1985 down to 4.3 per cent in 1987 compared with 28.8 per cent in 1987 for the science faculty (Vice Chancellor’s Committee 1987: 9).

The small number of postgraduate students in commerce has led to a shortage of faculty staff and this coupled with the high financial incentives for existing faculty to leave academia for commerce have resulted in severe staff shortages. The increased burdens through pressure for places on accounting courses provide further incentives for academics to leave for commerce.

NZSA is well aware of this problem and set up a task force to “consider the ongoing shortage of staff and scarcity of resources . . .” (NZSA, 1987: 45) leading to restriction of entry to accounting courses. The task force recommended increased salaries for accounting teachers as the solution (ibid) but this is yet to happen.



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# Accounting Competence: Canadian Experiences

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## Introduction

The craft of accounting in Canada includes a broad array of activities including audits, cost accounting, tax accounting, financial reporting, and planning and control functions. The organization of accounting in Canada is similarly diverse with numerous legal jurisdictions enacting regulations dealing with particular tasks, multiple accounting associations representing different constituencies of practitioners and a host of educational programs including professional courses, university and community college programs, correspondence schools and the in-house training programs of accounting firms. Within the context of the diversity of accounting in Canada, this paper provides an overview of the processes which have evolved to develop, certify and maintain accounting competence.

The paper adopts a historical perspective on accounting competence locating current practices within ongoing efforts by the profession to adapt to changing economic and social conditions. In Section I, the state of accounting and accounting education prior to the creation of professional associations is described. The opportunities and concerns of this period provide the rationales for the structure of the first accounting associations described in Section II. The analysis of Section II identifies

<sup>1</sup> The work reported in this chapter has been supported by the Canadian Certified General Accountants Research Foundation. The views expressed, however, are those of the author and may not represent those of the Foundation; the author also accepts all responsibility for any omissions or errors in the paper. The paper discusses, in a general way, accounting education in Canada; those considering admission to the profession are urged to consult detailed requirements and by-laws. The author gratefully acknowledges the comments and support of Derek Yee and Keith Scott of CGAC, John B. McReynolds, Director, Interprovincial Education Services, CICA, Bob Crandall and John Williams, Queen's University, the research assistance of Monica Pirc, and the time of all individuals who responded to the survey on which this paper is based.

three key issues in establishing accounting competence in Canada which are addressed in the following sections. Section III examines the evolution of apprenticeships or experience requirements. Section IV discusses the institutional structure for the delivery of formal education programs. Section V examines the division of labor in accounting including attempts to define a common body of knowledge and to establish boundaries for the accounting tasks which require regulation. Section VI examines recent attempts to develop programs to ensure the continuing competence of members of accounting associations. The paper concludes by identifying the major trends implicit in the foregoing sections and comments on the relationship between the profession's social role and the development of accounting competence.

## **I Early Accounting Education and Practice**

The first mechanisms for ensuring competence among accounting practitioners in Canada emerged during the late 1800s and early 1900s in response to the problems and opportunities experienced at that time. In this section, a sketch of the history of the profession through this period is presented in order to establish a context for the remainder of the paper. Two themes are addressed: first, the availability of accounting/bookkeeping education and, second, the tasks which provided the livelihood for the first accounting practitioners.

The early development of Canada by Europeans began in the late 16th and early 17th century along the St. Lawrence river and the Great Lakes Basin. Both Britain and France established colonies along this waterway but, as a consequence of the Seven Years War (1756–1763), Britain secured control of the entire area. The area was initially divided into two provinces (Upper Canada, now Ontario, and Lower Canada, now Quebec) with separate governors. The Act of Union of 1841, however, created the Province of Canada followed in 1867 by the British North America Act which granted Canada the status of an independent country with the Commonwealth and brought Nova Scotia and New Brunswick with the confederation.

The origins of accounting education in Canada stem from the appointment of Egerton Ryerson as assistant superintendent of education for the Province of Canada in 1844. Ryerson toured Great Britain searching for models of education to implement in Canada. He settled on the Irish National School System and, in 1846, wrote legislation establishing a public education system in Canada. As texts for the schools, Ryerson imported those prepared for the Irish school system including the first text on bookkeeping to be widely used in Canada. These texts remained in use until 1868, when they were replaced with Canadian texts (Moreland 1977).

During the period up to 1871, secondary education was considered a luxury and was provided in the main by private grammar schools with a focus on the classics and liberal education. In competition with these

schools there emerged, during the 1860s and thereafter, a number of private business colleges providing a full range of practical courses. The demand for broader access to secondary education and a more pragmatic emphasis in courses resulted in the School Act of 1871 which made education free and compulsory to age 12. At this time, bookkeeping was added to the curriculum of many schools and was included in the course of study for many students. Richardson and McKeen (1988) report that in 1872, 39 per cent of students in high school were enrolled in bookkeeping courses, this increased gradually to 80 per cent of students by 1887, declining from that date to only 8 per cent by 1927. This decline may be attributed primarily to the expanding course offerings in high schools and the preferences of students for a liberal education.

The combination of bookkeeping education in the schools and business education in proprietary colleges in the late 1800s suggest widespread knowledge of accounting skills in the population. For the most part, these skills were used in family agricultural and merchant businesses and not as the basis for a full-time occupation. For those who sought to use their skills beyond this context, it was necessary to combine a range of general financial services in order to earn a living. The shingle of a typical “accountant” during this period might read accountant and insurance adjustor, or real estate valuator, or custome broker. The most common combination was accountant and “assignee” or “curator” in bankruptcy.

Under the bankruptcy laws of the day, the courts would appoint an “assignee” to liquidate a bankrupt’s assets and distribute the proceeds to creditors. The qualifications of assignees and their compensation was left to the discretion of the courts. In the late 1870s the Canadian economy was in decline, bankruptcies were soaring, and the position of “assignee” was beginning to provide full-time and lucrative employment (Skelton 1913). In addition, the demand for the statutory audit of financial statements, initially for government bodies such as Municipalities in 1866 and expanding to include insurance companies in 1892 and other companies in 1904 (Murphy 1986), was beginning to increase.

The expanding roles for accountants in these positions of trust attracted many individuals, with diverse backgrounds, into the field. The widespread access to basic accounting education led many to believe that they possessed the necessary skills to prosper. In some cases, however, the individuals appointed were incompetent or unscrupulous. This situation resulted in frequent scandals. The result was that the field was held in low esteem even though it offered significant economic rewards to the successful practitioner. It was in this context that accounting associations emerged to capture the market for financial services and to raise the status of accounting.

## **II Models of Accounting Competence**

The first accounting associations in Canada were formed in 1879 in the commercial centers of Toronto and Montreal. The Montreal group was

incorporated in 1880 as the Association of Accountants of Montreal (now the Order des Comptables Agrées du Québec, OCAQ). The OCAQ initially restricted its membership to prominent individuals who practiced accountancy full-time. The Toronto group tried unsuccessfully to gain incorporation on the same terms as the OCAQ, but the Ontario government rejected their application as being designed to advance the interests of a specific class and not being in the general public's interest. In 1883 they were able to incorporate as the Institute of Chartered Accountants of Ontario (ICAO) by restructuring themselves as "an educational movement" open to all who could demonstrate the required competency through examinations. The difference in approach between these two organizations was a source of tension in the early history of Chartered Accounting, but eventually the Ontario model came to dominate and the CA designation would be accessible only by examination and apprenticeship.

In order to differentiate themselves from other practitioners, the early CA Institutes were necessarily exclusionary. In some cases, however, their procedures excluded groups based on traits unrelated to competence in accounting (Richardson 1988a). For example, women were excluded from the profession even though many women were practicing accounting prior to the formation of accounting associations (Richardson and McKeen 1988). The financial demands of the CA apprenticeship requirements also excluded certain groups. In order to qualify for the CA designation, candidates had to apprentice with an existing CA. Little (1964: 20) recounting H. D. L. Gordon's (of Clarkson Gordon now Ernst & Young) apprenticeship noted that he was given particularly good treatment by the firm:

They granted him all the privileges of an articled clerk without requiring payment of the usual premiums but, of course, paid him no salary.

The requirement of an apprenticeship for which the candidate paid the firm or, at best, required several years work at low salary, excluded those without the family resources to sustain them (see also Henderson 1984).

As the demand for accountants in industry and public practice continued to grow, there developed a significant body of practitioners outside the CA Institutes. These people, too, were anxious to advance their skills and gain recognition for their competence in accounting. As a result, a number of associations developed both to complement and compete with the CA Institutes. Many of these bodies were strictly provincial in scope and many were short-lived. There emerged a number of associations which succeeded in providing alternate models of accounting competence.

Table 16.1 provides a summary of the national accounting associations which have existed in Canada (Richardson 1988b, identifies over sixty accounting associations which have existed at some time in the history of accountancy in Canada). Following the formation of the CA Institutes, the next association to be formed was the General Accountants' Association (now

the Certified General Accountant's Association of Canada, CGAC) in 1908. The CGAC was founded in response to two perceived deficiencies in the CAs approach to accounting competence: the restrictive apprenticeship requirements and the focus on public accounting. The CGAC, while requiring experience prior to granting its designation, allowed candidates to gain their experience in industrial settings. Consistent with this policy, the Association's examinations and, later, courses addressed a broad range of management and financial accounting skills.

TABLE 16.1 *National Accounting Associations in Canada*

Name	First Meeting	Federal Charter	Ceased Operation
Canadian Institute of Chartered Accountants	1879	1902	–
Certified General Accountants Association of Canada	1908	1913	–
Canadian Institute of Certified Public Accountants	1919	1951	1962 merged with CA
Society of Management Accountants of Canada	1920	1920	–
International Accountants and Executives Corporation	1932	1932	1958 merged with APA
Institute of Accredited Public Accountants	1938	1946	1981–1988* merged with CGA
Guild of Industrial, Commercial and Institutional Accountants	1956	1968	–

\* Mergers occurred at provincial level and thus the timing varied depending on regional circumstances.

The Canadian Institute of Certified Public Accountants (CICPA) was the final form of a number of successive associations first formed in 1919. The CICPAs development mirrored that of the CICA in terms of their education and examination procedures and their focus on public accounting as the final career of graduates. It differed in allowing candidates to gain their experience in industry or public practice and was the first association to include a woman among their founding members. The similarities between the CICA and CICPA led to the merger of these two groups in 1962.

The Society of Management Accountants of Canada (SMAC) was created by the CAs. Following the formation of management accounting bodies in both England and the United States in 1919, the CICA created the SMAC with the President of each of the Provincial Institutes serving on its

first Board of Directors. The Society was not intended to be a professional body, i.e. it would not conduct examinations or offer a designation, but gradually developed training and examination roles. The Society began its examinations in 1927, and has awarded the RIA (Registered Industrial Accountant, now Certified Management Accountant, CMA) since 1941. The Society's domain in management accounting was intended to complement the CAs focus on public accounting.

Three smaller accounting associations that have also achieved national recognition and organizational scope are the International Accountants and Executive Corporation, the Institute of Accredited Public Accountants (both of which have merged with the CGAs in most provinces) and the Guild of Industrial, Commercial and Institutional Accountants (GICIA). None of these associations developed their own training programs. The first two associations focused on self-employed public accountants. The Accredited Public Accountants (APA) conducted examinations prior to granting its designation. APAs were successful in establishing themselves in the profession most notably in Ontario where, between 1950 and 1981, APAs held positions on the Public Accountant's Council which granted licenses to enter public practice. The GICIA was organized to represent accountants who gained their training through private correspondence schools. The Guild has no authority in its Charter to conduct training programs or hold examinations.

The accounting associations briefly described above reflect the central issues and alternative approaches to accounting competency in Canada, namely:

1. What type of experiential training is necessary to prepare a student to be an independent practitioner? Is it necessary to limit experience to public accounting or is experience in other settings equally valid as an educational experience?
2. What is the appropriate institutional structure for the delivery of formal education in accounting? Is the formal education of accountants best handled by private schools, accounting associations or universities?
3. What is the scope of the accounting domain? What skills do accountants need and what division of labor within the profession is appropriate?

In the next three sections, the major developments and current state of the profession in each of these areas will be discussed. The focus of the remainder of the paper is on the three associations — Certified General Accountant (CGA), Certified Management Accountant (CMA), Chartered Accountant (CA) — which have espoused an educational focus and have survived to the present time. While many accounting roles do not require an accounting designation, there is a clear trend in legislation and private employment to accept the CA, CGA or CMA designation as evidence of accounting competence (Beechy 1980; 63) In addition, these associations represent an ever increasing proportion of those who report their occupation as accountant.

Accounting in Canada is organized and regulated within each of ten provinces. There are differences among the provinces on many of the items to be discussed. It must be noted, however, that the provinces of Ontario and Quebec (and to a lesser extent, British Columbia) dominate accounting education and practice in Canada in terms of the number of students and practitioners. The educational practices of these provinces typically set the pace for the rest of Canada. To minimize the complexity of the presentation, the body of the article will discuss the central trends and issues in specific areas with particular emphasis on the dominant provinces (detailed data on individual accounting bodies in each province is contained in Richardson 1990<sup>2</sup>).

### **III Experimental Training**

Each association has recognized that accounting practice requires a mixture of professional judgement and technical expertise. In order to develop and evaluate professional judgement, each association has developed specific requirements which typically involves age and practical experience. The major developments in this area have been in the type and length of experience required and in the screening of accounting offices deemed suitable for training students.

The requirement of a “term of service” or apprenticeship originates with the CA Institutes, for example, the OCAQ at the time of its first examinations in 1900 required that candidates have one year experience as a public accountant or three years apprenticeship in a public practice. The focus of CAs on experience in public practice was significant as a point of departure for other accounting associations. Both the CGAs, who are primarily involved in management accounting, and the CPAs, who were mainly public accountants, allowed experience to be gained in any field of accounting.

The alternate experience requirements of the CGAs and CPAs attempted to provide the necessary training without the financial hardship of a typical public accounting apprenticeship. The economic benefit to public accounting firms of the CA experience requirements was widely recognized and, in fact, used to justify these procedures. The key point, however, was whether or not a public accounting apprenticeship actually provided better quality training. The CPAs were particularly critical of this assumption arguing, for example, that an accountant in a large manufacturing firm would gain a broader exposure to accounting issues than an apprentice working with a sole practitioner whose work may focus on the taxation problems of small business.<sup>3</sup>

<sup>2</sup> The data reported in Richardson (1990) is based on a survey conducted to support this chapter. Due to space limitations, the detailed results could not be included.

<sup>3</sup> Foreword, Annual Report, The Certified Public Accountants Association of Ontario 1949, reprinted in Editorials in *The Canadian Journal of Accountancy* March 1953 and June 1961.



The CAs responded to this type of criticism by placing further restrictions on the experience which would be accepted for credit towards their designation. For example, they established limits on the numbers of students which any one member could supervise; they began an approvals process which limited apprentices to offices which offered a broad range of experience; and they established a minimum number of hours of experience which had to be gained in taxation, auditing and, in Manitoba only, financial accounting (see Richardson 1990 Table 2). The CMAs and CGAs continue to require candidates to gain experience and the association must approve the worksite in which this experience is gained. These associations require experience in positions of increasing responsibility in any aspect of the accounting domain, but do not specify minimum numbers of hours in specific work tasks. The CMAs and CGAs require 24 months of practical experience while the CAs may require a minimum of 36 months (the actual term of service may exceed this as it will continue until all course and examination requirements are completed).

#### **IV The Institutional Structure of Accounting Education**

The aspect of accounting competence which has undergone the most radical change over the history of the profession in Canada is the system for the delivery of formal education. The early accounting associations acted primarily as screening devices using experience requirements and examinations to identify competent practitioners. The rate of failures on examinations, which on occasion reached 100 per cent, convinced many students and some association members that a more formal education was needed (Edwards 1921). Initially, students took the initiative of seeking out courses from proprietary business schools for forming study groups which invited prominent practitioners to address them. Slowly, the associations responded to this need, recognizing and funding student societies, establishing libraries and evaluating and recommending correspondence programs.

In 1920 the Institute of Chartered Accountants of Ontario made a major break with the past and assumed control of the formal education of their students. In co-operation with Queen's University, the Institute developed a correspondence program to educate candidates for the CA designation. This program was eventually adopted by most of the other Provincial Institutes. Also, in 1920, the first business schools were opened in Canadian universities resulting in increased opportunities for business and accounting education at a university level. The SMAC began to use these resources by establishing a lecture program in conjunction with McGill University in 1927. This expanded into a correspondence program in 1942, involving McGill, the University of Montreal, Sir George Williams University, Queen's University, McMaster University and the University of Toronto (Allan 1982). In 1951 the CGAC developed similar ties with the University of British Columbia (Stuart 1988), and, in 1954, offered the program across Canada.

During 1970–74, the CAs took a further step toward integration of their education program with the universities by requiring that candidates for the CA designation hold an undergraduate degree. It may be noted that in some cases the requirement is for minimum numbers of courses and a degree per se, is not required. In the debates leading up to this change a variety of motivations were offered. It was recognized that auditing and accounting techniques were becoming more complex, social expectations of “professionalism” required university training, the “Big Eight” (now Big Six) accounting firms were focusing on university graduates in their hiring, the better high school students were increasingly going on to university, and that the change would help CAs compete with other accountants (Gaviller and Watson 1967). There is some indication that the university degree requirement may become universal among the three major accounting associations. During 1988 the CGAs in Quebec and the CMAs in Ontario have both indicated that a university degree would become the minimum qualification for entry to their revised education programs.

In Ontario, the CAs have further developed the link between themselves and universities by sponsoring the development of a School of Accountancy at the University of Waterloo and allowing graduates of this school’s master’s degree program to be exempt from the experience requirement prior to writing the Uniform Final Examinations. In Quebec, the CA program is administered exclusively through the universities. The CAs have contracted with specific universities that design and administer the course requirements necessary to write the Uniform Final Examination leading to the CA designation.

Although the CAs have developed the most explicit link between their demands for accounting competence and university education, it is clear that university courses are an important part of each association’s education program. In fact, the CMA and CGA course requirements can be met in their entirety with university courses in many provinces. They differ from the CAs in accepting courses given through community colleges and may offer independent correspondence courses (see Richardson 1990 Table 3). In particular, the CGA course requirements can be taken in their entirety from the association which provides broad access to accounting training.

In spite of the integration between the CAs and the universities, the CAs also have the most extensive program of course offerings which cannot be taken from other sources. This point reflects the interaction between universities and professional associations in the development of formal accounting education; a theme which will be addressed in the next section.

## **V The Accounting Curriculum**

The requirement for experiential training in public accounting initiated by the CAs, but rejected by other associations, set in motion the beginnings of a division of labor in the profession. In the first two decades of the twentieth century, the CAs reinforced this division of labor by amending their

Charters to ensure that public accountants would dominate their governing bodies and by sponsoring the creation of the Canadian Society of Cost Accountants. The division of labor currently espoused by the major associations focuses CAs on public accounting, CMAs on management accounting, particularly its interpretative aspects, and CGAs spanning all aspects of the accounting domain with an emphasis on developing computer literacy among its students. This separation of the work domains of the three accounting associations into public and management accounting is, however, only weakly reflected in the content of their education programs and the work roles of their members.

Each association in Canada has attempted to co-ordinate the educational programs of their provincial affiliates. For the CMAs and CGAs, this process was facilitated through the initial development of a Federal body followed by the development of provincial branches. The CAs, on the other hand, began with a set of fiercely independent provincial Institutes which formed a federation in 1910, only after much internal feuding. The CAs, therefore, have approached uniformity more gradually than other bodies. The ICAO's development of the Queen's correspondence program was one step in the development of uniform standards, providing access to all students to the same program of instruction across Canada. A second step was the creation of a Uniform Final Examination in 1938, which was finally adopted by all Institutes in 1954. The development of standards of practice for the profession, beginning with a series of Bulletins in 1945, which was replaced with a comprehensive Handbook of accounting and auditing standards in 1967, also contributed to the uniformity of the knowledge base of CAs across Canada. The Handbook is recognized as GAAP and GAAS in Canadian law. In spite of these trends towards uniformity, the CA course requirements show the most internal variation among the three accounting bodies (see Richardson 1990 Table 4).

The CMAs began co-ordinating the content of their provincial education programs in 1948, when the Ontario course of studies was adopted for national use. In a similar manner, the CGAs adopted the course of studies used by their British Columbia association as a national standard in 1956. In a very brief period following the Second World War, each accounting body had thus achieved a significant consolidation and uniformity of their education programs. Furthermore, their common reliance on University courses suggested the need for consideration of the common educational requirements across accounting associations.

In August of 1955 and June of 1956, the CAs and CMAs met with representatives of nineteen major universities to discuss the common educational requirements of public and management accountants (Allan 1982: 60). This attempt to standardize the professional requirements ultimately failed when the CAs withdrew their support from the concept. One of the obstacles to recognition of the convergence of public and management accounting programs may have been the development of legislation in Quebec (1946) and Ontario (1950) restricting the right to audit

to individuals with specific competence in that field. It became clear during the 1960 revision of the Ontario Public Accountancy Act that the definition of the scope of restricted practice and the qualifications of those who would be granted access to this area were reciprocally related (Richardson 1987: 609). By recognizing common educational requirements, claims to unique competence in public accounting by any group of accountants are undermined.

As noted in the previous section, each association has turned to universities to provide the majority of their educational program. Initially, many university courses were simply association courses now given in a different location. For example, the University of Alberta in 1952 adopted the CMA courses as part of their Bachelor of Commerce degree program (Allan 1981). Once part of the academy, accounting programs began to develop independently of the profession (although both parties attempt to influence the other). The rationalization of courses within universities and their use as part of the education requirements of different associations brought about a significant convergence of the content of each association's education program in spite of a lack of formal agreements (see Richardson 1990 Table 4).

All three associations require courses in financial and management accounting, auditing, taxation, finance, economics and statistics. Beyond this core, the CMAs and CAs add organizational behavior, law and management, and the CAs add accounting theory. It must be noted that the subject matter of the additional courses required by the CMAs and CAs may be included in other courses by each body even though no specific course is offered. There are significant differences among provinces depending on the breadth and depth of courses offered by local universities (Beechy 1980). The CA Institutes also, in general, require more courses than the other two bodies (see Richardson 1990, Table 4, last column).

The integration of accounting education into the university system has also resulted in a change in the examination procedures used to screen potential candidates. The CAs, prior to the adoption of university course requirements, used a series of graduated examinations, each with specific age and experience prerequisites, covering different aspects of the accounting task. This structure of examinations was also adopted by each of the other associations as they entered the field. This approach provided limited opportunities to evaluate students' performance and the content of the examinations was selective. A few examples of the examination content will provide an indication of the selectivity of topic coverage and the differences among associations. In 1884 the ICAO established three classes of membership: "member" requiring a simple vote of those present at a regular meeting of the Institute; "associate" awarded after examinations in book-keeping, law, penmanship, English and business arithmetic; and, "Fellow" awarded after examinations in auditing, arbitration and awards, adjusting and expert accountancy (Creighton 1984: 15-17, 33). The first examinations held by the CGAs in 1913 covered commercial arithmetic, advanced

bookkeeping, commercial and statute law, the Companies Act, Banking and Bills of Exchange Acts, cost accounting, accounting theory, auditing and office routine (Stuart 1988: 23). The CMAs began their examinations in 1927 with a preliminary examination covering bookkeeping, accounting, and commercial and statute law, and a final examination covering cost accounting and factory organization and administration (Allan 1982: 129–130). In these examples the differentiation of associations is evident.

With the increasing use of university courses, each with its own set of examinations, the need for associations to use this type of screening examination decreased. The key examination for the CAs and CMAs currently is a national uniform final examination written after all other requirements for the associations' designations have been met. The CGAs use national examinations for each course offered. It is primarily within the content of these examinations that the unique competence of each association is expressed. It is evident that the delivery systems and content of formal education of each association are converging.

## **VI Professional Ethics and Continuing Competence**

The last three sections describe current accounting education programs within the major accounting associations as variations on a theme. The field of accounting education may be visualized as a braided rope which divides into strands only at the end. The commonalities among associations go beyond the existence of a common core of substantive knowledge, experience requirements and integration with university accounting programs. All three associations have taken steps to ensure that the behavior of their members adheres to professional standards. This includes the development of codes of ethics, enforcement procedures and requirements for continued professional development.

The development of continuing competence procedures in the profession are clustered around periods of crisis. The development of standard-setting and related developments in ethics and discipline were clustered around the depression of the early 1930s although, in some cases, the seed sown at this time did not germinate until the end of World War II. The introduction of professional development requirements and more intrusive processes to ensure that the day-to-day practice of members met professional standards, emerged in the mid-to-late 1970s as a defense against possible public intervention in response to the “expectations gap” at that time. It was clear to many observers that the professions were losing their place of privilege in society. They had been unable to deliver on many promised benefits and evidence was accumulating on the inability of “self-regulated” professions to control their members. In accounting, the Moss/Metcalf hearings in the United States exemplified the growing public criticism of the profession although the Canadian situation was somewhat different.

The early accounting associations operated as “private clubs”, with restrictive membership criteria, closed door administration and informal

mechanism for maintaining standards. The development of explicit codes of ethics and disciplinary procedure, as the OCAQ was to argue in 1934, was unbecoming “an association of out stature”. Informal mechanisms to ensure professional conduct were used and appeared to be effective. Creighton (1984), for example, describes several cases handled by the ICAO which were resolved by a simple letter from the Registrar to the offending individual: no evidence was collected, no hearing was held, and no opportunity for appeal was provided. It became clear that this type of process was unable to meet the demands created by a growing membership and lacked the legislative authority and penalties to be effective as a deterrent or as a symbol of the associations’ commitment to professional standards.

From the creation of the CICA in 1910, the issue of ethics was part of its mandate. It took until 1935, however, until all CA Institutes had adopted an official code of ethics. The introduction of ethics in associations which focused on management accounting was not as central an issue as it was for public accountants and a national ethical code was not adopted by the CMAs until 1969, and by the CGAs in 1974. The present structure of discipline for each of the major associations emerged during the late 1960s and early 1970s, and it is remarkably consistent across associations (see Richardson 1990 Table 5).

The mechanisms adopted by Canadian accounting associations for ensuring high standards of professional practice are composed of the following components:

1. a written code of ethics;
2. an ethics review committee which receives complaints and gathers evidence;
3. a disciplinary board which hears cases and renders judgements;
4. a series of graduated penalties ranging from oral warnings to expulsion;
5. an appeals procedure typically beginning within the association and culmination in the provincial courts.

A recent innovation adopted by several provincial associations is to appoint lay members to the disciplinary boards.

To complement the ethics and disciplinary approach to continuing competence, each association has, to some extent, developed systems for post-certification education. All associations offer, at a minimum, voluntary ad hoc lectures. Most associations (especially the CGAs and CMAs) require or recommend a minimum number of hours of professional development activity per year. The most recent additions to the range of activities to ensure continuing competence are the appointment of practice advisors who are available for consultation and practice inspections to provide external evaluations and feedback on the operation of particular accounting offices (see Richardson 1990 Table 6).

The continuing competence of members is also supported by a range of

research and standard-setting activities (see Richardson 1990 Table 7). The CAs, through the CICA, maintains a Handbook of standards which, under Canadian law, is defined as Generally Accepted Accounting Principles and Auditing Standards. Since 1981 the CGAs have supported an alternative standard-setting body, the Accounting Standards Authority of Canada (ASAC), which, to date, has developed a conceptual framework but has not issued standards. The ASAC standards, however, will not be recognized in law. The CMAs have entered the standard-setting field by issuing Management Accounting Guidelines on key areas of management accounting practice. At a provincial level, many associations are involved in preparing practice guides for their members and some associations commission independent studies. All three associations have created national research bodies which maintain an active program of research and publishing.

## **VII Accounting Competence in the Canadian Context**

The Canadian accounting profession has developed extensive procedures to ensure that practitioners develop and maintain a high degree of competence. The development of these procedures was motivated by a complex array of factors which include: competition for the lucrative financial services market, initially among organized and unorganized practitioners, but now also among accounting associations; the growing reliance of the state on the profession as the medium through which laws affecting economic development and corporate governance are implemented; the development of accountancy as an academic discipline and, consequently, the elaboration of accounting theory and technique, and the institutionalization of accounting training within Universities; and, the attempt by the profession to maintain its privileged position in society in the face of criticisms about its efficacy. The existence of three accounting associations in Canada allows and reflects different responses to these influences but, overall, these approaches to accounting competence represent variations on a theme, sharing more in common that separates them as distinct associations.

Among all associations, the following trends are most notable:

1. the increasing integration of university education and professional certification;
2. a). the development of a common body of knowledge for all accountants regardless of their specialization in auditing, taxation, management or financial accounting; and  
b). the recognition of the rapidly expanding body of knowledge which accountants must master resulting in calls for specialist designations or longer periods of formal education;
3. an increasingly proactive program to ensure continuing competence such as the use of practice advisors, practice inspections and mandatory professional development;

4. attempts to codify accounting practice through standard-setting programs based on commissioned research.

The profession has attained a place of privilege in Canadian society. Accountants are used to ensure financial control and accountability in private industry and at all levels of government. The Canadian taxation system, which is based on self-assessment, has been made possible in large part through the existence of a large body of trained professionals capable of providing expert advice and assistance. The profession is highly visible in lobbying government on issues such as the structure of financial controls enacted in Companies, Bankruptcy and Bank Acts, the development of audit systems for non-profit organizations and the use of alternate valuation systems during times of high inflation. It must be noted, however, that these efforts have not always been successful. In both the creation and implementation of state policies, the accounting profession has a major role to play.

The traditional strength of the profession in reporting financial events to external users of information is increasingly being complemented and, perhaps, even overshadowed, by the role of accountants in the management of large scale operations. This is evident in the growth of the CMAs and CGAs as professional associations, but more notable has been the development of significant management advisory (consulting) practices alongside the public accounting practices of established firms. This development is blurring the boundaries of accounting as a professional discipline and it is not unusual to see engineers and computer specialists as part of an accounting firm. These recent changes serve to underscore the theme of this article. As the profession continues to discover and define new roles for itself in society, the processes for developing, certifying and maintaining competence, and, in fact, the very meaning of competence, must continue to evolve. The diversity in the profession may provide the flexibility for the development of innovative programs which are not yet envisioned.

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# Accounting Education and the Certification Process in Guyana

NARAINEDAT BALKARAN

## General Background

Guyana is located on the North East corner of the South American continent. It has a population of about 750,000. Sugar, bauxite, and rice are the main exports. The State (Government) owns and controls about 80 per cent of the formal economy. Black marketing has, however, diluted State control of the total economy<sup>1</sup> to well below 80 per cent. The State's inability to present audited financial statements on a timely basis for the country has gained such notoriety in the Caribbean that a reputable political and social analyst charged the Government with "contempt for public accountability and flagrant violations of fundamental rights."<sup>2</sup>

Guyana's economic performance during the eighties has been catastrophic.<sup>3</sup> The economic outlook for the nineties is equally bleak.<sup>4</sup> The country's projected overall balance of payments for 1988 and 1989 are pegged at deficits of US\$136.6m and US\$135.9m, respectively.<sup>5</sup> Estimated exports and imports for 1988 are pegged at US\$277.5m and US\$349.3m, respectively, resulting in a projected resource deficit of US\$71.8m.<sup>6</sup> The current and capital account deficits for 1988 are expected to be US\$133.1m and US\$3.5m, respectively.<sup>7</sup> In 1988 the debt service ratio (debt service/

<sup>1</sup> The total economy comprises the formal and the parallel or underground economy where black marketeers operate.

<sup>2</sup> Rickey Singh, "Foreign Aid and National Cooperation — On Helping Guyana". *Weekend Nation* (Barbados), January 13, 1989, p. 10.

<sup>3</sup> See *Economic and Social Progress in Latin America 1988 Report*. Published by the Inter-American Development Bank (IADB) 1988, pp. 422-429.

<sup>4</sup> *Ibid.*

<sup>5</sup> "Guyana — Actual and Projected Balance of Payments". *Caribbean Development Bank* (CDB), 1986.

<sup>6</sup> *Ibid.*

<sup>7</sup> *Ibid.*

exports) was pegged at 39.6 per cent.<sup>8</sup> Startling, also, is the ratio of private investment to real Gross Domestic Product (GDP). Preliminary figures for 1985 have this ratio pegged at a paltry 2.8 per cent which is expected to move to 5.4 per cent by 1988.<sup>9</sup>

Guyana's Net International Reserves have sustained significant deficits throughout the eighties.<sup>10</sup> The Guyana dollar is worth two (US) cents on the black market. The official rates of exchange are G\$10 to US\$1 and G\$21 to US\$1 for 1988 and 1989 respectively.<sup>11</sup> However, recent (1989) agreements between the Government and the International Monetary Fund (IMF) will entail a further devaluation, resulting in an official exchange rate of G\$33 to US\$1.<sup>12</sup> From one perspective, this represents a 230 per cent devaluation of the Guyana dollar.

The mismanagement of the Guyanese economy coupled with the near lack of public accountability in terms of untimely and deficient financial accounting and reporting at both the micro and macro economic levels<sup>13</sup> have brought into focus within recent times, the importance of accounting education and the certification process as an imperative for economic development.<sup>14</sup>

This paper, therefore, attempts to:

- (a) outline the historical and regulatory environments that impinge on the accounting profession;
- (b) engage in an inventory of accounting education and the certification process; and

<sup>8</sup> Ibid.

<sup>9</sup> Ibid.

<sup>10</sup> See Bank of Guyana Statistical Bulletin, 1986, Bank of Guyana, Georgetown, Table 36.

<sup>11</sup> Ibid., Table 41.

<sup>12</sup> Moses Nagamootoo, "Guyana Dollar to Dive Again", *Weekend Nation* (Barbados), March 10, 1989, p. 16.

On March 31, 1989 the Government announced that the new rate of exchange for the Guyana Dollar would be G\$33 to US\$1.

<sup>13</sup> The Deputy Auditor General (DAG) in his 1987 Annual Report observed, that

- a. The financial statements relating to the Public Accounts for the years 1982-1986 were not submitted for audit, as required by Section 7 of the Financial Administration and Audit Act; and

- b. A significant number of 171 other organizations, including companies did not present their accounts for auditing as required by the Regulations, while in many cases, audit opinions were several years in arrears.

See "Public Accounts 7 Years in Arrears," *Stabroek News* (Guyana), February 4, 1989, p. 9.

<sup>14</sup> See (i) "Proposed Bachelor's Degree in Accountancy". *Department of Management Studies* (DOMS), University of Guyana (UG), 1987; (ii) N. Balkaran, "On Accountancy Education and Training in Guyana", (DOMS); and (iii) "On Accountancy Training at the University of Guyana", (DOMS, UG, 1982).

- (c) outline strategies to improve accounting education and certification in Guyana, with a view to enhancing accountability at both the micro and macro levels of accounting.

### **Historical Considerations**

Guyana, as a British colony, inherited British-based administrative and legal systems. The early history of accounting in Guyana was related mainly to administrative requirements of tax collection and government accounting.<sup>15</sup> The economic activity of the plantation system required the services of bookkeepers who were often expatriates.<sup>16</sup> Expatriates also performed the limited number of available audit, attestation function and management consulting engagements.

During the 1950s and the early 1960s, some local people were granted scholarships by the government and private entities to pursue the examinations of the Chartered Association of Certified Accountants (ACCA) of the United Kingdom, and in a few instances the examinations of the Institute of Chartered Accountants of England, Scotland and Wales (ICAESW). After political independence in 1966, Guyanese proceeded in larger numbers to qualify as ACCAs, and in a few cases as members of the Chartered Institute of Management Accountants (CIMA, UK), Chartered Accountants (CAs, UK), Certified Public Accountants (CPAs, US), and Certified Management Accountants (CMA) of the United States and Canada.

In 1974 the qualified professionals formed the Guyana Association of Professional Accountants which is now referred to as the Institute of Chartered Accountants of Guyana (ICAG). In 1989, with a depleted membership, the ICAG is still fighting for the Parliament of Guyana to enact laws to recognize the ICAG as the body to:

- (i) regulate the practice of accountancy as a profession in Guyana, and
- (ii) to make provision for the training, education and examination of persons engaged in or intending to engage in the accounting profession.<sup>17</sup>

Qualified professionals, including accountants and accounting educators, have been migrating from Guyana to protest the near complete destruction of an economy which up to the early 1960s was among the richest in the English speaking Caribbean. It is now the poorest.<sup>18</sup> However, the severe

<sup>15</sup> Margaret Mendes, *Regulatory Framework of Accounting in the Caribbean*. Kingston, Jamaica, (CFM Publications 1987), p. 1.

<sup>16</sup> *Ibid.*

<sup>17</sup> Draft Bill to enact laws to recognize the ICAG, entitled "Institute of Chartered Accountants of Guyana: Bill 1987," ICAG, 1987.

<sup>18</sup> The World Bank Annual Report 1988, p. 104. Guyana's per capita income is pegged at US\$500 at an exchange rate of G\$10 to US\$1. However, the effective per capita computed at the black market rate of G\$50 to US\$1 reveals that the per capita income of US\$330 for Haiti was significantly below the Barbadian per capita income of US\$5,150.

shortage<sup>19</sup> of accountants in Guyana has prompted the government to employ foreign accountants on a contractual basis. These accountants hardly ever seek new contracts since it is very difficult for a professional of any ilk to survive and work in a highly philistine Guyanese environment.

### **The Regulatory Environment**

Guyana is operating with company laws which were published in 1973 and entitled "Companies Act: Chapter 89:01, Act 17 of 1913."<sup>20</sup> These laws are based on the antiquated and outdated UK Companies Act of 1908 and on amendments over time from 1913 to date. The Companies Act, however, set forth regulations governing the appointment, special duties and remuneration of Auditors; the format of the Auditor's report; examination rules for Auditors; and the types of financial statements a company should issue, namely Profit and Loss, Balance Sheet, dividend and the reserve fund information.<sup>21</sup> However, the companies Act of Guyana is of little use in offering guidance on financial accounting and reporting since it does not set out in sufficient detail the economic significance, scope and content of financial statements, and the classification, valuation and other measurement procedures and methods to apply, preferably with sample reporting formats for both manufacturing and merchandising entities.<sup>22</sup>

Section 121 of the Companies Act of Guyana states that no one shall be appointed auditor who is not

- (a) a member of the Institute of Chartered Accountants in England, Wales, Scotland or Ireland, or
- (b) a member of the Society of Incorporated Accountants and Auditors; or
- (c) a member of the Association of Certified and Corporate Accountants; or
- (d) a member of any body comparable in status to those bodies specified above and the standing of which body is considered to be such as to justify the grant of a permit to practice as an auditor, or
- (e) one who has obtained from any board of examiners appointed by the Minister a certificate that in the opinion of that Board he is a fit and proper person to act as auditor.<sup>23</sup>

Interestingly, the Companies Act of Guyana under the caption "Subsidiary Legislation" spells out rules of examinations for auditors.<sup>24</sup> The

<sup>19</sup> The ratio of qualified accountants to total population is pegged at 1 to 18,293. Latest figures (1989) put the number of qualified accountants at 41. (Source: ICAG).

<sup>20</sup> *Laws of Guyana*, Volume XII, Chapter 89:01. Government of Guyana, 1973.

<sup>21</sup> *Ibid.*, Sec. 121, 122, and Subsidiary Legislation, pp. 78, 79, 174, and 175.

<sup>22</sup> The Zambian Company Laws are similarly deficient. See A. J. H. Enthoven's "Accountancy Systems in Third World Countries," (N.Y.: North-Holland, 1977), pp. 141-163.

<sup>23</sup> *Laws of Guyana*, Chapter 89:01, pp. 78-79.

<sup>24</sup> *Ibid.*, pp. 174 and 175.

rules stipulate that in the month of November in each year an examination will be held by the Board of Examiners to test the fitness of persons desiring to be registered as auditors under the Companies Act of Guyana.<sup>25</sup> Minimum requirements for entry into the examination include:

- (i) a pass at the Senior Cambridge Local Examination or an equivalent preliminary test,
- (ii) attainment of at least 21 years of age, and
- (iii) having at least three years continuous practical experience in accounting work.<sup>26</sup>

The examinations must test candidates competencies in bookkeeping; advanced accounting; duties of auditors (including English composition); and company, partnership, mercantile, trust, and bankruptcy laws.<sup>27</sup> The examination must be taken as a whole since failure to satisfy the examiners in any one or more subjects shall be deemed to be a failure in the whole examination.<sup>28</sup>

These examinations are intended for persons who do not hold professional accounting qualifications, like the ACCA, CA, etc. However, this writer is not aware of any such auditors' examinations having been held over the past 20 years.

Another point of interest in the companies Act is the stipulation that the report of the Auditors must include in the opinion paragraph '... in their opinion, the balance sheet referred to in the report ... exhibit a true and correct view of the state of the company's affairs ...'<sup>29</sup> The "true and correct" phrase denotes accuracy, maybe 100 per cent accuracy. Financial statements are seldom 100 per cent accurate, per se, but are prepared on the basis of reasonable estimates. Therefore, from the opinion paragraph, the expression "true and correct" should be replaced by the word "fair" as used in the United States, Canada and elsewhere.

From the public sector point of view, the Auditor General of Guyana has been issuing an audit certificate which gives an assurance of accuracy. As noted before, financial statements are never 100 per cent accurate, per se. Therefore, the Auditor General should issue an audit opinion about the fairness of the public accounts rather than an audit certificate which certifies (assuming an unqualified audit certificate) that the financial statements exhibit a correct view of the public accounts and records.

In Guyana, there is at present under consideration by the government, a draft bill which seeks to incorporate a body to be known as the Institute of Chartered Accountants of Guyana (ICAG) to replace and take over the assets and liabilities of the existing Institute now incorporated as a company

<sup>25</sup> *Ibid.*, p. 174.

<sup>26</sup> *Ibid.*

<sup>27</sup> *Ibid.*

<sup>28</sup> *Ibid.*, p. 175.

<sup>29</sup> *Ibid.*, Sec. 122, p. 79. (Underlining done by this writer).

under the Companies Act, Chapter 89:01.<sup>30</sup> The Institute is seeking to have responsibility for regulating the practice of the accounting profession in Guyana, including the registration and certification of persons qualified to practice that profession<sup>31</sup>

Schedule I of the draft bill lists the bodies of accountants whose professional examinations will be recognized by the ICAG. They are the Institutes of Chartered Accountants of England, Wales, Ireland, and Scotland; the ACCA, the American Institute of Certified Public Accountants (AICPA) of the USA, and the Canadian Institute of Chartered Accountants.<sup>32</sup> Excluded, and the writer ponders why, are the professional examinations of the CIMA (UK), Certified General Accountants (CGA, Canada) and Society of Management Accountants (SMA, Canada and USA). It seems that the ICAG is not serious in fostering the co-operation which should exist between the various fields of accounting. This has resulted in the retardation of their potential roles in the total economic development framework of Guyana.<sup>33</sup>

The ICAG of Guyana has a present membership of about forty-one.<sup>34</sup> At the professional level, an inventory of accounting certification reveals that the membership of the ICAG comprises:<sup>35</sup>

38	ACCAs	(UK)
1	CIMA	(UK)
2	CAs	(UK)

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41

The forty-one members represent the number of professionally qualified accountants in Guyana. All of them have Certification from British institutions.

All activities, therefore, revolve around a few members. The Institute, unlike its counterparts in Trinidad, Barbados, and Jamaica, is yet to be recognized as the professional accounting body by the government. The Institute is weak. Its contributions to research and continuing professional education (CPE) for its members have been negligible. The Institute's present role does not meet, in any meaningful way, those laudable objectives outlined in its proposed charter.<sup>36</sup>

Guyana has no promulgated accounting or auditing standards governing public and private sector financial accounting and reporting, and auditing.

<sup>30</sup> "Institute of Chartered Accountants of Guyana, Bill 1987," p. 25.

<sup>31</sup> *Ibid.*

<sup>32</sup> *Ibid.*, p. 24.

<sup>33</sup> Enthoven (1977), p. 161.

<sup>34</sup> 93 per cent of the membership are ACCAs. Approximately 60 per cent are in Public Accounting, 30 per cent in Industry and Commerce, and 10 per cent in the Public Service.

<sup>35</sup> Source: ICAG.

<sup>36</sup> ICAG, Bill 1987, pp. 4-5.

With reference to public service audits, Prasad points out that “a major problem facing government auditors . . . is that there are no accounting standards to give a definitive approach of what constitutes a true and fair view. Also, auditing standards are yet to be introduced to govern the minimum work which should be carried out by the government auditor in forming his opinion on the financial statements and public accounts.”<sup>37</sup> Most government accountants and auditors are not qualified accounting professionals, hence there is no compelling reason for them to comply with the promulgated Generally Accepted Accounting Principles (GAAP) or Generally Accepted Auditing Standards (GAAS) of any other country.

However, public and private sectors audits which are conducted by public accounting firms, whose qualified professionals are normally ACCAs have a fair degree of uniformity in their execution. The ACCAs are required to comply with the auditing standards of the UK through membership and ethical requirements. There is also a reasonable level of uniformity in the practice of financial accounting and reporting within public and private sector entities where the top financial officers are in most cases British qualified ACCAs or CAs. These professionals tend to follow the promulgated accounting standards of the UK. However, the temporary advent of some North American trained accountants in the eighties has seen the adoption of US and Canadian accounting and auditing rules in some public and private sector entities, resulting in the further impairment of comparability of financial statements among and between Guyanese organizations.

### **Accounting Education and Certification in Guyana — an Inventory**

Education and training in accounting is presently done at the University of Guyana, the Government Technical Institute, the Emile Woolfe School of Accountancy, Government Secondary Schools, private individuals and schools which engage primarily in teaching elementary accounting.<sup>38</sup> The ICAG conducted classes for all levels of the ACCA examinations for eighty students up to the end of 1988. The Emile Woolfe School is a private company that engages on an evening or part-time basis, in teaching courses for the ACCA, CIMA, and Association of Accounting Technicians (AAT, UK) examinations for a limited number of students.<sup>39</sup> There is also a number of persons who take international correspondence courses in accounting, pursuing in the main, the examinations of the AAT, ACCA, and CIMA.<sup>40</sup> However, current and prospective correspondence students are finding it extremely difficult not only to afford, but also to obtain the

<sup>37</sup> S. Prasad, *The Nature of Government Accounting*, UG/Caricom, 1983, p. 5.

<sup>38</sup> Balkaran, (1968), p. 8.

<sup>39</sup> Ibid.

<sup>40</sup> Ibid.



necessary foreign exchange to pay for their courses, given the low value of the Guyanese dollar and the government's restrictions on the use of foreign exchange.

The University of Guyana, through its Department of Management Studies, being cognizant of the need to provide the public and private sectors with personnel having a broad education in accounting and related areas instituted in the academic year 1979–80 a two modular semi-professional accounting program with financial assistance from the United States Agency for International Development (USAID), the European Economic Commission (EEC), and the Public Service Ministry of Guyana (PSM).

The basic objective of the diploma is to provide training and education in the field of accountancy and related areas with a view to developing skills and competence at the accounting technician level in keeping with the needs of the national economy. Specifically, the Diploma is geared to meet the following behavioral objectives:

- (i) to enable participants to develop semi-professional competence in accounting and related areas, and
- (ii) to enable participants to develop the capability to pursue semi-professional certification in accounting, in particular the AAT examinations of the UK.

The latter objective points to the colonial outlook of some employers and top level managers who still believe that the University of Guyana's Diploma in Accounting graduates must acquire accounting certification from the UK before they can be respected as full-fledged accounting technicians or accountants.

The first module which runs over one year, on a part-time basis, leads to a "Certificate in Accountancy".<sup>41</sup> The second module which is done part-time at the University of Guyana (UG) for two years leads to the "Diploma in Accountancy".<sup>42</sup> Initially, the Diploma in Accountancy program was run on a one-year full-time basis. The change over to a two-year part-time basis became necessary in order to overcome the problem whereby the public sector found it difficult to release personnel for full-time studies in view of their critical personnel shortage in accounting and related fields. The profiles of courses offered at the certificate and diploma levels are shown in Appendix 17.1.

An accounting internship period of three months is required of all students at the end of year two of the Diploma program. Participants are exposed to practical training in both private and public sector organizations. The attachments are supervised by the UG and are generally problem solving in nature so that they help to develop the analytical skills of the students. The participants must perform satisfactorily during the internship,

<sup>41</sup> *Ibid.*, p. 9.

<sup>42</sup> *Ibid.*

at the end of which a report prepared by the student is submitted to the UG for evaluation.

The effectiveness of the Diploma in Accountancy program has been adequately demonstrated from 1979 to 1988 relative to other programs run by other agencies.<sup>43</sup> However, the effectiveness of the Diploma relative to the enhancement of accounting education as an information development and distribution function for economic decision making has been minuscule.<sup>44</sup> Also, the effectiveness of the Diploma relative to the development and enhancement of professional accounting education and training has been negligible.

In order to provide training and education in the field of accounting with a view to developing skills and competence at a professional level in keeping with the needs of the Guyanese economy,<sup>45</sup> the UG launched in September 1987 a bachelor's degree in accounting.

The Degree in Accounting is geared to enable participants to develop:

- (i) professional competence at both the micro and macro levels of accounting, and
- (ii) the capability to pursue professional certification in accounting.<sup>46</sup>

The pedagogical approaches to be used to deliver the Degree include the use of:

- (i) comparative approaches to the theory and practice of accounting,
- (ii) practical attachments and assignments,
- (iii) the case method of teaching, and
- (iv) current information technology as applied to the practice of accounting and auditing.<sup>47</sup>

The four-year Degree in Accounting which is offered on a full-time basis has a profile of sixteen courses as shown in Appendix 17.2. At the end of each year, students are required to successfully complete a UG supervised ten-week practical training in accounting and related fields.

The degree program incorporates the accounting education and training

<sup>43</sup> Results of a survey conducted by this writer revealed that the Diploma in Accounting graduates are occupying critical positions in both private and public sector organizations. Positions range from Assistant Accountants to Finance Controllers. The Diploma program has produced approximately 160 graduates up to the end of academic year 1987–1988.

<sup>44</sup> *Issues in Accounting Education*, Vol. 1, No. 1, Spring 1986, featured an article by the AAA Future Committee (pp. 169–194) which discussed Accounting Education as an information development and distribution function for economic decision making.

<sup>45</sup> "Proposed Bachelor's Degree in Accounting". (DOMS, UG, 1987), p. 4.

<sup>46</sup> Ibid.

<sup>47</sup> Ibid.

perceptions and visions of the ICAG, private and public sector entities, and the Accounting Advisory Committee of Guyana. However, the UG may want to offer some optional courses during the Summer for its Degree in Accounting students. The courses should include Business Communication, a foreign language — Spanish, French, Portuguese, or an oriental language, Caribbean Socio-politico Environment, Managing Negotiations, Operations and Marketing Management, and Management Strategy, Policy and Planning.

Given Guyana's geographical location, its current political and economic situation, and the current global trend where accountants in larger numbers are occupying strategic executive positions, it is imperative that graduates from the UG's Degree in Accounting program be exposed to a broad education at the undergraduate level.

University educators qualified in the US or Canada, and elsewhere have left Guyana. Several of the remaining instructors hold an undergraduate degree or its equivalent.

### **Strategies to Improve Accounting Education and the Certification Process in Guyana**

There is a clear and urgent need to implement and maintain a system which would motivate accounting educators at the primary, secondary, and tertiary levels to enter and remain in the field of accounting education and training, and to continue living in Guyana. Other potential strategies to improve accounting education and the certification process in Guyana may include the following:<sup>48</sup>

1. A needs assessment, as part of a manpower plan, should be undertaken to determine the types and levels of accounting knowledge and skill needed in the short, intermediate, and long-term for Guyana.
2. An accounting infrastructure which embraces the primary, secondary, and tertiary levels of schooling should be established, implemented and managed so as to ensure the maintenance of the quality and quantity regarding contents and examinations of the required education and training programs.
3. The University of Guyana (UG) and other tertiary level institutions should
  - (i) approach accounting education as an information development and distribution function for economic decision making,
  - (ii) emphasize students' learning to learn as the primary classroom objective, and
  - (iii) ensure that students develop analytical capabilities.<sup>49</sup>

<sup>48</sup> Enthoven (1977) from whom some of these recommendations have been adapted.

<sup>49</sup> See *Issues in Accounting Education*, (AAA), Vol. 1, No. 1, Spring 1986, pp. 169–195 and Vol. 2, No. 2, Fall 1987, pp. 313–324 which discussed these recommendations.

4. The modular education and training program in accounting should be actively promoted. The final module which is the undergraduate degree in accounting, should serve as the basic entry requirement to any future local or regional professional accounting examinations.
5. The accounting information and data base should be upgraded, expanded and computerized as much as possible. Also, foreign texts should be adapted to local and regional circumstances.
6. The local Institute of Chartered Accountants of Guyana (ICAG) needs to strengthen its role by:<sup>50</sup>
  - (i) adopting positive programs for integrating accounting educators into the professional activities of the ICAG,
  - (ii) placing more emphasis on the need for additional liberal arts and business education to provide a better foundation for the professional accountant of tomorrow, and
  - (iii) encouraging an independent, competent entity to prepare an indepth study of accounting education that would provide an objective view of the current status of accounting education and training and how it must evolve to support the accounting profession of the future.
7. The ICAG should broaden its membership by accepting North American qualified CMAs, CGAs, and Certified Internal Auditors (CIAs). The admission to membership of management accountants should set the stage for a closer, more effective linkage between the respective branches of accounting.
8. Legislation should be enacted to recognize the ICAG as the body to regulate the practice of, and certification in, public accounting in Guyana.
9. The ICAG, after it is granted its Charter should proceed with profound care in its promulgation of accounting and auditing standards. The ICAG should not, as the saying goes, “reinvent the wheel” but should, as an urgent imperative, develop a conceptual framework of financial accounting and reporting suited to local (Guyana) and regional (Caribbean) conditions and realities. A conceptual framework should be the basis for accounting standards which are consistent with its theoretical underpinning of financial accounting and reporting as well as with each other. To adopt North American, British, or International Accounting Standards wholesale is to deprive one’s country and region of “accounting” creativity and identity.
10. Enthoven (1977)<sup>51</sup> prescribes a recommendation for the accounting curriculum of Zambia which is equally applicable to Guyana. It is that the present courses in accounting at the tertiary levels should be enlarged into “economic development accountancy” to include national accounts analysis and measurement, data for economic planning, new government budgetary methods, project analysis and projections, and accounting for capital formation. However, Enthoven further points out “research may have to be carried out with academic institutions (and preferably regional

<sup>50</sup> See *Journal of Accountancy*, May 1987, pp. 329–331 from where these recommendations were taken.

<sup>51</sup> Enthoven (1977), p. 162.

organizations), whereby the relevance of many aspects of accountancy are explored from a developing country's viewpoint.<sup>52</sup>

Finally, it is the view of this writer that regionalism in the practice of financial accounting and reporting, and in accounting education, training, research, and certification should be actively promoted since it is a more efficient and effective way to proceed. Caribbean countries, through its Common Market (Caricom) should establish and implement an Accountancy Regime to grant recognition to the Caribbean Institute of Chartered Accountants and to hasten the formation of a Caribbean Accounting and Auditing Standards Board (CAASB) made up of accounting educators, public accounting firms, private and government accountants, tax accountants, and other significant parties and entities.

The CAASB should be charged with the responsibility to:

- (i) develop a conceptual framework of financial accounting for the Caribbean,
- (ii) ensure uniformity in the promulgation of financial accounting and auditing standards promoting uniformity in the practice of financial accounting and reporting in auditing and attestation functions and management consulting engagements within Caricom,
- (iii) assist with the preparation of accounting training manuals and the adaptation of foreign texts to local and regional conditions,
- (iv) begin the development of regional professional accounting examinations in the various branches of accounting, and
- (v) give support to and lobby for the early harmonization of the company laws of Caricom countries.

It will definitely be much more efficient and effective to offer graduate and postgraduate programs in accounting on a regional basis. Maybe, the time has come for the University of the West Indies in collaboration with the University of Guyana and the Institute of Chartered Accountants of the Caribbean to begin discussions with a view toward the setting up of a professional school of accountancy that would meet the special needs of a Caribbean professional accounting program and examination.

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<sup>52</sup> Ibid., p. 163.

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## APPENDIX 17.1

### **Certificate in Accountancy**

#### ***Profile of Courses***

1. Statistics.
2. Office Management.
3. Personnel Management.
4. Financial Accounting.
5. Economics.
6. Law.
7. Costing.
8. Auditing.
9. Central Government Accounting.

### **Diploma in Accountancy**

#### ***Profile of Courses***

Year 1:

1. Intermediate Financial Accounting.
2. Data Processing and Quantitative Methods.
3. Principles of Business Administration.
4. Central and Local Government Accounting.
5. Business Economics and Finance.

Year 2:

6. Law for Accountants.
7. Principles of Auditing.
8. Taxation.
9. Cost Accounting and Budgeting.

## APPENDIX 17.2

### **Degree in Accounting**

#### ***Profile of Courses***

Year 1:

1. Principles of Economics.
2. Mathematics and Statistics for Accountants.
3. Financial Accounting.
4. Law for Accountants.

Year 2:

5. Principles of Business Administration.
6. Data Processing and Computer Programming.
7. Intermediate Accounting.
8. Government Accounting and Public Finance.

Year 3:

9. Cost Accounting.
10. Principles of Auditing.
11. a) Business Finance ( $\frac{1}{2}$  course).  
b) Advanced Accounting Practice ( $\frac{1}{2}$  course).
12. a) Accounting Information Systems ( $\frac{1}{2}$  course).  
b) Introduction to Management Science ( $\frac{1}{2}$  course).

Year 4:

13. Management Accounting.
14. Taxation and Tax Management.
15. Advanced Accounting Theory and Contemporary Accounting Problems.
16. Advanced Auditing.



# Accounting Education and Certification in Peru

JOSE LUIS ANTINORI

## Introduction

Accounting education in Peru is quite complex due to the heterogeneous economic activity of the country in relation to its geography. There are the General Accounting Plans that regulate the accounting information for the private, public and financial activities. The purpose of this paper is to present the evolution of accounting practice and the education of accountants in Peru within the context of the General Accounting Plans.

The paper is divided into four sections. The first section deals with some aspects of the Peruvian economy, the second section describes the history of accounting in Peru. Section III, describes the education of accountants, the plan of studies and certification process. The fourth section talks about the perspective and challenges of the Public Accountant in Peru.

## Section I: Some Aspects of the Peruvian Economy

The Peruvian economy is basically agricultural. About 55 per cent of the population is engaged in agriculture, forestry and fishing. Agricultural products include sugar cane, coffee, cotton, cocoa, wheat, potatoes, wool, tobacco, fruits and vegetables.

Mining is an important economic activity of the country. Peru is the world's second largest producer of silver. Other principal minerals include copper, petroleum, coal, gold, and iron. The output of petroleum has increased significantly in the post World War II years, with Peru now ranking among the principal producers in South America.

In addition to the processing of petroleum products and the smelting of ores, Peru has manufacturing plants that include food processing (e.g., fish products), cotton and woolen textiles, flour, beer, cottonseed oil, leather shoes, lumber, candles, soaps, paper, glassware, cement and evaporated milk. For a detailed information on the economy please refer to Table 18.1.

TABLE 18.1 *Economic, Financial and Social Context of Peru. A brief summary of main variables in the Peruvian economy.*

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<b>GENERAL DATA</b>	
Area	1,285,216 Km <sup>2</sup> .
Capital	Lima
Location	Central and west part of South America
Ethnic groups	Mestizos, aborigens, Europeans, etc.
Languages	Spanish, Quechua, Aymara and 37 dialects
Religion	Catholic, protestant and others
Money	Inti
<b>DEMOGRAPHY</b>	
Population	21,733,940 inhabitants (estimated 1989)
Density	17 kilometers per inhabitant (1989)
Birth rate	38 per each 1,000 inhabitants
Death rate	11 per each 1,000 inhabitants
Annual growth rate of population	2.4% (1973–1985)
Important cities	
Lima	6,497,926 inhabitants (1989)
Arequipa	611,693 inhabitants
Cuzco	259,192 inhabitants
Chiclayo	339,731 inhabitants
Urban population	68%
<b>ECONOMY AND FINANCE</b>	
Growth rate of GNP	–4% (estimated 1988)
Annual inflation	1.722 (1988)
Public budget	1,500 million dollars
Workers	56%
Foreign Debt	15,800 million dollars (1988)
Banking system clearance	540 millions of Intis
Official exchange rate	1 dollar per 700 intis (January 6, 1989)
Black exchange rate	1 dollar per 1,970 intis (January 6, 1989)
International net reserves	–317 million dollars (December 1988)
<b>HEALTH AND EDUCATION</b>	
Number of inhabitants	
per doctor	1,390 (1980)
Mean of life span	59 years
Calories per capita per day	1,997 (1983)

---

## **Section II: Historic Antecedents of Accountant Science in Peru**

### ***General Aspects***

Formal accounting education in Peru started when the Faculty of Economic Science of the Universidad Nacional Mayor de San Marcos was founded in

Lima on April 7, 1875. The original name of this faculty was “Political and Administrative Sciences Faculty”; with one basic objective being to educate students in Political Science and Public Administration.

When the political, economic and social conditions changed, due to the University Reform that occurred in Cordova-Argentina in 1918 with the recognition of the importance of economic subjects, the name of the faculty changed to “Economic and Political Sciences Faculty”. This change occurred partly because professionals with knowledge of Economics, Finance, Accounting and Administration were needed in the growing Peruvian economy.

### ***Accounting and Technological Progress in Peru***

The recognition of accounting information as essential elements in the decision making process in the Peruvian economy has passed through three major phases:

*The period until 1955* — The Commerce Code of 1902 required firms in Peru to have a basic system of accounting. It was required that all information had documents through the use of manuscripts and registers, including the book of letters and telegrams.

*Between 1955 and 1974* — By resolution No. 356 of the taxation office (1955) the firms are allowed to employ mechanical systems for the books of accounting. The documents must be numbered, summarized monthly and bound at the end of each cycle. Later by “Directoral Resolution No. 015” of General Direction of Taxation, firms were allowed the use of separate sheets that permit linkage with the books of Diary and Major (journal and ledger).

*Between 1974 and 1989* – The influence of computer applications to business became preeminent in Peru. Because of this development, businesses are permitted to use computer based accounting systems insofar as they can be numbered and bound at the end of each cycle and kept for a period of ten years. There are about 872 private and public companies in Peru that use computers for accounting purposes.

### ***Accounting and the National Economic Development***

The certification of account balances became a requirement in Peru in 1974. This began with the creation of the “Commission Nacional de Empresas y Valores”, known as CONASEV.

The role of Accountant Science in the economic development of Peru has gone through the following phases:

*Period until 1973* — The practice of accountant science borrowed concepts from the American, French and Italian schools. The application of several accounting systems resulted in different ways of interpreting the financial and economic correlations of Peruvian companies.

*Between 1973 and 1984* — In order to overcome the problem mentioned in the previous paragraph and standardize the accounting and financial information, the Peruvian government promulgated legislative decree no. 20172 by which the General Plan Accountant was established and its regulation put in place by “Suorem Decree No. 275–73 EF” of 1973. This standardized system of accounting for companies, except for public and credit companies rationalizes the financial information with macroeconomic objectives. The mandatory requirement that companies use the General Plan Accountant has been progressive. In 1976 all companies of the country were obliged to register their operations according to the Legislative Act 20172. This has allowed the government to present the national budget to the congress according to the constitution (article 145) through the public sector, the financial information that is prepared according to government integrated accountant plan. The financial sector (banks, credit cooperatives, etc.) have their own accounting plan (the accountant plan for banks).

*Between 1984 and 1989* — The general Plan Accountant of 1973 was superceded by the “Plan Accountant” reviewed by Resolution CONASEV No. 006–84 EF/94.10 which is still in force. In 1987 the government approved the National Accounting System in order to standardize and centralize public accounting, to establish the General Account and propose accounting norms that must operate in the country. This system began to function in 1988 and remains unchanged.

### **Section III: Education of Accountants in Peru**

#### ***High School Level***

Commercial education is different from the normal high school curriculum. After five years of post primary education, students have to pass a qualifying examination. Upon successful completion, the student receives a Diploma of Mercantile Accountant. This diploma allows the graduate to work as an auxiliary accountant in private and public enterprises. For taxation purposes, only he/she can sign balances of accounts for small firms.

#### ***College Level***

Peru has post-secondary technical institutions called the “Institutos Superiores Technologicos” where students can obtain professional degrees in different fields, such as Accounting. After three years of post-secondary school studies, candidates are awarded a Diploma as Bachelor in Accounting. (See Appendix 18.1 for detailed Accounting curriculum of Lima University in Peru.)

### ***Certification Process***

According to the university law No. 23733 (articles 18–24) and the university statutes, regulated by each university upon satisfactory completion of a five-year or ten-semester accounting program, a candidate may enter the profession in Peru by going through an evaluation process in two steps, as follows.

#### ***Bachelor's Degree***

The first step leads to the bachelor's degree in Accountant Sciences. In order to obtain this academic degree, the graduate must present a thesis that is written under the supervision of a professor of the faculty. The thesis project requires faculty approval. The thesis must be successfully defended before a jury of four faculty members including the supervising or advising faculty member. The jury members usually are professors whose expertise are related with the theme of the thesis.

The decision to either approve or disapprove a thesis is reached by a simple majority of the jury panel. An approved thesis may be put on a scale of excellent, good or fairly good. A candidate whose thesis is disapproved has to present a revised version within six months. If it is disapproved again, the candidate must start all over with the thesis.

#### ***Public Accountant Certificate***

The second step leads to the Public Accountant Certificate. A candidate with a bachelor's degree in Accountant Sciences may obtain the certificate through a professional examination or submitting a second research thesis. Forty-eight hours before the examination, the candidate chooses by raffle, the specific area of study from Business Accounting, Cost Accounting, Public Accounting and Auditing. The examination lasts approximately five hours and it is evaluated by the jury named at the time of the area raffle. The evaluation is scored from zero to twenty, and the candidate that scores 11 or more is approved and is presented with the Public Accountant Certificate. An unsuccessful candidate has two opportunities to pass the professional examination. If a candidate fails the last optional examination he/she may never receive the Public Accountant Certificate from that university. The second option to obtaining the Public Accountant Certificate is by those submitting a research paper with characteristics similar to those required to obtain the Bachelor's Degree.

It is important to note that the plan of studies includes one semester of pre-professional practice, that the candidates undertake in a private or public firm, under the supervision of a professor. In order to qualify for this practice, it is necessary that a candidate has 160 credits or has finished the 8th semester of study. The candidate may earn 4 to 6 credits towards graduation requirements.

In order to practice as a Public Accountant, it is obligatory to register before the institution that represents the local public accountants of where one is going to work.

#### **Section IV: Perspective and Challenges of the Public Accountant**

University education in Peru is beset with problems and limitations. Most of the universities in Peru do not have a modern technological infrastructure to support the accounting program due to the lack of adequate funds. Research and publication are almost non-existent in Accountant Science. As a result of this, the literature is about ten years old. Furthermore, the ratio of textbook per student is now one text for every twenty students in public universities. Accounting textbook production in Peru is limited to the reproduction of the General Plan Accountant with some commentaries and practical applications, due to inadequate financial incentives to encourage research. For instance, a principal professor with twenty years' experience earns the equivalent of \$50 per month (as of January 6, 1989) in public universities.

Most of the public universities do not have appropriate classrooms, laboratories, and other facilities. Compounding the problems mentioned above, the accounting graduate has the problem of inadequate employment opportunities after graduation.

APPENDIX 18.1

# Universidad de Lima Accountant Sciences Faculty

## Accounting Curriculum

FIRST LEVEL (1st Semester)	CREDITS	PREREQUISITES
Basic Mathematics I	4	None
Spanish Tongue I	4	None
History Civilization	3	None
General Psychology	3	None
Science Methodology	3	None
Political Culture	<u>3</u>	None
Total Credits	20	
 SECOND LEVEL (2nd Semester)		
Basic Mathematics II	4	Basic Mathematics I
Spanish Tongue II	3	Spanish Tongue I
Economics	3	None
History of Peru	4	History Civilization
Sociology	3	General Psychology
Cosmology	<u>3</u>	None
Total Credits	20	
 THIRD LEVEL (3rd Semester)		
Mathematic Analysis I	4	Basic Mathematics II
General Statistics	3	Basic Mathematics II
Introduction to Administration	3	None
Macroeconomics	3	Economics
General Accounting I	4	None
Accountant Documentation	3	None
Anthropology	2(E)	General Psychology
Art History	2(E)	History Civilization
Philosophy	2(E)	History Civilization
Universal Literature	2(E)	Spanish Tongue II

FOURTH LEVEL (4th Semester)

Introduction to Financial Math	3	Basic Mathematics II
Applied Statistics	3	General Statistics
Organization and Administration	3	Introduction to Administration
Microeconomics	3	Economics and Math Analysis
General Accounting II	4	General Accounting I
Introduction to Law	3	None
Logic Mathematics	2(E)	Basic Mathematics I
Development of Theory	2(E)	Sociology
History of Technics	2(E)	History Civilization

FIFTH LEVEL (5th Semester)

Financial Mathematics	3	Introduction to Financial Math
Computer Elements	3	Applied Statistics
International Trade	3	Micro and Macroeconomics
General Accounting III	3	General Accounting II
Cost Accounting I	3	General Accounting II
Business Law	3	Introduction to Law
Industrial Relations	3(E)	Organization and Admin.
Marketing	3(E)	Applied Statistics

SIXTH LEVEL (6th Semester)

Cooperatives	3	Organization and Admin.
Banking and Monetary Economy	3	Macroeconomics
Intermediate Accounting	3	General Accounting III
Cost Accounting II	4	Cost Accounting I
Contemporaneous Ideologies	3	None
Industrial Law	3	Business Law
Production	3(E)	Applied Statistics
Work Law	3(E)	Business Law

SEVENTH LEVEL (7th Semester)

Finance	3	Financial Mathematics
Applied Accounting I	3	Intermediate Accounting
Cost Accounting III	3	Cost Accounting II
Corporation Accounting	3	Intermediate Accounting
National Problems	3	Contemporaneous Ideologies
Tax Law	3	Business Law
Public Budgets	3(E)	Intermediate Accounting
Cooperative Accounting Seminar	3(E)	Cooperativism

EIGHTH LEVEL (8th Semester)

Auditing I	4	Corporation Accounting
Applied Accounting II	3	Applied Accounting I
Administrative Accounting	3	Corporation Accounting
Technical Accountant Tax I	3	Tax Law
Superior Accounting	4	Corporation Accounting
Research Methodology	3	None



*Accounting Education and Certification in Peru*

**NINTH LEVEL (9th Semester)**

Auditing II  
Government Accounting  
Technical Accountant Tax II

Budgeting

Survey and Research Accounting  
Operative Auditing  
Seminar of Income Tax

**TENTH LEVEL (10th Semester)**

Computer Programs (COBOL) 3  
Analysis of Financial Situations 4  
Tax Auditing 3(E)  
Auditing III (seminar) 3(E)  
Research Seminar 4  
Professional Ethics 2

Computer Elements  
Superior Accounting  
Technical Accountant Tax II  
Auditing II  
Research Methodology  
Must have attained 10th level

\* E= Elective.

# Changes in Accounting Education in the United States: The Impact of the Accounting Education Change Commission

GARY L. SUNDEM

## Recent History

The two decades from the mid-1960s until the mid-1980s were the golden age of accounting education in the United States. The steadily increasing demand for accounting graduates led to rapid expansion of accounting programs.

The quality of accounting education was also improving over the same period. The impetus for improvements in business education in general and accounting education in particular was provided by two reports issued in 1959, the Gordon and Howell reports sponsored by the Carnegie Corporation.<sup>1</sup> In the years following release of the reports, business schools changed dramatically. General education requirements were expanded, specialization and vocationalism were restricted, core requirements were revised, faculty quality was improved, and a more scholarly environment was created.

As a result of the changes, the status of business schools on campus increased significantly. The average student quality in most business and accounting programs went from well below university averages to well above average. A much greater percentage of faculty members were full time, had earned doctorates, and devoted efforts to research and publication as well as teaching. Business schools and the accounting programs within them became more scholarly and intellectually challenging and less a place of simple vocational training.

<sup>1</sup> R. A. Gordon and J. E. Howell, *Higher Education for Business*, New York: Columbia University Press, 1959, and F. C. Pierson, *The Education of American Businessmen*, New York: McGraw-Hill Book Company, 1959.

Students responded to the changes by flocking to business and accounting in droves. Programs expanded and many put quality screens on the admission to business and accounting. The result was increases in both quantity and quality of business and accounting graduates.

### ***Influences on Accounting Education***

Besides the changes affecting business schools in general, other pressures were influencing accounting programs. In the years between 1967 and 1989 no less than seventeen comprehensive models for accounting education were prepared by seven professional organizations.<sup>2</sup> These are shown in Appendix 19.1. Although these reports address education for entry to a variety of professional accounting careers in industry, government, and public accounting, their recommendations are surprisingly similar. Recommended topic coverage in general education, business education, and accounting education differs only in some of the details. The result has been amazingly homogeneous accounting programs. This homogeneity is also reflected in accounting course titles and accounting textbooks.

Another influence on accounting programs has been the requirements for CPA certification. In the United States, each state determines its own requirements for certification. Generally a legislature will pass enabling legislation and a State Board of Accountancy will develop and enforce rules to implement the legislation. Almost all states require a baccalaureate degree for certification, and most require a minimum number of accounting courses. A growing number of states (currently sixteen) require 150 semester hours, or five years, of college or university education. Such a requirement is consistent with a majority of the models in Appendix 19.1. In addition, the American Institute of Certified Public Accountants (AICPA) has voted to require 150 semester hours for membership in the Institute beginning in the year 2000. Therefore, a major factor influencing curriculum change today is accommodating students who want a five-year rather than a four-year program.

However, the regulation that has had the most influence in the past is the CPA examination. A common exam is required by all the states, and the content of the exam has greatly influenced curricula in accounting. Few colleges or universities consciously tailor their curriculum to the CPA exam. But the influence is nevertheless pervasive. The same person who says he or she does not teach to the CPA exam will argue that a topic must be included in the curriculum because it is covered in the exam. Textbook authors also make sure that their books present the material that appears in the exam, and CPA exam questions are used liberally as end-of-chapter problems. Finally, accounting programs are often evaluated by the success of their

<sup>2</sup> For details on these models see B. E. Needles, Jr., and M. Powers, "A Comparative Study of Models for Accounting Education", *Issues in Accounting Education*, Fall, 1990, pp. 250–267.

graduates in the CPA exam. This influence of the CPA exam has been one more factor leading to standardization and homogeneity of accounting programs, despite the fact that fewer than half of the accounting graduates in the United States enter the CPA profession and fewer than 10 per cent spend the majority of their careers as practicing CPAs.

### **Criticism Arises in the Late 1980s**

In the 1970s and early 1980s, accounting faculty and administrators were preoccupied with the problems and opportunities created by rapid growth. By the mid-1980s other problems were becoming apparent. Tangible evidence of the problems was a leveling off and then a decline in both the quality and quantity of accounting graduates. The real problem was, however, graduates who were not well prepared for professional accounting careers.

While accounting educators were focused inwardly at the problems and opportunities on campus, the profession of accounting was (and still is) undergoing dramatic changes. Accounting practice, whether in industry, government, or public accounting, is more dynamic, more complex, and addresses a wider array of issues than it did even as little as five or ten years ago. Accounting educators at first did not recognize this change, and accounting educational programs remained static. The result was graduates who were not receiving the preparation they needed to succeed as accounting professionals.

Before singling out accounting, it should be pointed out that many of the problems afflicting accounting programs are common to business schools in general. An important study by Porter and McKibbin listed the following among the criticisms of business education that they encountered<sup>3</sup>:

- There is a lack of meaningful integration across functional areas.
- Insufficient attention is paid in the curriculum to managing people and the development of leadership skills.
- Insufficient attention is paid to the “international component” of the curriculum.
- New, younger faculty members are too narrowly educated in a functional speciality.
- Business schools, and their faculty, do not interact enough, with the business community.
- Business schools do not develop their students’ communication skills sufficiently.
- Faculty, in their classes and teaching activities, do not pay enough attention to the real world of business.

<sup>3</sup> L. W. Porter and L. E. McKibbin, *Management Education and Development: Drift or Thrust Into the 21st Century*, New York: McGraw-Hill Book Company, 1988, pp. 307–309.

All of these criticisms apply to some extent to accounting as well as to business programs.

Two reports in the late 1980s focused attention on accounting education and clearly pointed out the need for change. First, a blue-ribbon committee of the American Accounting Association, the Bedford Committee, concluded that accounting programs were not preparing students adequately for professional accounting careers in industry, government, or public practice.<sup>4</sup> The committee noted the dynamic changes taking place in the accounting profession and the lack of similar changes in the accounting curriculum. Its report contained two primary recommendations, the first related to *what* is taught and the second to *how* it is taught:

1. Colleges and universities should “approach accounting education as an information development and distribution function for economic decision making”.
2. Education of accountants should “emphasize students’ learning to learn as the primary classroom objective”.

In early 1989 the managing partners of the (then) Big-8 accounting firms in the United States echoed many of the Bedford Committee’s conclusions.<sup>5</sup> More importantly, they specified the skills and knowledge required for a successful accounting career. Although the focus of the report was on careers in public accounting careers. Emphasis was put on broadening the education of accounting graduates. Development of intellectual, interpersonal, and communication skills was stressed, as was the importance of general education and business education in addition to acquiring accounting and auditing knowledge.

The clear implication of both the Bedford Committee and Big-8 studies is that education for accountants must change. An education that served the accounting profession well in the 1970s will not meet the needs of the 1990s or the 21st century. The remainder of this article will demonstrate the needed changes and show how the changes are being developed.

### **Accounting Education Change Commission**

To foster change in accounting education, in 1989 the American Accounting Association formed the Accounting Education Change Commission (AECC). Funding of \$4 million was provided by the largest public accounting firm in

<sup>4</sup> American Accounting Association Committee on the Future Structure, Content, and Scope of Accounting Education, “Future Accounting Education: Preparing for the Expanding Profession”, *Issues in Accounting Education*, Spring, 1986, pp. 168–195.

<sup>5</sup> Author Andersen & Co., Arthur Young, Coopers & Lybrand, Deloitte Haskins & Sells, Ernst & Whinney, Peat Marwick Main & Co., Price Waterhouse, and Touche Ross, *Perspectives on Education: Capabilities for Success in the Accounting Profession*, April, 1989.

the United States. The mission of the AECC is to “be a catalyst for improving the academic preparation of accountants, so that entrants to the accounting profession possess the skills, knowledge, and attitudes required for success in accounting career paths.”<sup>6</sup>

The first resolution passed by the AECC was a declaration that the Commission would “address the preparation of accountants for careers in public accounting as practiced in large, medium, and small firms, corporate accounting (including financial management, controllership, treasury, financial analysis, planning and budgeting cost accounting, internal audit, systems, tax, and general accounting) and governmental and nonprofit accounting.”<sup>7</sup> Therefore, “professional accounting” includes all these career tracks. The Commission further concluded that the basic capabilities necessary for success are similar for all accounting career tracks. Differences will arise only in specialized education, which comes late in a student’s academic program.

### **Objectives of Education for Accountants**

To provide guidance for change activities, the AECC issued Position Statement Number One, “Objectives of Education for Accountants,” in September 1990. Unlike earlier “common-body-of-knowledge” statements, the AECC did not advocate one model of accounting education. The accounting profession needs entrants with a variety of backgrounds; to accomplish this, diversity of accounting programs is essential. The AECC statement focuses on broad objectives; it does not specify any one method of accomplishing these objectives.

### ***Change from Knowledge to Process Orientation***

Accounting programs have traditionally focused on teaching the body of knowledge explosion, the proliferation of information-processing technology, and exponential growth in rules and regulations have made this goal impossible to achieve. The need to learn (or, often, memorize) more and more facts in accounting courses has limited the time spent on developing a conceptual understanding of accounting and learning to exercise judgment. Graduates may know much about financial reporting standards, tax laws, and auditing standards, but they are often not able to apply their knowledge in real-world settings. Thus, forcing more and more knowledge into a constrained curriculum has squeezed out important items, and still graduates learn a smaller and smaller percentage of the accounting knowledge base.

The solution is movement from a knowledge-based educational program to a process-oriented approach. The objective of the new approach to

<sup>6</sup> Accounting Education Change Commission, Annual Report, 1989–90.

<sup>7</sup> Accounting Education Change Commission, Annual Report, 1989–90, p. 6.

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accounting education is to “prepare students to become professional accountants, not to be professional accountants at the time of the entry to the profession.”<sup>8</sup> An entry-level accountant cannot have all the capabilities required over an entire career. Instead, his or her academic preparation should lay a base on which life-long learning can be built. To accomplish this, students must *learn to learn*.

### ***Learning to Learn***

To adapt to changes in the world and in job responsibilities, entry-level accountants must know how to learn. This is the most important goal of their academic preparation. Students must develop skills and strategies that help them learn more effectively and discover ways to use these effective learning strategies to continue to learn throughout their lifetime.

Academic programs that focus on learning to learn must address content, process, and attitudes. Program *content* must build a base to support continued learning. Students should develop an understanding of basic concepts and principles and an ability to apply them in a variety of circumstances. The key is *understanding*; memorization of rules, regulations, and techniques does not usually lead to understanding.

Students also need to develop a *process* of enquiry. Their academic program should include exercises in identifying problems and opportunities, searching out information in unstructured environments, analyzing and interpreting the information, using judgement to reach well-reasoned conclusions, and supporting and defending those conclusions. Solving textbook problems with single correct numerical answers is not sufficient for developing inquiry skills.

Finally, an *attitude* of continual inquiry and life-long learning is essential to success in professional accounting. Students should learn to accept, even thrive on, uncertainty and change. Continual adaptation and self-improvement are characteristics of successful professionals. Excessive focus on learning the body of knowledge needed to pass a certification exam does not generally instill an attitude of life-long learning.

### ***Desired Capabilities***

Accounting programs should focus on developing three main capabilities: skills, knowledge and professional orientation.

Communication skills, intellectual skills, and interpersonal skills need development and reinforcement in accounting courses. Accounting students must be convinced that these skills are critical for success in an accounting career. Including such skills in the accounting curriculum will reinforce their

<sup>8</sup> Accounting Education Change Commission, “Objectives of Education for Accountants”, Position Statement No. 1, September 1990, p. 1.

importance to accounting careers and attract students who have high levels of the skills, in addition to helping students refine their skills.

Knowledge must include broad general knowledge and organizational and business knowledge, as well as accounting knowledge. A broad education is necessary to understand the complex interdependence between the accounting profession and society and to interact with diverse groups of people. Further, a broad background provides the basis for adapting to change. Breadth of education should not be sacrificed for more specialized accounting training.

Accounting knowledge should first concentrate on a fundamental understanding of accounting. This understanding includes 1) the ability to identify goals, problems, and opportunities, 2) the ability to identify, gather, measure, summarize, verify, analyze, and interpret financial and non-financial data that are useful for addressing the goals, problems and opportunities, and 3) the ability to use data, exercise judgements, evaluate risks, and solve real-world problems. The focus should be on developing analytical and conceptual thinking, not memorizing rules and regulations.

Finally, students should understand what it means to be a professional. They should understand the ethics of the profession and be prepared to address issues with integrity, objectivity, competence, and concern for the public interest.

### **Coursework for Accounting Careers**

There are many different sets of courses that can prepare students for entry to professional accounting careers. No one model curriculum should be put forth as best. But every professional accountant should have some education in each of four areas: general education, business and organizational education, general accounting education, and specialized accounting education.

#### ***General Education***

General education in the liberal arts and sciences helps develop intellectual, interpersonal, and communication skills. In addition it provides the background necessary to understand the social, political, and economic forces shaping the world. Two areas of special importance that are often underemphasized are understanding international and multi-cultural environments and applying ethical considerations to decisions.

#### ***Business and Organizational Education***

Business and organizational education is critical for all accountants. Successful accountants understand the decisions for which they prepare information. They understand various functional areas within their own organizations, such as finance, personnel, and operations, as well as



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characteristics of other organizations, such as competitors, customers, and suppliers. Business and organizational courses should not be sacrificed for additional accounting courses.

### ***General Accounting Education***

The most dramatic changes are needed in general accounting education. First, accounting should be presented as an information development and communication process. Accountants must understand how information is used by a variety of decision makers. They must also recognize alternative sources of information, so that accounting information can be placed in perspective. They must be able to build systems that effectively and efficiently provide information to decision makers. Finally, accounting courses should be structured to create an understanding of basic concepts and an application of those concepts in a variety of real-world settings, including highly structured environments, multinational applications, and situations requiring ethical judgements.

### ***Specialized Accounting Education***

Specialized accounting education, that is, advanced study in financial accounting, management accounting, taxation, information systems, auditing, government (or nonprofit) accounting, or international accounting, should be taught almost entirely at the post-baccalaureate level — in graduate programs and continuing education. The increased emphasis on breadth and the need to spend time in accounting courses developing basic skills will leave little time for specialization at the undergraduate level.

This should not imply that specialized knowledge is not important. It is surely necessary for success in professional accounting careers. But, there are many ways to achieve specialized knowledge, and educational programs should be designed to allow flexibility in achieving it. Many types of programs, such as graduate accounting programs, master's of business administration programs, and non-degree continuing education programs, can provide the needed specialization.

### ***Changes in Instruction***

In addition to changing *what* is taught, it is necessary to change *how* it is taught. The typical pattern is to spend class time lecturing on materials already explained in the textbook and solving routine problems similar to examples in the text. Instead, valuable class time should be spent going beyond the textbook.

### ***Active Participation***

The most important principle of accounting instruction is to make students active participants in the learning process. Cases, role playing, simulations,

and other interactive methods should be commonplace. Accounting education should contain much learning by doing.

### ***Effect of Technology***

Technology will also affect the classrooms of the future. But technology has the potential for dysfunctional as well as beneficial effects. Use of technology should not decrease student/faculty interaction. In fact, efficiencies gained through technology can create opportunities for most direct contact between faculty and students. Even more important, technology should not decrease interaction among students. Learning accounting entirely by sitting alone at home in front of a computer terminal is the antithesis of what is sought.

### ***Implementing Change***

Changes in accounting education will not come easily. To aid the change process, the AECC is attacking impediments to change and providing incentives for change.

### ***Overcoming Impediments to Change***

The AECC has identified five main impediments to change:

1. Faculty performance evaluation and reward systems. Program development, including improvements in curriculum, is under-rewarded in most colleges and universities. In Issues Statement No. 1, "AECC Urges Priority for Teaching in Higher Education", the Commission urges colleges and universities to provide incentives and rewards for faculty who improve teaching methods and develop innovative courses and curricula.
2. University support of accounting. Most colleges and universities regard accounting departments as "cash cows", generating more revenue from tuition than needed to provide educational services. University and business school administrators must be convinced of the importance of high-quality accounting education and its need for a fair share of resources.
3. Instructional materials. Because most accounting faculty rely on published materials, mainly textbooks, for their classes, teaching methods are not likely to change until available materials change. Textbooks that focus on the process of learning are sorely needed. For example, a 500 page intermediate accounting textbook focusing on the process of researching accounting standards would be a welcome replacement for the encyclopedic books currently used.
4. Professional examinations. The objectives of professional exams are often inconsistent with educational objectives. For example, many states allow students to take the CPA examination during their last term in school. But students who spend their last term memorizing facts for the CPA exam sacrifice educational objectives. The AECC has recommended that candidates for professional examinations be required to complete all

educational requirements before applying to sit for the exam. Further, CPA examination pass rates should not be used to assess the educational quality of colleges and universities.

5. Accreditation. Accreditation of business and accounting programs by the American Assembly of Collegiate Schools of Business (AACSB) has a great influence on accounting education in the United States. A recently approved revision to AACSB accreditation standards, making them mission based, will make this influence much more positive than it has been. The AECC has been actively involved in developing the new standards.

### ***Providing Incentives to Change — the Grant Program***

Changing academic programs often requires great effort and cost. The AECC has allocated about \$4.5 million of its budget to support a program of grants to colleges and universities to underwrite the costs of major innovative accounting program improvements. Response to the program was very positive, with 90 applications for grants. Ten projects received AECC funding.

The projects take a variety of approaches to changes in accounting education. The results should provide prototype programs for others to emulate. The main focus of each of the funded projects follows:

- Arizona State University — Use a laboratory science model to encourage active participation; create an information systems foundation as a basis for life-long learning.
- Brigham Young University — Develop a curriculum based on a field study of desired and actual competencies of graduates; focus on finding, organizing, and using data to address complex problems.
- University of Chicago — Focus on use of information by sophisticated users; develop MBA accounting courses and user-oriented cases that include advanced technical content.
- University of Illinois/University of Notre Dame — Use a contracting framework to develop critical thinking; integrate both technological features of the practice environment and research findings into the curriculum.
- Kansas State University — Revise the sequence of topics based on educational and psychology literature; develop methods of attracting talented students to accounting.
- University of Massachusetts — Create networked classrooms using online data from a real firm's data base; offer an intensive four-week introductory course to attract liberal arts graduates to accounting master's degree programs; develop an effective accounting communications course.
- North Carolina A&T University — Enhance professional awareness of students through student-mentor program; focus on problem-solving skills, communication, and interpersonal skills.

- University of North Texas — Integrate liberal arts with accounting and business core; extend concepts of virtue, civility, reason, and accountability over entire curriculum.
- Rutgers University — Develop computer-based modules for MBA program; include technologically sophisticated presentation and monitoring methods in the modules.
- University of Virginia — Shift from CPA focus to developing broad capabilities; emphasize communication and interpersonal skills through case studies.

### **Infrastructure for Change**

There is widespread agreement that major changes in accounting education are necessary. One of the reasons that such changes have been slow in developing is that the environments at many colleges and universities are not conducive to educational change. One thrust of AECC activities is to support a wider movement for basic changes in higher education in the United States.<sup>9</sup>

Reform in higher education has become the theme of leaders both on and off the campus. For example, Donald Kennedy, President of Stanford University, in his annual state-of-the-campus address in April 1990, stated that teaching undergraduates at Stanford must be a priority. In addition, reports by respected organizations such as the National Institute of Education, National Endowment for the Humanities, Association of American Colleges, and the Carnegie Foundation for the Advancement of Teaching have chastised American colleges and universities and called for sweeping changes. Several recommendations are common to many of the reports. Among them are:

1. Increased emphasis on quality in undergraduate education.
2. More breadth and less vocational training in undergraduate programs.
3. More emphasis on “how” than “what”; focus on methods and processes leading to understanding and judgement rather than simple acquisition of knowledge.
4. Curriculum that is integrated, not segmented, specialized topics.
5. More measurement and accountability; colleges and universities should be accountable for educational quality; educational outcomes should be measured and evaluated.
6. Improved incentives for good teaching, especially for introductory courses; PhD programs that train faculty in teaching methods; evaluation systems that reward faculty for their teaching.

One theme of the changes advocated is a broader definition of scholarship. Today we often find teaching and research competing for faculty time

<sup>9</sup> Accounting Education Change Commission, “AECC Urges Priority for Teaching in Higher Education”, Issues Statement No. 1, August, 1990.

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and resources. But teaching and research should be complementary, not competing, activities. Scholarly activities, a better term than research because research has tended to become very narrowly defined, should support teaching activities. The intellectual excitement involved with inquiry should be passed on to students. Further, many teaching-related activities should be correctly recognized as scholarly activities. An important report by Ernst L. Boyer points out that scholarship should include at least four dimensions.<sup>10</sup>

- The scholarship of discovery.
- The scholarship of integration.
- The scholarship of application.
- The scholarship of teaching.

If scholarship is correctly defined in our colleges and universities, teaching, course development, and curriculum design will receive more attention. Higher education will follow the current trend in industry toward continuous improvement in products and processes. The infrastructure will exist to generate educational change as the demand for graduates changes. The need for sudden, massive changes will be replaced by gradual evolutionary changes.

## **Conclusion**

The accounting community in the United States, with practitioners and faculty working together, is moving quickly toward major changes in accounting education. Setting the direction for the changes needed in the academic preparation of accountants are two statements issued recently by the Accounting Education Change Commission, “AECC Urges Priority for Teaching in Higher Education” and “Objectives of Education for Accountants”.

The AECC has pointed the direction for change. Colleges and universities, with the help of the profession, are now rising to the challenge of implementing the needed changes. Accounting education in the United States, which has seen little change for decades, will be much different in the year 2000 than it is today.

<sup>10</sup> E. L. Boyer, *Scholarship Reconsidered: Priorities for the Professoriate*, The Carnegie Foundation for the Advancement of Teaching, Princeton University Press, 1990, pp. 15–25.

## Models for Accounting Education<sup>11</sup>

### ***American Accounting Association AAA:***

- 1964–67 Committee to Compile a Revised Statement of Educational Policy, “A Restatement of Matters Relating to Education Policy”, Supplement to The Accounting Review, 1968, pp. 50–124.
- 1967–68 Committee on the Master’s Program in Accounting, “Report of the Committee on Master’s Programs in Accounting”, Supplement to The Accounting Review, 1970, pp. 44–51.
- Committee on the Future Structure, Content, and Scope of Accounting Education, “Future Accounting Education: Preparing for the Expanding Profession”, Issues in Accounting Education, Spring, 1986, pp. 168–195.

### ***American Assembly of Collegiate Schools of Business (AACSB):***

- AACSB, Accreditation Council Policies, Procedures, and Standards, St. Louis: AACSB, 1989.
  - Type A: Baccalaureate degrees with a concentration in Accounting.
  - Type B: Master’s in Business Administration with concentration in Accounting.
  - Type C: Master’s of Accounting Degrees.

### ***American Institute of Certified Public Accountants (AICPA):***

- Roy, R. H., and J. H. MacNeill, The Common Body of Knowledge for Certified Public Accountants, Horizons for a Profession, New York: American Institute of Certified Public Accountants, 1967.
- AICPA, Committee on Education and Education Requirements, Report of the Committee on Education and Education Requirements for CPAs, New York: AICPA, 1969.

<sup>11</sup> Adapted from B. E. Needles, Jr., and M. Powers, “A Comparative Study of Models for Accounting Education”, Issues in Accounting Education, Fall, 1990, pp. 250–267.

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- Four-year model.
- Five-year model.
- AICPA, Committee on Education and Experience Requirements for CPAs Profession, Education Requirements for Entry Into the Accounting Profession, New York: AICPA, 1978.
- AICPA, Education Executive Committee, Education Requirements for Entry Into the Accounting Profession, Revised, New York: AICPA, 1988.

***Association of Government Accountants (AGA):***

- Fox, J. G., Knowledge Requirements for Public Accountability: The Common Body of Knowledge for Government Accountants, Arlington, Virginia: AGA, 1981.

***Federation of Schools of Accountancy (FSA):***

- FSA: Curriculum Committee, Curriculum Guidelines of the Federation of Schools of Accountancy, Chicago, FSA, 1982.

***Institute of Internal Auditors (IIA):***

- Barrett, M. J., G. W. Lee, S. P. Roy, and L. Verastigui, A Common Body of Professional Knowledge for Internal Auditors: A Research Study, Altamonte Springs, Florida: IIA Research Foundation, 1985.

***National Association of Accountants (NAA):***

- NAA, “The Common Body of Knowledge for Management Accountants”. Statement on Management Accounting Number 1D, Montvale, New Jersey: NAA, 1986.
- NAA, “Education for Careers in Management Accounting”. Statement on Management Accounting Number 1E, Montvale, New Jersey: NAA, 1988.
  - Four-year model.
  - Five-year model.

# Accounting Education in the United States: The Certified Internal Auditor Program

LARRY E. RITTENBERG

The Certified Internal Auditor program was established in 1973 to provide professional certification for the professionals practicing internal auditing. The program has grown from a handful of registrants in 1974 to over 2,000 new registrants each year. The exam is now offered in three languages (English, French, and Spanish) and in over 12 countries. The certification program is becoming recognized as “the professional certification” in internal auditing on a global basis. The exam has been offered twice a year since 1982 and in its present four part format since the mid 1980s. The Board of Regents of The Institute of Internal Auditors (hereinafter referred to as the “Board”) is responsible for the Certification program.

The Board is currently developing a revised Common Body of Knowledge (CBOK) to determine significant changes in the practice and knowledge requirements of internal auditors over the past decade. The CBOK study is also examining the practice of internal auditing on a global basis. The CBOK study will be available in late 1991 and will lead to changes in the examination to reflect the increasing knowledge demands of internal auditors. In addition to the current CBOK study, the Board has committed to periodic practice and knowledge studies on a 3–5 year basis to ensure that the examination appropriately reflects the contemporary knowledge requirements of a practicing internal auditor (defined as a senior auditor with 1–2 years of experience).

## Background

In 1941 a group of dedicated internal auditors in New York City decided they needed a professional organization to represent their profession, develop the professional status of internal auditing, and provide for the interchange of ideas and information among practicing auditors. Out of that



need they founded The Institute of Internal Auditors — the recognized professional organization for internal auditors now celebrating its first 50 years as a professional organization.

The Certified Internal Auditor program is an outgrowth of that commitment to professionalism. The exam is designed to measure a candidate's technical competence and to provide a foundation for granting professional recognition. The objectives of the certification program, as established by the Board of Directors of The Institute of Internal Auditors, are:

1. To support the professional recognition of Certified Internal Auditors by:  
identifying the body of knowledge and the work experience needed to qualify as a professional in internal auditing.  
Encouraging the professional development of all internal auditors.  
Defining the criteria for professional recognition of internal auditors.  
Developing an accepted examination program that will measure the candidate's knowledge of internal auditing.
2. To achieve universal acceptance, recognition, and professional standing of the Certified Internal Auditor designation.

Examination is only one component of the professional certification program. Registrants for the CIA program must hold a bachelor's degree from an accredited university (or equivalent of such a degree in countries outside of North America), and must be experienced in auditing. The Board is moving to establish guidelines for accepting educational experience for internal auditors who have received their formal education outside of North America. College or university students who are registered full time as seniors in a baccalaureate or in a graduate-degree program are eligible to register for the CIA Program at reduced rates. Candidates taking the examination before completing their baccalaureate program must have the degree and required experience verified before certification will be awarded.

Like other professional certification programs, the CIA program recognizes that experience is an integral part in developing expertise needed before a professional organization should "certify" one in the practice of the profession. Currently, the program requires 24 months of internal audit (or equivalent) experience. Criteria for internal auditing experience equivalents are as follows:

An advanced academic degree beyond the baccalaureate is equivalent to one year (maximum) of work experience.

Auditing experience in public accounting qualifies as work experience in internal auditing.

Full-time college or university-level teaching in the subject matter of the examination is equivalent to work experience on the basis of two years of teaching equaling one year of internal auditing experience.

Other experience as approved by the Board of Regents.

Certified Internal Auditors wishing to have a current continuing professional development (CPD) listing are required to annually report progress toward completing 100 hours of activity in each three-year rolling period.

### **Scope of the Examination**

An important characteristic of any profession is the body of knowledge that serves as a framework for educating and testing. The Certified Internal Auditor Examination reflects the current state of the art of internal auditing including the following disciplines:

- Internal auditing administration.
- Information systems auditing and statistical sampling.
- Organizational behavior and management.
- Management information systems.
- Economics and finance.
- Accounting.

Internal auditors continually face situations requiring practical applications of knowledge in the above areas. They must demonstrate judgment and logic and must be able to clearly and concisely communicate their conclusions. The primary purpose of the examination is to test candidates' knowledge in these areas. The candidates' ability to organize and present such knowledge is also considered during the grading process.

The philosophy of the Board of Regents is that all internal auditors need some basic understanding of the language of various disciplines affecting their work, as well as an awareness of any significant developments in those specialties that the auditors utilize. Internal auditors use this understanding to enhance their work efficiency and to effectively report on the ramifications of related disciplines for information flows, operational efficiency, and organizational control. As a result, preparation for the Certified Internal Auditor Examination requires more than day-to-day experience as an internal auditor. Familiarity with state-of-the-art subjects, both in textbooks and current periodicals, is essential to respond to the subject matter covered in the examination. The examination reflects current practice and encourages a broad knowledge base for Certified Internal Auditors.

### **Examination Parts**

The exam consists of four parts covered over two days. All parts are three and one-half hours long. The four parts are:

- Parts I and II: Theory and Practice of Internal Auditing.
- Part III: Management, Quantitative Methods, and Information Systems.
- Part IV: Accounting, Finance, and Economics.

The examination is designed to test a candidate's understanding and ability to apply current conceptual knowledge in the practice of internal auditing. A variety of levels of difficulty concerning numerous subjects is required by the professional internal auditor. To promote simplicity and usefulness, the Common Body of Knowledge is defined in terms of three levels of difficulty and eight major subject areas.

### **Levels of Difficulty**

The three levels of difficulty range from an introductory knowledge of a subject area (Level A) to a thorough understanding of and ability to apply the essentials of a subject area (Level C). The definitions of the levels of difficulty are:

Level A — Appreciation of the broad nature and fundamentals involved. Ability to recognize the existence or likelihood of special problems in organizational transactions and to determine what further study or research must be undertaken to address the areas of audit concern.

Level B — Sound understanding of the broad aspects of practices and procedures and awareness of the problems relating to more detailed aspects. Ability to apply such broad knowledge to situations likely to be encountered, to recognize the more detailed aspects which must be considered, and to carry out research and studies necessary to come to a reasonable solution.

Level C — Sound understanding of principles, practices, and procedures. A high degree of proficiency in applying such knowledge to situations likely to be encountered and in dealing with all aspects without extensive recourse to technical research and assistance.

An overview of the topics covered in each part is provided below (a fuller description is contained in Appendix 20.1).

### ***Parts I & II — Theory and Practice of Internal Auditing***

1. Nature of Internal Auditing.
2. Administration of the Internal Audit Department.
3. Administration of the Internal Audit Assignment.
4. Understanding and Assessing an Organization's Control Structure.
5. Auditing the Activities of the Organization.
6. Audit Evidence and Documentation.
7. Information Systems Auditing.
8. Sampling Concepts: Statistical and Judgmental.
9. Audit Communications and Reports.
10. Ethics: Concepts and Implementation Issues.
11. Fraud: Responsibilities and Audit Techniques.

**Part III — Management, Quantitative Methods, and Information Systems**

1. Organizational Behavior: Concepts and Application.
2. Management Information Systems.
3. Management Science and Quantitative Methods.
4. Evolving Topics.

**Part IV — Accounting, Finance, and Economics**

1. Management Accounting.
2. Financial Accounting.
3. Finance: Concepts and Application.
4. Economics (Micro and Macro).

**Exam Structure**

Parts I and II — Theory and Practice of Internal Auditing consist of 50 multiple choice questions (50 points, estimated time 100 minutes) and three to four essay questions ranging in time requirements from 15 to 40 minutes (50 points, estimated time 110 minutes.) Part III is all objective and includes objective format questions. The Board began experimenting with alternative objective format questions, such as matching or multiple answer questions in 1990. Part IV consists of 70 multiple choice questions in a conventional format. The Board has indicated that they may soon experiment with alternative objective format questions in Part IV in the near future, but will probably wait until the current Common Body of Knowledge study is completed.

**Examination Locations**

Uniform examinations are given semiannually on the same dates in major cities throughout the world. The IIA chapters recommend appropriate facilities and provide examination officials and other essentials necessary for efficient administration of the examination.

**Grading the Examination**

The Board of Regents approve suggested solutions for each examination question. Each model answer is divided into subparts, and each subpart is weighted according to its relative importance. A suggested solution serves as an initial indicator of the most appropriate answer and provides a basis for creating a grading guide. Using this guide, scores are compiled for 90 sample papers randomly selected from each part. Multiple-choice item analysis and statistical analyses of sample grading results are reviewed by the certification staff, a Board of Regents grading subcommittee, and the

grading supervisors. These analyses, in conjunction with grader input, provide a basis on which to further refine the grading guide. All changes to the grading guides are approved by the Board subcommittee before use in production grading.

The formal grading phase of the examination program is thorough and conducted with great care. Examination graders are carefully selected on the basis of their professional and academic qualifications. The combination of comprehensive model answers and highly qualified graders assure candidates that they will receive appropriate consideration and maximum credit for their answers. To maintain quality control, grading supervisors review papers from all graders. Marginal papers, defined as those with grades between 69–74, receive an additional review. Several other internal checks are performed before the Board of Regents finally approves grades. For example, supervisors and the certification staff monitor the quality of each grader's performance during the entire grading process. Mechanically graded multiple-choice questions are verified on a sample basis.

Candidate anonymity is preserved during the entire grading process. Individual scores are released only to candidates who score below the minimum passing grade of 75. Candidates scoring 75 or higher are told that they passed but are not given their numerical score. The results are mailed to all candidates approximately 90 days after the examination. All examination papers become the property of The Institute of Internal Auditors and are not returned to candidates. Grading decisions of the Board of Regents are final.

### **Highest Achievement Award**

The Board of Directors of The Institute of Internal Auditors has established six awards for candidates writing the best examination papers in one attempt for all four parts of the examination. The candidate submitting the best papers receives the Certified Internal Auditor Examination Highest Achievement Award. This consists of a gold medal, a certificate, and an expense-paid trip to The IIA's Annual International Conference. Consistent performance on all four parts is stressed in selecting the award recipient. The candidates writing the five next-best examination papers are awarded Certificates of Excellence by the Institute.

### **Eligibility Policy**

Candidates have three years (six examinations) after their first registration is approved to pass at least one part of the examination. If no part is passed in this three-year period, the candidate must re-register for consideration as a candidate for future examinations. Candidates who first pass a part of the examination during the three-year period have the next five successive examinations in which to pass all four parts without loss of credit. Candidates who do not pass all four parts within six successive examinations,

starting with the examination in which the candidate first passes a part, will lose credit for any part or parts previously passed. The candidate must then re-register for consideration as a candidate for future examinations.

**More Information**

Complete registration information, an information packet describing the exam, current fee structure, examination sites (including those in foreign languages and in countries outside of North America) may be obtained by writing to:

Director of Certification  
The Institute of Internal Auditors  
249 Maitland Avenue  
Altamonte Springs, FL 32701

## Examination Content

### Detailed Description of Examination Parts

#### ***Parts I and II. Theory and Practice of Internal Auditing***

The objectives of Parts I and II of the Certified Internal Auditor Examination is to test the candidates' conceptual knowledge of internal auditing and internal controls and their ability to apply internal auditing tools and techniques in a practical setting. The topics covered in Parts I and II are as follows:

#### ***I. Nature of Internal Auditing***

(Level of Difficulty — C)

- A. Definition, Purpose, and Significance.
- B. Origin, Growth, and Development.
- C. Types of Audits and Their Objectives.
- D. Scope and Responsibilities.
- E. Source and Nature of Authority.
- F. Environment and Its Influence.
- G. Purpose and Content of *Statement of Responsibilities*.
- H. *Standards for the Professional Practice of Internal Auditing*, Their Origin, Content, and Application.
  - 1. Independence and Objectivity.
  - 2. Professional Proficiency.
  - 3. Scope of Work.
  - 4. Performance of Audit Work.
  - 5. Management of the Internal Auditing Department.
- I. Role and Function of the IIA and the CIA Program.
- J. Purpose and Function of Audit Committees and Relations with Internal Auditors.

**II. Administration of the Internal Auditing Department (0–10%)**

(Level of Difficulty — A)

- A. Purpose, Establishment, and Image.
- B. Reporting Status and Lines of Communication.
- C. Forms of Organization and Content of Charter.
- D. Purpose and Content of Statement of Objectives.
- E. Attributes and Handling of Staff.
  - 1. Skills and Experience.
  - 2. Recruiting and Selection.
  - 3. Training, Development, and Counseling.
  - 4. Evaluation.
  - 5. Meetings and Relations with Staff.
  - 6. Compensation.
- F. Planning and Controlling Audits.
  - 1. Strategic Planning and Long-range Audit Schedules.
  - 2. Annual Budget and Resource Allocation.
  - 3. Activity and Evaluation Reports.
- G. Policy and Procedure Manuals.
- H. Requirements for Other Resources.
- I. Administrative Responsibilities; Records and Files.
  - 1. Home Office.
  - 2. Geographical Dispersion.
  - 3. International Operations.
- J. Relationships with Others.
  - 1. Internal (including board, management, and other departments).
  - 2. External (including public accountants, consultants, and other specialists).
- K. Policy and Procedure and Review of Department.

**III. Administration of the Internal Auditing Assignment (0–10%)**

(Sections A, B, C, & E: Level of Difficulty — B)

(Sections D, F, G, & H: Level of Difficulty — C)

- A. Position Descriptions and Roles of Audit Staff Members.
- B. Planning and Organizing.
- C. Staff Authorization and Assignment.
  - 1. Role of Cost and Risk Considerations.
  - 2. Budgets and Time Summaries.
  - 3. Schedules.
- D. Conduct of an Audit.
  - 1. Data Gathering, Analysis, and Conclusions.
  - 2. Establishing Audit Objectives.
  - 3. Preparing Audit Programs.



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4. Control Evaluation.
5. Verification.
- E. Management and Control of Audit.
  1. Time Budgets and Other Tools.
  2. Supervision.
  3. Review.
  4. Management of Engagement Effectiveness.
- F. Evaluating the Audit Results.
- G. Audit Reports with Follow-up.
- H. Relations with Auditees.

***IV. Understanding and Assessing an Organization's Control Structure (10–20%)***

(Level of Difficulty — C)

- A. Definitions and Basic Concepts.
  1. Business Risks.
  2. Exposures.
  3. Control.
- B. Nature and Importance of Control.
  1. Forms and Classifications of Control.
  2. Characteristics of Effective Control.
  3. Elements and Limitations of Control.
- C. Roles of Directors, Management, External and Internal Auditors.
- D. Process of Review and Documentation.
  1. Organization of the Entity and Its Control Environment.
  2. Approaches and Programs.
  3. Tool and Techniques of Review and Test.
  4. Test Evaluation and Its Effects.
- E. Internal Accounting Controls.
  1. Marketing and Revenue Cycle.
  2. Purchasing and Expenditure Cycle.
  3. Production and Conversion Cycle (including quality control and inventory).
  4. Personnel and Payroll Cycle.
  5. Resource Maintenance Cycle (including property, plant, and equipment).
  6. Financing and Treasury Cycle.
  7. Reporting Cycle.
  8. Construction Activity.
  9. Risk Management and Insurance.
  10. Contracts, Regulations, and Legal Affairs.
- F. Internal Operating Controls.
  1. Planning.
  2. Organizing.

3. Staffing.
4. Directing.
5. Controlling.

**V. Auditing the Activities of Organizations (10–15%)**

(Level of Difficulty — C)

- A. Types of Audits.
- B. Nature and Purpose of Fieldwork.
- C. Establishing Materiality and Evaluation of Audit Risk.
- D. Defining Audit Objectives and Developing Audit Programs.
- E. Auditing Tools and Techniques.
- F. Audits of Various Departments.
- G. Audits of Various Functions.
- H. Government and Not-for-Profit Organizations.
- I. Audits of International Operations.
- J. Other Specific Audit Applications.

**VI. Audit Evidence and Documentation (10–15%)**

(Level of Difficulty — C)

- A. Definition and Principles of Evidence.
- B. Forms and Classification of Evidence.
  1. Nature.
  2. Source.
  3. Types.
- C. Evaluation of Evidence.
  1. Competence.
  2. Sufficiency.
- D. Selection and Examination of Evidence.
- E. Working Papers and Documentation of Evidence.
  1. Purpose and Characteristics.
  2. Types and Formats.
  3. Preparation and Techniques.
  4. Review.
  5. Control and Protection.
  6. Retention and Destruction.
- F. Audit Programs.

**VII. Information Systems Auditing (10–20%)**

(Level of Difficulty — C)

- A. Effect of Information Systems and Automation on Controls and Audit.
- B. Nature and Audit of Computer-related Controls.
  1. General Controls.
    - a. Organization and Operation Controls.

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- b. System Development, Changes and Documentation Controls.
- c. Hardware and Systems Software Controls.
- d. Security and Access Controls to Computer Facilities, Programs, and Data.
- e. Data and Procedural Controls.
- 2. Application Controls.
  - a. Input Controls.
  - b. Processing Controls.
  - c. Output Controls.
  - d. File and File Management Controls.
- C. Audit of Computer Processing.
  - 1. Auditing Computer Programs.
  - 2. Auditing Computer Files.
  - 3. Auditing Computer Processing Systems.
- D. Control and Audit of Advanced Systems.
- E. Control and Audit of Third-party Systems.
- F. Control and Audit of Mini- and Microcomputers.
- G. Feasibility Studies and System Conversion.
- H. Evaluating System Efficiency and Effectiveness.
- I. Computer Abuse and Crime.
- J. Establishing and Maintaining an EDP Audit Function.

**VIII. Sampling Concepts: Statistical and Judgmental (10–15%)**  
(Level of Difficulty — B)

- A. Background and Perspective.
- B. Concepts and Terms.
- C. Statistical vs. Nonstatistical Sampling.
- D. Types and Plans.
- E. Sample Selection.
- F. Sample and Population Evaluation.
- G. Practical Problems.

**IX. Audit Communications and Reports (10–20%)**  
(Level of Difficulty — C)

- A. Purpose and Audience.
- B. Standards and Criteria for Effective Communication.
- C. Types and Characteristics of Media.
- D. Organization and Content of Reports.
- E. Types of Reports, Their Purpose and Preparation.
  - 1. Formal.
  - 2. Informal.
  - 3. Written.
  - 4. Oral.

5. Interim.
  6. Final.
  7. Summary.
- F. Closing Audit Conferences.  
G. Requirements for and Nature of Opinions.  
H. Report Review.  
I. Distribution of Reports.  
J. Replies to Reports.  
K. Report Follow-up and Records.

**X. Ethics: Concepts and Implementation Issues (5–10%)**

(Level of Difficulty — C)

- A. Ethics and Organizations.
1. Internal and External Policies and Behavior.
  2. Statements of Organization Standards.
- B. Ethics and Internal Auditors.
1. Purpose and Content of *Code of Ethics*.
  2. Nature of “Due Care”.
  3. Dealing with Code Violations and Other Unethical Conduct.

**XI. Fraud: Responsibilities and Audit Techniques (5–10%)**

(Level of Difficulty — C)

- A. Nature and Types.  
B. Symptoms and Indicators.  
C. Role and Responsibility of the Internal Auditor.
1. Prevention.
  2. Investigation and Detection.
  3. Disclosure and Control.
- D. Relations with Other Parties of Interest.

**Part III — Management, Quantitative Methods, and Information Systems**

The objective of Part III of the Certified Internal Auditor Examination is to test the candidate’s knowledge of behavioral sciences, information systems (EDP), decision analysis tools and techniques, and the skills required for planning, organizing, staffing, leading, and controlling in a modern environment. Specifically, Part III is broken down into the following sections:

**I. Organizational Behavior: Concepts and Applications (40–50%)**

(Level of Difficulty — B)

- A. Nature and Role of Management.  
B. Concepts and Theories of Management.

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- C. Management Functions.
  - 1. Planning.
  - 2. Organizing.
  - 3. Staffing.
  - 4. Motivating and Leading.
  - 5. Controlling.
- D. Communication Theory.
- E. Theory and Nature of Decision Making.

## **II. Management Information Systems (40–50%)**

(Level of Difficulty — B)

- A. System Fundamentals.
  - 1. Information Systems Concepts and Techniques.
  - 2. The Systems Concept and Systems Theory.
  - 3. Management Decisions and Information.
  - 4. Information Systems Environment and Changes Therein.
  - 5. Elements and Operations of Management Information Systems.
  - 6. Behavioral Considerations.
- B. Business Computer Systems and Their Components.
  - 1. Forms and Operations of Computer Hardware.
  - 2. Computer Languages and Programs.
  - 3. Forms of Input, Processing, and Output.
  - 4. Storage Concepts and Data Files.
  - 5. Computer Operations and Procedures.
  - 6. Operating Systems.
- C. File Management and Data Base/Data Communication Systems.
  - 1. File Organization and Data Management Systems.
  - 2. Major Supporting Software Systems.
  - 3. Data Base/Data Communication Systems.
  - 4. Systems Analysis and Design.
    - a. Systems Development Life Cycle.
    - b. Systems Analysis and Selection.
    - c. Systems Implementation and Evaluation.
- D. Various Information Systems in Use.

## **III. Management Science and Quantitative Methods (10–20%)**

(Level of Difficulty — A)

- A. Linear Programming and Other Mathematical Programming.
- B. Regression Analysis.
- C. Probability Theory and Decision Trees.
- D. Simulation and Sensitivity Analysis.
- E. Inventory Theory and Models.
- F. Queuing Theory.

- G. Other Business Models.
- H. Learning Curves.
- I. Expected Values and Payoff Tables.
- J. Network Models (CPM & PERT).
- K. Game Theory.
- L. Matrix Algebra.
- M. Calculus.
- N. Decision Theory.
- O. Econometrics.
- P. Forecasting.

**IV. Evolving Topics (0–10%)**

(Level of Difficulty — A)

- A. Business Organizations.
- B. Contracts.
- C. Government Regulations and Standards.
- D. Accounting Standards.
- E. Uniform Commercial Code (UCC).
- F. Industry Standards.

**Part IV — Accounting, Finance, and Economics**

The objective of Part IV of the Certified Internal Auditor Examination is to test the candidate's application of current conceptual managerial and financial accounting concepts, principles of managerial finance, and micro and macro economics. Specifically, Part IV is divided into the following sections:

**I. Management Accounting (30–40%)**

(Level of Difficulty — C)

- A. Basic Terminology and Classifications of Cost.
- B. Cost Accounting Systems.
  - 1. Cost Accumulation and Allocation
  - 2. Job-Order Costing.
  - 3. Process and Operation Costing.
  - 4. Spoilage, Waste, Defective Units, and Scrap.
  - 5. Joint Costs and By-products.
  - 6. Service Cost Allocation.
  - 7. Absorption and Variable Costing.
- C. Cost for Evaluation and Decision Making.
  - 1. Cost Behavior, Estimation, and Timing.
  - 2. Cost-Volume-Profit Analysis.

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3. Financial Budgeting and Profit Planning.
  4. Program Planning and Budgeting.
  5. Standard Costs and Variance Analysis.
  6. Responsibility Accounting.
  7. Decentralization and Transfer Pricing.
  8. Segmented Reporting and Contribution Analysis.
- D. Effects of Uncertainty.
1. Decision Making Under Uncertainty.
  2. Information Economics.
  3. Differential Cost Analysis and Multiple Product Decisions.
  4. Inventory Planning and Control.
  5. Capital Budgeting.

## **II. Financial Accounting (25–35%)**

(Level of Difficulty — B)

- A. Accounting Theory and Basic Concepts.
- B. Accounting Processing and Recording.
- C. Generally Accepted Accounting Principles, Their Creation, and Application.
- D. Asset Valuation and the Measurement and Timing of Income.
- E. Form and Content of Financial Statements, including disclosures.
- F. Elements of Financial Statements.
  1. Working Capital and Flow of Funds.
  2. Cash and Temporary Investments.
  3. Receivables.
  4. Inventories.
  5. Fixed Assets, Depreciation, and Depletion.
  6. Long-term Investments.
  7. Other Assets and Amortization.
  8. Current Liabilities and Contingencies.
  9. Long-term Debt.
  10. Stockholders' Equity.
  11. Revenues.
  12. Expenses.
- G. Interim and Segment Reporting.
- H. Present and Future Value Applications.
- I. Accounting for Changing Prices.
- J. Financial Statement Analysis.
- K. Fund Accounting (Not-for-Profit and Governmental).
- L. Leases.
- M. Pensions.
- N. Foreign Currency.
- O. Implicit and Input Interest.
- P. Consolidations and Branch Operations.

- Q. Partnerships.
- R. Business Valuation.
- S. Corporate Reorganizations, Debt Restructuring, and Liquidation.
- T. Accounting Changes, Error Analysis, and Statements from Incomplete Records.

**III. Finance: Concepts and Applications (15–25%)**

(Level of Difficulty — B)

- A. Nature and Scope of the Field of Finance.
  - 1. Fundamental Concepts.
  - 2. Goals and Functions of Financial Management.
  - 3. Concepts of Valuation and Value of a Firm.
  - 4. Environment.
- B. Forms of Business Organization and Financial Structures.
  - 1. Corporations.
  - 2. Partnerships.
  - 3. Proprietorships.
  - 4. Other Forms.
- C. Risks and Rates of Return.
  - 1. Term Structure of Interest Rates.
  - 2. Portfolio Theory and Analysis.
  - 3. Capital Asset Pricing Model.
  - 4. Risk Assessment.
  - 5. Securities and Capital Markets.
- D. Theory of Optimum Capital Structure.
- E. Financial Planning.
  - 1. Financial Forecasting.
  - 2. Profit Planning.
  - 3. Financial Budgeting.
- F. Management of Liquidity.
  - 1. Working Capital Management and Efficient Market Considerations.
    - a. Management of Cash and Marketable Securities.
    - b. Management of Receivables.
    - c. Management of Inventory.
  - 2. Sources of Short-term Financing.
    - a. Secured.
    - b. Unsecured.
    - c. Short-term Leases.
- G. Management of Long-term Capital.
  - 1. Fixed Assets and the Need for Long-term Capital.
    - a. Cost of Capital and the Investment Decision.
    - b. Alternative Cost of Capital Analysis and Estimation.
    - c. Theory of Capital Budgeting and Cash Flow Analysis.
  - 2. Sources of Long-term Financing.



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- a. Financial Markets and Long-term Instruments.
- b. Financial Institutions and Intermediaries.
- c. Leverage and Forms of Debt.
- d. Forms of Equity Capital.
- e. Options, Rights, Convertibles, and Warrants.
- f. Internal Financing and Dividend Policy.
- g. Long-term Leases.
- H. Expansion and Contraction.
  1. Mergers, Acquisitions, Consolidations, and Holding Companies.
  2. Divestitures and Spin-offs.
  3. Reorganizations, Refinancing, and Recapitalization.
  4. Bankruptcy, Receivership, Liquidation, and Dissolution.
- I. Financial Analysis.
- J. Financial Management of Small Firms.
- K. International Financing and Institutions.
- L. Banks and Savings Institutions.
- M. Commodity Trading.
- N. Gambling, Insurance, and Speculation.

**IV. Economics (Micro and Macro) (10–20%)**  
(Level of Difficulty — A)

- A. Nature and Principals of Economics.
  1. Basic Forces and Elements of a Market System.
  2. Tools of Economic Analysis.
  3. Behavioral Considerations.
- B. Microeconomics and the Theory of the Firm.
  1. Demand, Supply and Elasticity.
  2. Theory of Demand and Utility.
  3. Costs of Production.
  4. Perfect Competition.
  5. Monopolies.
  6. Monopolistic Competition and Oligopoly.
  7. Pricing of Productive Factors and Resource Employment.
- C. Macroeconomic Theory and Aggregate Markets.
  1. Introduction.
  2. Central Problems.
  3. Demand, Supply, and Equilibrium.
  4. National Income Accounting.
  5. Saving, Consumption, and Investment.
  6. The Determination of National Income.
  7. Fiscal Policy and National Income.
  8. The Business Cycle and Forecasting.
  9. The Role and Importance of Money.
  10. Commercial Banks and the Money Supply.

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11. Synthesis of Monetary and Income Analysis.
12. Full Employment and Price Stability.
13. Economic Growth.
14. International Trade and the Theory of Comparative Advantage.

# Accounting Certification in the United States: The Certified Management Accountant

KEITH BRYANT, JR. AND JAMES BULLOCH

## **Introduction**

The National Association of Accountants (NAA) began the Certified Management Accountant (CMA) program in 1972 to provide professional recognition for management accountants comparable to the CPA for public accountants. The first examination was given in December of that year to 410 candidates. The first group of certificates was awarded to the 54 candidates who passed all parts of the exam and also met the two-year professional experience requirement. The program has grown steadily, and the number of CMAs will pass the 10,000 level in 1991.

## **The CMA Program**

The following information about the CMA program was extracted from the 1990–91 edition of the CMA Booklet published by the Institute of Certified Management Accountants, Montvale, NJ.

### ***Institute of Certified Management Accountants***

The National Association of Accountants established the Institute of Certified Management Accountants to implement and administer the CMA program. The ICMA evaluates the credentials of candidates, administers the examination, grants Certificates, and ensures that CMAs continue to meet the professional development requirements necessary to retain their Certificates in good standing.

The ICMA is governed by a Board of Regents. The Board members are appointed by the president of the National Association of Accountants for three-year terms, three members being appointed each year. All Board members must be members of NAA in good standing. The ICMA staff

plans and implements the ICMA activities within the framework of policies and procedures established by the Board of Regents.

### ***What is a Certified Management Accountant?***

The Certified Management Accountant is prepared to be successful in today's complex and competitive business world. Possessing specialized skills and professional expertise, the CMA looks to the future as an influential member of the management team, employing effective decision making skills to solve problems, confront challenges, and contribute to the overall success of an organization.

The CMA program centers on the dynamic role the management accountant plays in the world of contemporary business. The program stresses all aspects of business, focusing on the principle of effective decision making — the development and analysis of information. The program is both personally and professionally rewarding — qualifying CMAs to meet increasing responsibilities and helping them to achieve their career goals.

The CMA program is actively supported by a wide range of companies. These business leaders recognize that the CMA identifies an individual determined to meet a professional challenge. Many of these corporations pay for review courses and examination fees through educational reimbursement programs. Several Fortune 500 companies offer in-house financial development courses, helping their employees prepare for the CMA exam. More and more, executives throughout the United States look for the CMA designation when filling key management accounting and financial management positions in their organizations. The reason is simple. The Certified Management Accountant is a highly-qualified, skilled professional.

### ***Program Objectives***

The CMA program began with four major objectives:

- To establish management accounting as a recognized profession by identifying the role of the management accountant and financial manager, the underlying body of knowledge, and a course of study by which such knowledge is acquired.
- To encourage higher educational standards in the management field.
- To establish an objective measure of an individual's knowledge and competence in the field of management accounting; and
- To encourage continued professional development by management accountants.

### ***CMA Requirements***

The Certified Management Accountant designation is granted only by the Institute of Certified Management Accountants (ICMA). Candidates must complete four steps to become a CMA:

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- File an Application for Admission with the ICMA and register for the CMA examination.
- Pass all four parts of the CMA examination within a three-year period.
- Meet the CMA experience requirement.
- Comply with the Standards of Ethical Conduct for Management Accountants.

Once the certificate is earned, the CMA is a member of the Institute of Certified Management Accountants and must comply with the program's continuing education requirement, and maintain NAA membership in good standing. The certificate of a CMA delinquent in these requirements will be subject to recall by the ICMA.

***Admission to Program***

Candidates seeking admission to the CMA program must meet one of the following:

- Hold a Baccalaureate degree, in any area, from an accredited American college or university. Students may apply when they attain senior standing and will be permitted to take the examination pending receipt of degree. Degrees from foreign institutions must be evaluated by an independent agency approved by the ICMA; or
- Hold a CPA certificate or a professional qualification comparable to the CMA or CPA issued in a foreign country.

In addition, the candidate must:

- Be a member of the National Association of Accountants or submit an NAA application when applying to the ICMA.
- Be employed or expect to be employed in a position that meets the experience requirement.
- Submit two character references.
- Be of good moral character.
- Comply with the Standards of Ethical Conduct for Management Accountants.

***Examination***

The CMA examination is a comprehensive four-part examination designed as a measure of an individual's knowledge and competence in the practice of management accounting and financial management. The examination questions are constructed to measure not only technical knowledge and awareness of principles but to assess the individual's ability to analyze information and communicate the results in a meaningful and understandable manner. The percentages shown below represent the coverage that each topic will have in each part.

In addition to the topics described below, candidates for the CMA certification will be tested on their understanding of the ethical responsibilities of the management accountant. Demonstration of this understanding may be required in any of the four parts of the examination, and candidates should be familiar with Statement on Management Accounting No. 1C, "Standards of Ethical Conduct for Management Accountants," published by the National Association of Accountants. The four parts of the CMA examination are as follows:

- Part 1: Economics, Finance and Management
  - A. Microeconomics (10%–15%).
  - B. Macroeconomics and International Economics (10%–15%).
  - C. Institutional Environment of Business (10%–15%).
  - D. Working Capital Management (10%–15%).
  - E. Long-term Finance and Capital Structure (10%–15%).
  - F. Organization and Management Theory (20%–30%).
  - G. Communication (10%–15%).
- Part 2: Financial Accounting and Reporting.
  - A. Financial Statements (30%–40%).
  - B. Reporting Requirements (30%–40%).
  - C. Analysis of Accounts and Statements (15%–20%).
  - D. External Auditing (10%–15%).
- Part 3: Management Reporting, Analysis, and Behavioral Issues
  - A. Cost Measurement (20%–30%).
  - B. Planning (20%–30%).
  - C. Control and Performance Evaluation (20%–30%).
  - D. Behavioral Issues (20%–30%).
- Part 4: Decision Analysis and Information Systems
  - A. Decision Theory and Operational Decision Analysis (20%–30%).
  - B. Investment Decision Analysis (20%–30%).
  - C. Quantitative Methods for Decision Analysis (10%–15%).
  - D. Information Systems (20%–30%).
  - E. Internal Auditing (10%–15%).

### ***Examination Procedures***

Candidates must take at least two parts each time they sit for the exam, unless only one part remains to be passed. The parts may be taken in any order. Candidates must complete all four parts within a consecutive three-year period beginning with the examination at which the candidate first passes one or more parts. Candidates not completing the examination within this time period may continue in the program; however, credit will be revoked for any parts passed at the first offering of any consecutive three-year period. In the event of extenuating circumstances, the ICMA may grant an extension of the time period. Candidates must contact the ICMA in writing for consideration of such an extension.

Results will be sent to the candidates approximately 90 days after

completion of the exam. Minimum passing grade for each part is 70 per cent, and ICMA pass and fail decisions are final. Examination papers submitted by the candidates become the property of the ICMA. They will not be returned to the candidates and will be destroyed one year after the examination.

Recognizing that successful completion of the US CPA examination demonstrates a candidate's knowledge and competence in financial accounting and reporting, the ICMA Board of Regents will give such candidates credit for Part 2 of the CMA exam. To receive such credit, the State Board of Accountancy must verify that the CPA examination has been passed.

### **Experience Requirement**

Candidates for the CMA Certificate must complete two continuous years of professional experience in management accounting. This requirement may be completed prior to or within seven years of passing the CMA examination. Auditors employed by public accounting firms can meet this requirement with three years experience. Professional experience is expected to be gained in full-time employment. However, continuous part-time positions of 20 hours per week meeting the definition of qualified experience will count towards this requirement at a rate of one year of experience for every two years of part-time employment.

Qualifying experience consists of positions requiring judgments regularly made employing the principles of management accounting. Such employment includes financial analysis, budget preparation, management information, systems analysis, management accounting and auditing in government, finance or industry; management consulting; auditing in public accounting; research, teaching or consulting related to management accounting.

Employment requiring the occasional application of management accounting principles such as computer operations, sales and marketing, manufacturing, engineering, personnel, and general management will not satisfy this requirement. Similarly, trainee, clerical or non-technical positions do not provide appropriate experience to fulfil this requirement.

### **Continuing Education Requirement**

CMAs and candidates who have passed all four parts of the examination must maintain their professional competence through a regular program of continuing professional education. To remain in good standing with the Institute of Certified Management Accountant, 90 hours of continuing education activity must be completed in each three-year period subsequent to passing the exam.

Credit will be given for subjects relevant to the CMA's career development and related to employer needs. Such qualifying subjects include: management accounting, corporate taxation, finance, computer science, system analysis, statistics, management skills, insurance, marketing and business law.

The ICMA will grant credit for programs sponsored by educational organizations, employers, business organizations, and professional and trade associations at the local or national level. Programs may be in the form of courses, seminars, workshops, technical meetings or self-study packages. Technical speeches and published articles will also be considered for continuing education credit.

CMAs delinquent with respect to continuing education will be placed on suspended status. To remove a suspension status, the CMA must report a minimum of 30 hours of CE activity in each of the next three years or until the 90 hour continuing education requirement is filled. Until the suspension is removed, the CMA will not be “in good standing”, and therefore will not be considered a CMA.

### ***Ethical Standards***

Candidates and CMAs are expected to maintain the highest standards of personal and professional integrity. The Institute of Certified Management Accountants requires compliance with the provisions of the Statement on Management Accounting No. 1C, Standards of Ethical Conduct for Management Accountants (published by NAA). The ICMA has established procedures for reviewing alleged behavior inconsistent with these standards.

### ***Standards of Ethical Conduct for Management Accountants***

Management accountants have an obligation to the organizations they serve, their profession, the public and themselves to maintain the highest standards of ethical conduct. In recognition of this obligation, the Institute of Certified Management Accountants and the National Association of Accountants adopted the following standards of ethical conduct for management accountants. Adherence to these standards is integral in achieving the objectives of management accounting. Management accountants may not commit acts contrary to these standards nor shall they condone the commission of such acts by others within their organizations.

### ***Competence***

Management accountants have a responsibility to:

- Maintain an appropriate level of professional competence by ongoing development of their knowledge and skills.
- Perform their professional duties in accordance with relevant laws, regulations and technical standards.
- Prepare complete and clear reports and recommendations after appropriate analysis of relevant and reliable information.



### **Confidentiality**

Management accountants have a responsibility to:

- Refrain from disclosing confidential information acquired in the course of their work, except when authorized, unless legally obligated to do so.
- Inform subordinates as appropriate regarding the confidentiality of information acquired in the course of their work and monitor their activities to assure the maintenance of that confidentiality.
- Refrain from using or appearing to use confidential information acquired in the course of their work for unethical or illegal advantage either personally or through third parties.

### **Integrity**

Management accountants have a responsibility to:

- Avoid actual or apparent conflicts of interest and advise all appropriate parties of any potential conflict.
- Refrain from engaging in any activity that would prejudice their ability to carry out their duties ethically.
- Refuse any gift, favor or hospitality that would influence or appear to influence their actions.
- Refrain from either actively or passively subverting the attainment of the organization's legitimate and ethical objectives
- Recognize and communicate professional limitations or other constraints that would preclude responsible judgment or successful performance of an activity.
- Communicate unfavorable as well as favorable information and professional judgments or opinions.
- Refrain from engaging in or supporting any activity that would discredit the profession.

### **Objectivity**

Management accountants have a responsibility to:

- Communicate information fairly and objectively.
- Disclose fully all relevant information that could reasonably be expected to influence an intended user's understanding of the reports, comments and recommendations presented.

## **Future of CMA Program<sup>1</sup>**

The majority of accountants work in management accounting. CPA firms typically hire only about one-third of the new accounting graduates each year. Of those who begin in public accounting, the majority change to private accounting at some point in their careers. With over 50,000 new accounting graduates annually, the number of people for whom the CMA is appropriate is quite large.

### **Vision of Year 2000**

The ICMA Regents envision the following for the CMA program in the year 2000:

- 80,000 people will have completed the CMA exam.
- There will be coordination and cooperation among professional accounting organizations on certification programs.
- CMAs and management accounting will have equal status in higher education with the CPAs and public accounting.

Having 80,000 CMAs by the year 2000 is called the “O’Toole Challenge” because it began with the goals of Tom O’Toole, who served as NAA President in 1989–1990. He asked the Regents to prepare a long-term plan which would result in reaching a level of 80,000 CMAs by the year 2000. The plan was prepared and funded by NAA. Implementation has begun, and the growth rate has increased significantly.

Coordination and cooperation among accounting organizations on their certification programs could bring significant benefits to all participants. An analysis of the topical coverage on the CMA, CPA, and CIA exams discloses major areas of duplication and overlap. The career path of many accountants includes time spent in more than one type of position. Some move from public accounting to internal audit. Some move from public accounting to corporate accounting. Others may move from corporate accounting to internal audit or the management services staff of a CPA firm. A person who seeks professional status throughout his/her accounting career faces the need to take a series of exams each of which contains some duplicate material. Candidates should ask questions such as:

- Why is there no waiver/reciprocity on exam parts when there is duplication of coverage?
- Why not move beyond the waiver/reciprocity to the use of common exam parts whenever appropriate?
- Why not have common exam times and sites?

<sup>1</sup> Material in this section draws heavily from the article “A New Beginning for the CMA Program” in the August 1990 issue of *Management Accounting*, authored by Keith Bryant, Jr.

Beyond the obvious benefits to candidates who save time and money, the organizations themselves would save on the cost of exam preparation and administration.

The CMA exam was restructured in 1990 from a five-part, two-and-a-half-day format to a four-part, two-day format. The changes were made in such a way as to facilitate a future in which the NAA, AICPA, and IIA work together. The new CMA format groups all financial accounting topics together in its Part 2. In a unilateral step toward cooperation, the ICMA now gives credit for Part 2 to people who have passed the US CPA exam. There is an opportunity for NAA and AICPA to consider the use of common half-day exam part on financial accounting when the restructured CPA begins in 1994. Also, there is an opportunity for NAA and IIA to consider use of a common half-day exam part on the non-accounting areas of Economics, Finance, and Management.

There is a feeling among many people in industry that the academic education of accountants may have more of a public than private accounting emphasis. The expected growth of the CMA program should help in addressing this perceived imbalance on the campus.

### ***Major Differences Between CMA and CPA***

The most fundamental difference between a CMA and a CPA is the "license to practice" aspect of the CPA. Both programs provide a certification of knowledge and competence issued after passage of a uniform national examination. Only the CPA provides the additional step of licensure by a state for the practice of public accounting.

Requirements to become and remain certified also differ. Because all aspects of the CMA program are under the direct control of the ICMA, there are uniform initial education, professional experience, and continuing education requirements for all CMAs. Individual state laws control these requirements for CPAs, so differences exist.

Professional accountants should hold the appropriate certification. This may be the CMA, CPA, CIA, or some combination. For many years, the CPA was the only option. Now, the rapidly growing CMA is available for the management accountant who wants to be recognized as a professional.

# Requirements of an Auditor and his Training in the Federal Republic of Germany

WOLFGANG LÜCKE

## The Origin of the CPA's Professional Status

The verification or internal audit of financial matters has been evident since antiquity. Internal auditing increased its importance in the Middle Ages hand-in-hand with the development of accountancy. In the nineteenth century, professional and independent auditors already existed. However, it was only at the turn of the last century that the Chamber of Industry and Commerce appointed experts in the field of accountancy called "Vereidigte Buchprüfer" (Chartered Accountants). The world depression in 1929 induced the government of the German Reich to bring in statutory mandatory audits for stock companies, credit institutes, insurance institutions and public authority enterprises. Qualified, independent and publicly appointed auditors were to carry out the checking of accounts of the enterprises in question and issue a certificate of the result of the audit.

The term "Wirtschaftsprüfer" (Certified Public Accountant) appears in the "Erste Verordnung zur Durchführung der aktienrechtlichen Vorschriften der Verordnung des Reichspräsidenten über Aktienrecht, Bankenaufsicht und über eine Steueramnestie"<sup>1</sup> of 15th December, 1931. According to this, mandatory audits can be carried out only by appointed auditors<sup>2</sup> and auditing companies. Outline regulations control the auditing and

<sup>1</sup> Refer to Luca Pacioli, *Summa de arithmetica, geometria, proportioni et proportionalita*, Venice 1494 and to extensive subsequent literature. Compare also: Leitherer, E., *Betriebswirtschaftslehre, Dogmengeschichte der*; in: *Handwörterbuch der Betriebswirtschaft*; publisher: E. Grochla and W. Wittmann; 4th edition; Stuttgart 1976, column 696ff.

<sup>2</sup> Reichsgesetzblatt I, 1939, page 760. Die Verordnung des Reichspräsidenten über Aktienrecht, Bankenaufsicht und über eine Steueramnestie vom 19.9.1931 was promulgated in Reichsgesetzblatt I, 1931, page 493.

appointment procedures. After 1945 revised arrangements regarding the professional rights of auditors and public accounting made by the countries, or rather military zones of occupation were codified by the "Gesetz über eine Berufsordnung der Wirtschaftsprüfer"<sup>3</sup> of 24th July, 1961 on a national basis. The amended version of the Auditors Code dates from 5th November, 1975.<sup>4</sup> It was extended by Article 6 of the "Erstes Rechtsbereinigungsgesetz" of 24th April, 1986.<sup>5</sup>

In addition to the general regulations, the Auditors Code contains the legal requirements for the conduct of the auditor's profession. It specifies his rights and obligations, the organization of the profession, professional tribunals and regulations for the auditor and the auditing company. Finally, it regulates the entrance into the profession, administrative fines, transitional arrangements and concluding provisions. This paper is based on the conditions for the pursuit of the profession in the Federal Republic of Germany.

### **The CPA's Occupational Duties and Exercise of Profession**

According to Article 2 of the CPA's Code, the auditor's occupational duty is to check the annual statement of accounts, particularly of trading enterprises. Moreover, he has to issue a certificate of the audit and its result. In the first place, he has to do the mandatory audits, the legally required audits of the annual accounts of stock companies, credit institutes, insurance institutions and public authority enterprises (reserved functions).<sup>6</sup> According to the fourth set of EEC Guidelines, now part of the commercial law, those limited companies which cannot be regarded as small in accordance with Article 267, section 1 of the Commercial Code must be checked by an auditor (Article 316, section 1 of the Commercial Code). Within the meaning of the act, a limited company is called small if at least two of the following three features are not exceeded on the balance sheet day:

Balance Sheet Total	3,900,000 DM (approx. \$2.4 M)
Turnover	8,000,000 DM (approx. \$4.7 M)
Number of Employees (yearly average)	50 employees

The CPA's field of activity includes tax consulting as well as further advisory services in financial matters (Article 2, sections 2 & 3 of the CPA's

<sup>3</sup> Wysocki, K. v., *Wirtschaftsprüfung und Wirtschaftsprüfungswesen*; in: *Handwörterbuch der Betriebswirtschaft*; publisher: E. Grochla and W. Wittmann; 4th. edition; Stuttgart 1976, column 460ff. Compare also the given bibliography. The Auditors Code was published in the *Bundesgesetzblatt I*, 1961, page 1049.

<sup>4</sup> *Bundesgesetzblatt I*, 1975, page 2803.

<sup>5</sup> *Bundesgesetzblatt I*, 1986, page 560.

<sup>6</sup> Thummel, M., *Der Beruf des Wirtschaftsprüfers*, in: *Neue Wirtschaftsbriefe* Nr. 21 of 24th May 1982, section 30, page 569.

Code).<sup>7</sup> Finally, the auditor is allowed to do fiduciary administration (Article 43 of the CPA's Code).<sup>8</sup>

The Code gives the Chamber of Chartered Accountants powers to promulgate guidelines for auditors and chartered accountants. The following principles are enumerated:

1. *Independence and Impartiality* — The CPA has to be independent of the company concerned and has to judge impartially.
2. *Conscientiousness* — Examining and counselling has to be based on conscientious investigation.
3. *Responsibility* — The CPA is responsible with regard to the task, the client, the law and the public.
4. *Discretion* — The CPA has to handle the experienced facts discretely.
5. *Professional Behavior* — The CPA has to show qualification in his subject, hence has to work in a professionally relevant manner.
6. *Compatible Activities* — The list of compatible activities is legally determined, e.g. the activity at scientific institutes, being a teacher at colleges and universities, an author, artist, trustee, the pursuance of a technical or judicial profession and the activity as a counsellor. It is prohibited to carry on a trade.
7. *Prohibition of Publicity and Advertising* — It is prohibited to advertise or make publicity for one's own business matters.
8. *Signing of Confirmatory Certificates and Audit Certificates.*

In this context the second and third principles contain some very important facts: during the performance of his duty the CPA must adhere to statutory and professional regulations and also to his conscience. A special section sets out the auditor's obligatory standards of competence and experience.<sup>9</sup> This enables the auditor to carry out his mandate. He has to check if the principles relating to professional certificates or to reports should be applied to the case under consideration. Finally, the auditor's report must be objective and without emotional bias.

In short, the CPA should have specialized knowledge including that of certificates and experience and should be capable of giving an objective evaluation. The CPA must be prepared to survey and to judge the work of his firm's personnel so as to be able to come to a conclusion based on his own well-founded knowledge. According to the declarations of standards, the auditor has to choose his employees with particular care. He should not rely on their knowledge alone but should hold a good knowledge himself. This implies the following typical management functions:

<sup>7</sup> Compare: Dusseldorfer Treuhand-Gesellschaft Altenburg und Tewes AG, Der Wirtschaftsprüfer — Partner des Unternehmers; Dusseldorf-Wien 1985.

<sup>8</sup> The Auditor's Handbook gives an overall view of the auditor's professional activity and occupational duties.

<sup>9</sup> Article 57, section 2, number 5 of the Auditors Code.

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- Control and organization of work.
- Selection and guidance of employees.
- Decision making and assessment; and
- Supervision.

## **The Auditor's Education and Further Training**

### ***The Stages of Education and Further Training***

The CPA's education and further training can be divided into three stages:<sup>10</sup>

- Stage 1: University education or a number of years of experience in lieu.
- Stage 2: Preparation by practice until the Final Examination as a Certified Public Accountant.
- Stage 3: Further training during his working life as an auditor.

The training comprises the teaching of theoretical and practical fundamentals relevant for the pursuance of a vocation. This is deemed to be the primary qualification. The continuation or resumption of a training process after the actual period of education, usually after some years of business experience, is called further training. Basically stages 1 and 2 can be regarded as the training period, in a broad sense.

### ***The First Stage***

The rules for admission as an auditor in FRG can be found in Article 8 of the CPA's Code: conditions for admission presume university examination in business administration, economics, law, technical science, agriculture or in other degree subjects in the field of business studies. University education refers to universities, technical high schools and polytechnics. Table 22.1 shows the percentage of auditors with completed courses of study at the institutions of higher education.

A majority of the CPAs in FRG have studied business administration (see Table 22.2).

The structure of studies of the subjects set out above is much the same at all German universities. As a case in point, let us take a student who has chosen business administration in preparation for auditing the course of study leading to a Diploma in Business at Gottingen University (Diplom-Kaufmann). The course of study is composed of four terms of basic studies, terminating in a Pre-Diploma, and at least four terms of main studies leading to a Diploma Final Examination. A university level education at the basic level requires eleven examination passes (weekly hours per semester are added in brackets):

<sup>10</sup> Lücke, W. (publisher), *Lexikon der Wirtschaftsprüfung, Rechnungslegung und Prüfung*; München 1980; page 46.

TABLE 22.1

Type of Institution (approximate figures)	Percentage of CPAs with Completed Courses of Study
Universities	96%
Economic and Technical Colleges (Fachhochschule)	4%
	100%

TABLE 22.2

Type of Auxiliary Training	Percentage of Qualified CPAs (approximate figures)
Field of Study	
– Business Administration	78%
– Economics	9%
– Law	4%
– Agriculture	0.2%
– Technical Science	0.8%
Economic and Technical Colleges	4%
Did Not Study	4%

- Bookkeeping and annual balance sheet (4).
- Accounts for expenses and services, cost accounting (4).
- Mathematics for business students I (4).
- Mathematics for business students II (4).
- Statistics I (4).
- Statistics II (4).
- Fundamentals in microeconomics (5).
- Macroeconomics (5).
- Fundamentals in managerial economics (4).
- Business functions and administration:
  - Purchasing and marketing (2).
  - Financing (2).
  - Production (2).
- Law for business students (4).
- Computer training (no examination) (4).

There is a written examination at the end of each course. For the purpose of producing electronic data processing, attendance of the course is obligatory.

Until his major field of studies, the student does not specialize in subjects relevant to the future auditor. Besides managerial and business economics



and economics, the major field of studies provides a variety of subjects suitable for the CPA's profession. The student has to select three of the following subjects for the Diploma Final Examinations:

- Organization and management (especially accounts).
- Business financing.
- Banking.
- Industry.
- Taxation.
- Auditing.
- Operations research.
- Civil law.
- Mercantile, company and commercial law.<sup>11</sup>

The subjects are offered in different courses. The time budget for the course is approximately 190 to 210 hours in two years. Each examination subject culminates in a five hour written examination and an oral examination. In addition to this, the student has to write a thesis within three months after the examinations to demonstrate his capability to deal with one topic in the field of auditing or similar areas in detail.

The syllabus for the Diploma Final Examination is covered in lectures, practical classes, seminars and specially developed planning games. The syllabus for auditing comprises:

- Introduction to auditing.
- Annual balance sheet (composition, auditing, publicizing the annual accounts).
- Selected topic of accounting and of auditing stock companies.
- Consolidated accounting and auditing according to the Companies Act and Code of Commerce.
- Operations research.
- Accounting of associated companies.
- Special audits.
- Technique of auditing.
- Balance strategy and tactics.
- Internal audits.
- Seminars with auditors, especially with CPAs.
- Analysis of financial keys.

At German universities it is essentially up to the student to benefit from the courses offered. A good general knowledge of accounts for expenses and services, early warning analysis of the essence of taxes, financing and law relevant to economic problems constitutes a part of the auditor's studies. At present work experience is not mandatory for business administration students; however, practical experience is recommended.

<sup>11</sup> The syllabus for the examination in business administration at Gottingen University includes further subjects.

### **Professional Experience in Lieu of Formal Education**

According to Article 8, section 2 of the CPA's Code, a university degree is not required, if the applicant for admission as a CPA has already worked for at least 10 years with qualified CPAs or for a CPA firm, or rather co-operative auditing companies or similar institutions of auditing and has shown himself competent in his work. Finally, a university degree is not compulsory, if the applicant has worked for at least 5 years as a CPA or chartered tax consultant (CTC).<sup>12</sup>

### **Stage 2**

The applicant for the CPA's final examinations must prove that he has gained sufficient professional, on-the-job experience. During this period, the future auditor prepares himself largely through independent study. It is up to the applicant how he prepares himself for the final examination in auditing. Some CPA companies conduct training sessions in the evenings. Candidates may attend other institutions for higher education such as "Verwaltungs und Wirtschafts-Akademien" (Public Administration and Economic Academies), of which there are over 60 in the Federal Republic of Germany. The advanced vocational training programs of the Chamber of CPAs and of the Auditors' Institute registered society in Germany play an important role in the education and training of auditors. According to Article 57 of the CPA's Code, besides its other duties, the Chamber of CPAs is responsible for the field of vocational training as set out by law. The Auditors' Institute has taken on the responsibility of the standardized professional activity and the exercise of vocational training functions of the entire profession. In particular, the Auditors' Institute is responsible for the professional progress of the present and future generations of CPAs.

During the preparatory period for the final examinations in auditing, the universities take on the task of providing lectures with seminars, which bridge the gap between theory and practice.

Before the finals in auditing, most of the applicants attend courses provided by special professional tutors and by the Auditors' Institute to prepare for these examinations. Courses extend over months or even years in some cases: there are also crash courses which take place just before the finals. Tutors adjust their training programs to the essential parts of the examination subjects and make use of questions and model answers from previous examinations. The Chamber of CPAs publishes the topics for the set written works and for the written papers for the final examination in

<sup>12</sup> Basic principles of the tax consultant's law from Gehre, H., Steuerberatungsgesetz; in: Handwörterbuch des Steuerrechts, volume 2; München-Bonn 1972, page 984ff.

auditing.<sup>13</sup> The responsibility for the examination topics and the selection of topics is entirely up to the examiners.

### **Stage 3**

The further training of the CPA while in employment is largely his own responsibility. Further training is in the CPA's own interest. He has to be aware of amendments, new auditing techniques and new jurisdiction. The "Richtlinien für die Berufsausübung der Wirtschaftsprüfer und vereidigte Buchprüfer" (General instructions for the work of CPAs and sworn accountants) implicitly demand a continually up-to-date knowledge of the auditing profession. Finally, job completion itself compels the auditor to continue his studies (training by doing). Larger auditing companies provide training programs of their own. In addition to this, there are advanced vocational training programs of the Chamber of CPAs and the Auditors' Institute. The latter organized auditors meetings, discussions in different parts of the Federal Republic of Germany (Länder), international congresses and bilateral seminars between foreign professional organizations.

### **Final Examinations in Auditing**

The final examinations in auditing<sup>14</sup> serve the purpose of assessing whether the applicant has the professional knowledge and a suitable personality to complete the CPA's professional tasks. The examination candidate demonstrates that he is in a position to solve problems in the CPA's field of work by himself. In accordance with Article 2, section 2 of the Auditors Code, the following verifications must be added to the application for admission:

- Certificates of university education and university examinations.
- Certificates of professional activity, including a description of the nature and extent of the auditing activity until the present; and
- Two audit reports or certificates which have been written by the applicant himself, provided that the applicant has worked for at least 15 years as a CTC.

The following persons sit on the examination board created by the Upper Länder Government (Article 3, section 2 of the examination rules for CPAs) (Prüfungsordnung für Wirtschaftsprüfer [POWP]):

<sup>13</sup> Chamber of Auditors (Chartered Accountants) (publisher); Düsseldorf 1973. According to valid examination conditions for auditors of 31st (1962) edition of 16th June 1986 the set written work has been excluded from the examination.

<sup>14</sup> The possibilities for the facilitation of entrance into the auditor's profession according to the "Verordnung zur Durchführung von Artikel 6 vom 16.6.1986" is not gone into here. Thus the presentation of the relevant audit standards is excluded.

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- a representative from the Upper Länder Government
- a university professor in business administration
- a representative with judicial qualifications
- a representative from the administration of the finances
- a representative from business
- three CPAs.

According to Article 5 of the POWP, the Examination Requirements are:<sup>15</sup>

**A. Business Auditing**

1. Presentation of accounts, including:
  - a. Bookkeeping, annual balance sheet, background report.
  - b. Group accounts and background report of the multi-corporate enterprise, consolidated annual balance sheet.
  - c. Special formulas and regulations for particular enterprises.
2. General Audits:
  - a. Audit of the annual balance sheet and background report subject to inspection, audit of group accounts in accordance with legal regulations, verification of auditing and reporting techniques; and
  - b. Specific features of auditing co-operative associations, credit institutes, insurance institutes, public utilities and so on.

**B. Business Administration and Economics**

1. Business Administration.
  - a. Managerial economics.
  - b. Accountancy.
  - c. Company management comprising data processing.
  - d. Financing and payment transactions.
  - e. Operations research.
2. Economics
  - a. Fundamentals of economics and social economics.
  - b. Fundamentals of public finance.

**C. Commercial Law**

1. Fundamentals of civil law.
2. Mercantile law.
3. Law of corporate enterprises and co-operative associations.
4. Bill and cheque laws.
5. Fundamentals in competition law.
6. Bankruptcy law.

<sup>15</sup> The enumeration of examination subjects is given in shortened form.

7. Fundamentals of rules of civil procedure.
8. The auditor's professional rights.
9. Other areas of law such as law of fiduciary activity, labor law, etc.

#### D. Law of Taxation

1. Tax code.
2. Law of tax categories.
3. Fundamentals of international tax regulations and affairs.

The written part of the examination consists of 4 to 6 hour examination papers under supervision as listed below:

- 2 examination papers in the field of business auditing.
- 2 examination papers in the field of business administration and economics.
- 1 examination paper in the field of commercial law.
- 2 examination papers in the field of law of taxation.

The oral examination begins with a report from the applicant on a subject taken from the CPA's profession (Article 14, section 1, POWP). As part of the oral examination the following areas of auditing are examined:

- Business auditing.
- Business administration and economics.
- Commercial law, and
- Law of taxation.

CTCs who pass the final CPA examinations are exempted from the law of taxation paper.

For the assessment of individual examination results there are six grades. Grade 1 (very good) represents excellent performance and grade 6 (unsatisfactory) represents a totally inadequate performance. The examination result is the product of a complicated assessment and weight process which is illustrated in Table 22.3 by the example of a full-length examination sat by an applicant with examination grades from 1 to 5.

The examination is passed if the final grade of the applicant's examination is at least adequate (4.0). If the applicant has attained a grade lower than 4.0 in one or several examination subjects, he must retake the examination in this subject (Article 18, section 1 POWP). If the final examination grade is worse than satisfactory, a further examination is only possible in all subjects. After admission to the examination and after the examination itself, the applicant is charted by order through the presentation of a document issued by the upper administrative authority of the Länder Government (Article 15, section 1 of the CPA's Code). Before handing over of the document, the professional oath has to be taken (Article 17, section 1 of the Code).

TABLE 22.3

Subject Areas	Grades or Scores	
	Individual	Cumulative
1. Written Examination		
11. Business Auditing		
111.1 written paper	3.0	
112.2 written paper	4.0	
Average of 11.	3.5	3.5
12. Business Administration, Economics		
121.1 written paper	3.0	
122.2 written paper	1.0	
Average of 12.	2.0	2.0
13. Commercial Law	4.0	4.0
14. Law of Taxation		
141.1 written paper	5.0	
142.2 written paper	3.0	
Average of 14.	4.0	4.0
15. Average: The final grade of the written examination	3.375	
2. Oral Examination		
21. Report on 11, 12, 13 or 14	3.5	
22. Business Auditing	2.5	
23. Business Administration and Economics	5.0	
24. Commercial Law	4.0	
25. Law of Taxation	3.5	
26. Average	3.7	
3. Calculation of the Final Grade		
31. Final grade of the written examination times weight 6: $3.75 \times 6 =$	20.25	
32. Final grade of the oral examination times weight 4: $3.7 \times 4 =$	14.80	
<b>Total</b>	35.05	
33. Final grade of the examination Total from 31 and 32 divided by 10	3.505	
Total result:	not satisfactory	

### Conclusion

The requirements of an auditor presume the attainment of adequate training and passing a specialized examination.<sup>16</sup> As in the USA, the CPA's professional status in the Federal Republic of Germany is frequently a

<sup>16</sup> Lücke, W., *Wirtschaftsprüfung in Wissenschaft und Praxis*; in: *Marburger Universitätsreden* (row B) leaflet 1; Marburg 1988, page 8.

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subject for debate, in particular over the question of guarantee of the quality of auditing. A possible solution, for example, could be the verification of the activities, working methods and supervision departments of an auditing company by CPAs from another auditing company, similar to the US Peer Review System. In the course of the internationalization of auditing, these quality controls could play a meaningful role<sup>17</sup> in the German auditing profession.

<sup>17</sup> Lücke, W.; *Wirtschaftsprüfung in Wissenschaft und Praxis*, page 16.

# Education Requirements to Enter the Accounting Profession in France

A. BURLAUD

## Introduction

The education requirements for the French accounting profession are among the highest in Europe. The studies for the “baccalauréat” (the final exam of the High Schools, normally taken at the age of 18) take at least seven to ten years (including three years of professional training).

Besides the duration, there are a multitude of ways by which one can enter the profession in France. Another characteristic of the French profession is that all the professional exams are organized by the government.

## General Education Curriculum

The academic training of the members of the profession may be very different. For historical reasons, including the late development of management education in French universities, there is no Faculty of accounting in France. However, there are programs leading to master’s degree in accounting, business schools with optional specialization in accounting and technical colleges. This diversity is perceived as a source of enrichment. To ensure a minimum of consistency and avoid gaps, there exists a reference syllabus, which includes 16 credits or test. Every candidate for diploma is exempted from the credits that correspond to the subjects already studied to obtain the diploma in question. That is to say that the candidate has to take only the credits necessary to complete his education.

In the following pages, we shall describe the reference syllabus and the education curriculum in universities, business schools and technical colleges.



**1. The Reference Syllabus: the “diplôme d’études comptables supérieures” (higher accounting studies diploma) or DECS**

This is a complete syllabus including all the knowledge thought to be useful to a professional accountant. This syllabus is divided into 16 parts corresponding to 16 tests (14 written tests and 2 oral ones):

- 3 tests in accounting (including audit and budgets);
- 3 tests in economics (macro, micro and corporate finance);
- 3 tests in law (fiscal law, corporate law, social law);
- 2 tests in mathematics statistics and EDP;
- 2 tests consisting in multi-disciplinary case-studies, one focused on accounting and law and the other on accounting and economics;
- 1 test in a foreign language (written);
- 1 oral test in economics;
- 1 interview after completion of a short report on a 6-week practical training period.

The whole syllabus corresponds to approximately 2,500 hours of classes not including homework and six weeks of practical training.

Any student having his “baccalauréat” (high school graduation degree) may apply to take these tests but there are some constraints and he cannot take all of them in the same year. Very few students take all sixteen tests in the same year or without exemption. Most candidates study business sciences and prepare another diploma which will exempt them from a varying number of tests. Besides their main studies, they prepare for the extra credits they need to get the whole DECS. The DECS is necessary to begin the three-year professional training period and then to become a member of a professional body.

**2. The University Curriculum**

This is divided into two parts, a lower and a higher level, each requiring two years of studies. After the successful completion of both parts students are awarded a master’s degree.

**The Lower Level**

The lower level is a general study curriculum with a major in economics. Besides economics which is the main subject, the syllabus includes mathematics, statistics, law, business, management, accounting and a foreign language. The two years together represent 900 hours of classes. Despite slight differences between universities, they can be broken down as follows:

- |                              |     |
|------------------------------|-----|
| – Economics (micro, macro)   | 400 |
| – Mathematics and Statistics | 200 |

*Education Requirements to Enter the Accounting Profession in France*

- Law (civil law and business law)	100
- Management (introduction to management and accounting)	100
- Foreign language	100
	900 hours

One should of course add some substantial homework, which is more difficult to quantify. It is generally agreed that a one-hour course requires over two hours of homework. In addition certain universities offer their students optional courses such as psychology, sociology and constitutional law.

***The Upper Level***

At this level, students may choose one of many options with more or less specialization in accounting. From the most to the least specialized, there are three master's degrees, which are all completed in two years. The master's degree designations are as follows:

- the master's degree in accounting (maîtrise de sciences et techniques comptables et financières — MSTCF);
- the master's degree in business management (maîtrise de sciences de gestion — MSG);
- the master's degree in economics (maîtrise de sciences économiques).

The more a student is specialized, the smaller the number of credits in the DECS he will have to take.

The MSTCF is a two-year curriculum with 1,500 hours of classes, whose syllabus is very similar to that of the DECS. It gives an exemption from 14 out of the 16 credits of the DECS. All the students preparing for MSTCF intend to obtain DECS. The following subjects are studied:

- accounting (financial, management) and finance	500 hours
- law (fiscal, business, social, penal)	400
- mathematics, statistics and EDP	200
- economics (micro) and business management	200
- personnel management and production management	100
- foreign language	100
	1,500 hours

This academic education is completed by a three-month professional training period with an audit firm or in industry or commerce, during which the student has to study a specific problem. He will have to write a report on

his experience which will be discussed with his professors. Furthermore, the access to the MSTCF is reserved to those who have passed a competitive examination which only one fourth of the candidates pass.

Depending on the university, the MSG degree in business management may be focused on accounting or marketing or personnel management, etc. However, it gives an exemption from nine out of sixteen credits in DECS.

The syllabus, which varies from one university to another includes 1,200 hours of classes plus a three-month practical training period. They are always more theoretical in content. All the aspects of business management are studied. A candidate is awarded the MSG degree after passing a competitive examination.

The master's degree in economics necessarily includes some form of specialization such as econometrics, the economy of developing countries, microeconomics, etc. For practical reasons, only the students specializing in microeconomics may be willing to join the accounting profession. These candidates are exempt from only five of the sixteen credits in DECS.

A professional training period is usually organized for at least six weeks.

### *3. The Business Schools*

There are about 25 business schools in France. They are totally independent from the universities, and they differ in the way they select their students. After their "baccalauréat" (high school graduation degree) the students prepare for a competitive examination on general subjects for one or two years. Subjects may include French, two foreign languages, mathematics, economics, history and geography. The examination's level of difficulty depends on the fame of the school.

The curriculum in the school is three years long and the syllabus deals with all subjects related to management. The objective is to educate nonspecialized businessmen. Syllabuses vary from one school to another but all schools offer their students a large range of optional courses. They usually include three compulsory practical training periods with one of them usually taking place abroad.

A large proportion of business school graduates enter the accounting profession. Depending on the school, they are exempted from nine to eleven of the sixteen tests of the DECS.

### *4. Professional Undergraduate or Technical Colleges*

This degree requires two years of studies after the "baccalauréat". It is organized either in secondary schools (Brevet de Techniciens Supérieurs — BTS) or in university colleges (Diplôme Universitaire de Technologie — DUT). Students out of these two curricula are supposed to begin their professional lives immediately. However, many of them continue their studies and prepare for DECS.

### **The BTS**

This curriculum is based on 1,800 hours of classes over two years as shown below:

Accounting (financial and management)	600 hours
Mathematics, Statistics and EDP	450
Law	250
Economics	250
French	150
1 Foreign language	100
	1,800 hours

In addition to this, students have to fulfil a two-month professional training period and to write and discuss a report. The BTS graduates are exempt from seven of the sixteen tests of DECS.

### **The DUT**

The number of classes is the same for the BTS and DUT curricula. However, the DUT has a less technical syllabus. The courses offered are as follows:

Accounting (financial and management)	400 hours
Mathematics, Statistics and EDP	350
Economics	300
Law	250
1 Foreign language	150
French	100
Psychology and Sociology	50
Miscellaneous (specific to each college)	100
	1,700 hours

In addition, there is a nine to ten week compulsory professional training period. This degree exempts students from seven out of the sixteen credits in DECS.

### **Professional Education Curriculum (PEC)**

The syllabus of the DECS is in accordance with the two International Federation of Accounting (IFAC) Education Guidelines (IEG):

- IEG no. 4: The core of knowledge – professional subjects;
- IEG no. 6: The core of knowledge – supportive subjects.

Only the subjects dealing with business (1) and accounting (2) are detailed below.

## 1. Business subjects

Business management (310 hours of classes).

Introduction to business management and organization (75 hours).

- what is a firm
- the different functions in a firm
- structure of a firm

The firm and its environment (45 hours).

- the firm in the economy
- the firm and its human environment
- the firm and its financial needs

Administrative organization of the firm and the flow of data (40 hours).

In-depth study of the different functions of a firm (75 hours).

General management, strategy and control (45 hours).

Corporate diagnosis (30 hours).

Business law (380 hours).

- Corporate law (100 hours)
- Fiscal law (100 hours)
- Credit law (50 hours)
- Social law (50 hours)
- Penal law (30 hours)
- Contentious law (20 hours)
- Failure law (30 hours)

### *Oral examination*

One does not prepare for this examination by taking any specific courses. The candidate has to answer a question dealing with economics or management. Then he has 2 hours to prepare a 15-minute presentation followed by a 30-minute discussion. Most of the candidates train themselves individually for this exam.

### *Professional training*

This training period has to be performed in the accounting, control or finance department of a company or in a public practice. It is supposed to be at least six weeks long but usually it is three months long. During this training period the student has to study a problem as a consultant would, and to write a report to be discussed later.

## 2. Accounting subjects included in the PEC include the following:

*Financial accounting* (400 hours)

*Methods and objectives of accounting* (250 hours)

- Basic principles
- Harmonization
- Organization
- Introduction to the analysis of financial statements

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*Advanced accounting (150 hours)*

- Accounting for complex operations
- Corporate accounting
- Group accounting
- Accounting in some special activities (banking, insurance, etc.)
- Valuation of companies

*Auditing (150 hours)*

- Short term financial analysis and short term financing
- Long term financial needs and resources
- Cash management
- Valuation of companies
- Financial diagnosis

*Management accounting and control (230 hours)*

- Management accounting (100 hours)
- Budgets and management control (130 hours)

*Synthesis of accounting and law*

This test is a case study for which there is no specific syllabus. Most of the candidates prepare for this test without taking specific courses. It introduces a need for multi-disciplinary approach and a very compartmentalized curriculum.

*Synthesis of accounting and economics*

This test has the same characteristics as the previous one.

**Professional Examinations**

The professional examinations are divided in two main parts:

- before the three years practical training: the “diplôme d’études comptables supérieures” (DECS);
- after the three years practical training: the “diplôme d’expertise-comptable” (DEC).

Fourteen out of the sixteen tests in the DECS are written tests and their length varies from 3 to 5 hours. After this, there is an oral test which consists of a 15-minute presentation, half hour of questions and an hour of discussion of a report on a six-week practical training. Most of the candidates do not have to pass all the sixteen tests because of the exemptions given for other diplomas.

The DEC is the last hurdle before entering the profession. This examination is in harmony with the 8th guideline of the EEC Council dealing with the authorization given to professionals to perform a statutory audit of financial statements. The syllabus, in theory, the same as the syllabus of the DECS but with different emphasis considering that the candidates have at least three years’ professional experience. The DEC consists of three tests.

#### *A. Burlaud*

i. Written test in audit. It is a case study in an allocated time of 5 hours. The objective is to insure that the candidate has the ability to make a decision whether or not to certify a financial statement and to discuss a complex situation. The professional aspect of this test is reinforced by the fact that candidates may come with their own documentation without any limit.

ii. Oral test. It is a discussion on the different jobs performed by the candidate during his three years of practical training. In this way, it is possible to have a final control on the quality and variety of the candidates professional experience.

iii. Discussion of a thesis. During their third year of practical training and possibly an extra year the candidates have to write a thesis which is generally less theoretical than those prepared in universities to obtain a PhD degree. The ability to perform research is important for future professional accountants. It makes the difference between a professional accountant and a technician accountant. It gives a certain autonomy in thinking and the ability to carry out self-education. Last, this test requires that the candidate be both creative and rigorous.

### **Experience Requirements**

In accordance with the 8th EEC guideline, the professional training period is 3 years long. This also meets the requirements of the IFAC'S IEG no. 5. As recommended by the latter guideline, the professional training period is performed under the control of the French professional body. The trainee is employed by a professional accountant in public practice or an audit firm. For one of these three years, the trainee may be employed in the accounting, finance or control department of a company which is audited by a professional accountant in France or abroad.

The supervision of the professional training period is under the responsibility of a member of the professional body, who is independent from the employer. The training supervisor is usually in charge of 20 trainees. He gives them advice, meets them regularly and is aware that the jobs given to the trainees are varied enough and afford a good training. He is responsible for delivering the certificate, necessary to take the final exam described above at the end of the professional training period.

Finally, the professional body organizes 15 days of seminars during each of the three years to ensure the homogeneity of the training period, to provide a forum for the exchange of ideas between trainees and to make them aware of the general problems of the profession and in particular of the ethical problems. It is compulsory for the trainees to attend these seminars in order to qualify to sit for the final examinations.

**References**

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CNCC & CSOECCA, *La Formation du Commissaire Aux Comptes et de l'Expert Comptable* (Red Book), Lyon, France, 1985.



# Academic and Professional Accounting Education on the Periphery of Europe: Context, Content and Prospect in the Republic of Ireland

PATRICK McCABE AND GERARD McHUGH

## Introduction

Ireland occupies the most western point of the European continent. It is a small island (32,000 sq. miles in total) about the same size as the American state, Maine. It is also one of the smaller member states in the European Community (EC), both in terms of land mass and population. The island is divided politically. After several centuries of British rule, 26 of its 32 counties achieved independence in 1921 and are ruled by the Government of the Irish Republic. The remaining six "Northern" counties are ruled by the British Parliament. Inhabitants of these six counties are British citizens and come under the legal jurisdiction of Britain. For a great many purposes the Republic of Ireland acts independently of the six northern counties (e.g., matters of trade and commerce though as many will be aware the political relationships between the Republic of Ireland, Northern Ireland and Great Britain are complicated by a number of historical issues. Ireland's total population presently stands at 5.1 million; 3.6 million live in the Republic of Ireland and 1.5 million in the six Northern Counties. In the remainder of this paper all references to Ireland are to the Republic of Ireland only.

Economically, Ireland is positioned close to the bottom of the World Bank's league of industrial market economies. Following protectionist policies in the early decades after independence in 1921 it has, in the past quarter century of trade liberalization (including membership of the

European Community) emerged from its primarily rural/agricultural base to a position where industry and services (accompanied by rapid urbanization) are more significant. Table 24.1 below gives some indication of the structural changes in sectoral activity in Ireland over the last 60 years and Table 24.2 compares important economic indicators for Ireland with other European Community members. Ireland's largest trading partner has always been and continues to be Britain. As a percentage of total trade, the proportion of Ireland's trade with Britain has been declining over the past 25 years and economists forecast that as the European Community becomes more fully integrated, the importance of Britain will decline even further. Over the past 20 years Ireland has been developing stronger trade links with other European countries and with most of the world's major economic powers, particularly the US and Japan.

TABLE 24.1 *Employment by Economic Sector*

Year	Total employed '000s	Primary %	Secondary %	Tertiary %
1926	1,220	53.6	12.8	33.6
1946	1,228	47.1	16.6	36.3
1961	1,053	36.9	23.5	39.6
1971	1,055	26.9	29.6	43.5
1981	1,135	17.4	30.8	51.8
1986	1,057	16.0	27.0	57.0

Sources: 'Economist Activities in the Republic of Ireland: A Geographical Perspective'; Gillmor, D.A. (1985).  
'Census of Population 1986'; Central Statistics Office, Dublin.

Since the middle 1970s the Irish economy has not performed well (see Table 24.2 below). A good deal of the poor performance can be attributed to a world recession during that period, but that is only part of the story. Between 1970 and 1980, Ireland sustained artificially high levels of growth by large scale domestic and foreign borrowing. However, the effects of this policy became apparent in the 1980s; from 1980 to 1986, the average rate of growth was significantly lower than for other European countries. In 1985, public spending was an estimated 54% of GNP and the total national debt of £20 billion was equivalent to 130% of GNP (O'Cofaigh 1985). Over the past three years a gradual move from deficit to balanced budgeting has stabilized the debt problem. Though inflation is now under control, unemployment and youth emigration (including new graduates) continue to run at unacceptably high levels.

TABLE 24.2 Selected Statistics for European Community Countries.

	Ireland	Denmark	Holland	United Kingdom
Population (1988)	3.6m	5.2m	14.6m	56.2m
Area (in thousands of sq. miles)	27	17	14	95
Gross domestic product per capita 1986 (US\$)	6,932	16,114	12,031	9,650
Average annual growth rate in per capita GDP				
1970-1980	2.5%	1.9%	2.5%	1.8%
1981-1986	0.6%	3.3%	1.1%	2.5%

Sources: 'Main Economic Indicators', OECD Department of Statistics, December 1988.

'Eurostat: Basic Statistics of the Community', Statistical Office of the European Communities, 1988.

### Education System in Ireland

Ireland has an internationally well recognized system of primary, secondary and tertiary education. In the middle part of the first millenium AD Ireland earned a reputation as "a land of saints and scholars" primarily as a result of the work of its monastic communities. The most famous product of this period is the Book of Kells, an eighth century illustrated manuscript of the gospels which is housed in Trinity College, Dublin today. The oldest university, Trinity College was founded by Queen Elizabeth I in 1592. While the foundations of the present educational system were laid down in the nineteenth century by a British administration, Irish education as we know it today is largely the product of Irish Government policy developed since independence in 1921.

The secondary level education system in Ireland operates on a five year cycle. Its philosophy is broadly based and emphasizes the teaching of academic subjects to prepare students for entrance to the universities. In the last twenty years there have been modifications to this policy through the expansion of comprehensive and community schools which provide more technological/trade education for the less academically oriented student. Secondary school graduates compete in a national public examination for admission to third level education. The demand for university places significantly exceeds supply and therefore the national entrance examination is extremely competitive. Almost fifty per cent of school leavers apply for places at university and about one third of these are successful. This represents only fifteen per cent of the total school leaver population. However, a further ten per cent at least, gain admission to a variety of non university third level institutions. The typical first year university entrant (regardless of discipline) will have studied six subjects at secondary level; English, Mathematics, Gaelic, and at least one European

continental language plus two from a range of science and arts subjects which includes Physics, Chemistry, Biology, Economics, Accountancy, Business Organization, History and Geography.

Ireland has seven university colleges. The oldest is the University of Dublin — better known as Trinity College (TCD). The National University of Ireland (NUI) has four constituent university colleges; University College Dublin (UCD), University College Cork (UCC), University College Galway (UCG) and Maynooth College. Recently, the Government established two new universities, Dublin City University and University of Limerick (by granting university status to two third level colleges; the National Institutes of Higher Education, in Dublin and Limerick). All colleges are small by US standards; the largest has a student population of over 10,000 and the smallest a population just over 3,000. All the universities now provide business education.

## **Accounting Education**

### ***Origins***

The earliest Irish reference to auditors or accountants occurs in the records of the City of Dublin in the year 1316. Translated from the original Norman/French, it reads:

“Tillages (i.e., taxes) and imposts to be collected under the supervision of four or six good men duly sworn, and accounts to be rendered of receipts and payment before the commonalty of their auditors” (Robinson 1983 p. 6).

Throughout the subsequent centuries there are frequent references to the responsibilities and activities of municipal “audytores”, especially in relation to Dublin, the capital city. In 1761, Wilson’s Dublin Directory of Merchants and Traders features what is thought to be the first Irish practicing accountant who describes himself as “Merchant and Accomptant”. In the same directory twenty years later we find the first reference to an accountant who did not combine his profession with any other and the term “publick accountant” was used by a practitioner for the first time in 1795.

By the time of the Act of Union with Britain in 1800, Dublin and London Directories listed seven and eleven accountants respectively. In the first half of the nineteenth century, the accountancy profession developed as an adjunct to the legal profession due to the need for expertise in connection with disputes, fraud and bankruptcy. After 1845, the passing of various Companies Acts and Statutes relating to railways, building societies and banks gradually shifted the work of accountants towards maintaining accounting records for trusts, conducting general mercantile audits and stockbroking. The widening range of activities requiring professional accounting skills led to the formation of the Institute of Chartered

Accountants in Ireland in 1888, following a petition to the Lord Lieutenant by 31 accountants from Dublin, Belfast and Cork.

The embryonic profession and the growth of trade and commerce stimulated a demand for greater attention to economic and commercial education within the universities. Developments in business and economic education at the London School of Economics, Cambridge University and the University of Birmingham were mirrored in Ireland through the formation of commerce faculties in the Irish universities between 1908 and 1915. Accounting, banking, economics and insurance were important subjects in the early business studies curricula. It was not until 1963, however, when student numbers began to grow significantly that Ireland secured its first accounting chair (University College Dublin appointed Gerard O'Brien, BComm, MA, FCA).

It would be inopportune of us not to mention Ireland's place in the early development of company law. It is not widely appreciated that Ireland was the first country in the world to introduce the concept of limited liability in law — some seventy years before it was adopted in Britain (Robinson 1983: p. 38). The Anonymus Partnership Act of 1781 provided for the formation of partnerships in which dormant partners enjoyed a modified form of limited liability.

### ***Scope***

Accounting is now an important element of business education in Ireland. It is taught in a wide range of institutions at a variety of levels to diverse audiences. In addition to the universities, where it is taught predominantly at undergraduate level, it is taught to diploma and degree levels in many of the country's regional technological and vocational colleges. These latter colleges also provide significant part-time and evening tuition for the examinations of the professional institutes active in Ireland. Recent years have seen the emergence of a number of master's programmes in accounting and finance. Some of these are quasi-professional in nature in that they are designed with a view to maximizing exemptions from the examinations of professional bodies.

The largest of the professional accounting institutes, the Institute of Chartered Accountants in Ireland satisfies most of the tuition needs of its students through its Centre of Accounting Studies. A recent consequence of the excess demand for third level business and accounting education in Ireland is the emergence of private colleges — predominantly engaged in the provision of professional tuition but now beginning to award their own certificates, diplomas and externally validated degrees. Aspects of accounting are also a prominent feature of continuing professional education programmes and some executive development programmes.

### ***University Undergraduate Accounting Education***

The seven universities supply about two-thirds of the 1,500 primary business and accounting degrees awarded annually by institutions in the Republic of

Ireland. All students including those majoring in banking, marketing, operations and human resources take some of their courses from the accounting/financial domain. More than half of the 1,000 university business graduates specialize in accounting/finance. The scope and depth of accounting studies depends on the partially interrelated factors of;

- institutional/professorial philosophy,
- programme structure (including availability of electives) and,
- career aspirations of students (e.g., professional accountancy versus management).

The educational philosophy within the universities broadly reflects the traditional European culture; accordingly business subjects are taught from a social science perspective and consequently the more professional/applied aspects of subjects such as auditing, taxation and even accounting are not emphasized. This policy coupled with the broad second level education of Irish students has meant that the Irish graduate is very much in demand both at home and abroad. Irish business graduates are very successful at securing attractive employment in Europe and in the city of London.

While recognizing the general social sciences orientation of business education in Europe including Ireland, it may be useful to look at accounting education along a spectrum ranging from quasi-professional (such as the bachelor's degree in Accounting and Finance at Dublin City University) to the social science emphasis (such as the bachelor's degree in Business Studies at Trinity College, Dublin). The bachelor's degree in Commerce offered by the constituent universities of the National University of Ireland demonstrates characteristics of central tendency along the spectrum, but the particular subject options chosen could position it towards either pole.

A business degree with a social science emphasis may have no accounting course in the first year and accounting studies in later years may account for no more than 25 per cent of the programme weighting. At the other end of the spectrum, accounting is seen as an important foundation course in first year and by the final year accounting and closely related subjects may constitute 60 per cent to 80 per cent of the programme.

Table 24.3 shows the structure and courses available within three degree programmes which are representative of the spectrum of undergraduate business education in Ireland.

A perusal of Table 24.3 illustrates not only the different emphases on accounting and related subjects but also highlights differences in attention to Economics, MIS, Taxation and Auditing. The area of languages is now receiving increasing attention within business education, partially due to European Community efforts to establish a single European market for goods, services, labour and capital in 1992.

As shown above it is possible to pursue a modern language (European or Japanese) to degree level within the BA. Accounting and Finance at

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TABLE 24.3 *Business Studies/Commerce/Accounting-Finance Education Curricula in a Range of Irish Universities*

	Social Science Emphasis	Quasi-professional Emph.	
Institution	TCD	UCD	DCU
Degree	BBS	B.Comm (Acctg.)	BA (Acctg. & Fin.)
Duration	4 years	3 years	3 years
YEAR 1	Economics Mathematics Statistics Management Sociology Politics Intro to Computers	Accounting Mathematics Economics Business Admin. MIS Business Law	Financial Accounting I Management Acctg. I Economics Commercial Law Management Personnel Mangt. Communications or Modern Language
YEAR 2	Accounting & Fin. Management I Management II Quantitative Methods Economic Analysis Economy of Ireland Politics or Sociology	Management Acctg. Financial Accounting Taxation & Fin. Mangt. MIS Micro & Intl. Econ. National Economy Business Administration Behav. Sc. & Indus. Rels. Business Law	Financial Accounting II Management Acctg. II Company Law Quantitative Methods DP and MIS Taxation I Marketing Public Administration or Modern Language
YEAR 3	Five of: Marketing Law Managerial Econ. Investment Analysis MIS Management Acctg. Operations Analysis Internat. Pol. Econ. of Less Dev. Countries Urban & Reg. Econ. Industrial Rels.	Management Acctg. Advanced Fin. Acctg. MIS Business Administration Finance Business Law Applied Econ. or MIS	Financial Accounting III Financial Management Investments Managerial Econ. Corporate Planning Intl. A/c. Environment or Modern Language plus two from: Auditing/Taxation II/ Modern Language/Mangt. Accounting/MIS/ Behav. Science
YEAR 4	Four from: Advanced Accounting Finance Strategic Management Innovation and Intl. Business Human Resource Management Technology Work and Society Economics		

DCU, which also offers a much sought after joint degree in two Languages and International Marketing. The BComm at University College Dublin also has an international stream offering German language, literature and culture over four years (one of which is spent at a German University). The bachelor's degrees in Commerce at the University College Galway and University College, Cork also offer modern European language options and similar courses at Trinity College, Dublin have been introduced.

All universities are encouraging their business students to participate in the "Erasmus Programme", a European Community educational initiative which sponsors selected students to spend up to one year of their degree programmes at an educational institution in another European country.

Finally, the professional accounting institutes allow examination exemptions to graduates on the basis of subject choices within the degree programmes. Relevance for exemption is normally determined by the profession's accreditation organization, "The Board of Accreditation of Educational Courses" (BAEC) and/or the individual professional institutes. Exemptions are based upon content in accounting, finance, and other business subjects for which minimum levels of cover are specified.

### ***Resources***

As an education oriented society with a relatively young population structure, the demand for educational services at all three levels places great stress on Ireland's public finances. Average class sizes in primary schools are high. Second level facilities are also stretched by the "baby boom" which continued until 1980, and by a high participation rate up to the age of seventeen. Within this context it is hardly surprising that public sympathy and funding for the university sector has been low during recent years. New university staff appointments are a rarity, "freezing" of vacant posts for two or three years is the norm and occasionally posts are abolished as "Cuts Committees" attempt simultaneously to manage deficits and internal reallocations.

A further factor affecting the availability of business studies and accounting resources relates more to the internal university environment than to the external macroeconomic environment. This has two negative dimensions. The first is that business studies still struggle (admittedly to a lesser degree than before) to justify its place as a "worthy" academic discipline. As a consequence, university power and governance has been dominated by the traditional arts and sciences. The second is the inevitable bureaucratic delay in the allocation of resources to developing areas, of which business studies and accounting are good examples since the mid 1960s.

The current position is that there are accounting chairs at five of the seven university level institutions offering business education. The holders of the chairs have charge of small accounting departments (normally fewer than



ten staff), which are generally a subset of larger faculties of commerce. The total number of lecturers in accounting is approximately fifty; inclusion of subjects such as finance, taxation and auditing would increase the number to about seventy. The student–staff ratios for business studies within the individual universities are very high by international standards; rates approaching 40 : 1 are not exceptional.

The background of academic accountants in Ireland presents an interesting profile. The vast majority have a professional qualification and have spent several years in public accounting and/or industry and commerce. Most have higher degrees, roughly one-third of which are at PhD. level. Doctorates are usually achieved through a combination of part-time study and research while registered at a UK or US university and based in the home institution.

The development of postgraduate accounting education at the universities in Ireland has been very slow. The accounting profession has as yet provided no funding for university positions and there are almost no bursaries with which to attract good postgraduate students. Of course, the implications of this are well understood by local accounting academics; no funding means no new posts, no new posts means high teaching commitments; high teaching commitments means small research output and of course small research output means few graduate students. A nice example is the University of Dublin, Trinity College which employs two academic accountants, offers an undergraduate business degree to 150 students, an MBA to 35 students and a variety of post experience courses to managers. The other colleges, even though all have larger business faculties are under similar pressures.

### **Financial Reporting Environment**

The commercial and regulatory environment in Ireland is very similar to that of Great Britain and not too dissimilar from that of United States. The activities of commercial enterprises are regulated by statute in the form of Acts of Parliament. These “Companies Acts” also set out detailed provisions regarding financial reporting by incorporated bodies. A second source of regulation comes from the Accounting Standards Board (ASB) a body which is partially composed of representatives of the major accounting institutes in Great Britain. These are The Institute of Chartered Accountants in England and Wales (ICAEW), The Institute of Chartered Accountants in Scotland (ICAS), The Institute of Chartered Accountants in Ireland (ICAI), The Chartered Institute of Management Accountants (CIMA), The Chartered Association of Certified Accountants (CACA) and the Chartered Institute of Public Finance and Accounting (CIPFA). Finally, those incorporated bodies who have a public listing on the Irish Stock Exchange have additional reporting duties imposed upon them by the Exchange. It is worth noting that as the European Community (EC) harmonization programme in company law proceeds, it is likely that

in the not too distant future legislation throughout Europe will be broadly similar.

### The Accounting Profession

Although Ireland and Great Britain act independently and as sovereign jurisdictions, the accounting profession is far from clearly separated. At best one might say that the accounting profession within Ireland and Great Britain is fragmented, at worst that it is strife riven. Understandably, the truth lies somewhere in between. There are six major professional institutes /associations referred to above and a host of smaller associations whose status is not very clear. Only one of the six bodies referred to above, The Institute of Chartered Accountants in Ireland is an Irish based body. However, the Chartered Institute of Management Accountants and The Chartered Association of Certified Accountants (both British based) have significant student and qualified membership in the Republic of Ireland. Ireland also has another locally based professional institute, The Institute of Certified Public Accountants in Ireland (ICPAI). Although not one of the six major professional bodies it is recognized locally and members are licensed to operate in public practice. Table 24.4 below gives a recent summary of the membership and registered studentship of each of the bodies in Ireland. Over the past twenty years there have been a number of abortive attempts at merger in order to create larger groupings. The most recent attempt at achieving merger between the English Institute (ICAEW) and the Scottish Institute (ICAS) in June 1989 failed when the positive recommendation by both Institutes' governing councils failed to gain the support of the membership. It is doubtful at this stage whether the Irish Institute would see any advantage to merging into a larger British/Irish body. There is a good deal of rivalry between the professional bodies with regard to professional status and student recruitment.

TABLE 24.4 *Accountants and Student Accountants in Ireland*

	1988 Membership	1988 Registered students
ICAI (Republic of Ireland, Northern Ireland & overseas)	6,400*	2,200
CACA (Republic of Ireland and Northern Ireland)	1,400	4,500
CIMA (Republic of Ireland)	800	1,500
ICPAI (Republic of Ireland)	800	1,400

\* 2,500 working overseas.

Source: Information provided by local membership secretariats.

### ***Entry to the Profession***

Those wishing to register as students of the professional institutes can do so in a variety of ways. The examination structure of the four main bodies operating in Ireland is such that a student can commence employment and begin a course of professional study immediately upon finishing secondary school or alternatively, can read for a university degree in either business, accounting or non-relevant discipline and then enter professional training. Students entering with higher level qualifications are granted exemptions depending on the degree course studied. There are signs that the profession in general is becoming increasingly graduate oriented but it is worth noting that the Chartered Association of Certified Accountants and the Chartered Institute of Management Accountants both retain a strong commitment to an open door policy in order to give candidates from varied backgrounds the opportunity to qualify as accountants.

An unusual feature of the British and Irish accounting profession, often commented upon, is that each of the bodies carries out its own examining function. Each of the professional bodies provides comprehensive guidelines to their educational and training requirements and we shall not discuss these in detail here. (The correspondence addresses of each of the bodies is given at the end of this paper). All of the professional institutes' examinations are extremely rigorous and there are high failure rates in the examinations. All the professional bodies require that applicants for membership whether training in public practice, industry or commerce must demonstrate verified practical work experience of suitable quality as well as passing the examinations. The time periods vary a little but three years is the average.

### ***Training in Practice***

The Institute of Chartered Accountants in Ireland has almost total control of the public accounting market in Ireland. Members of the Chartered Association of Certified Accountants subject to appropriate training in an audit environment, are also permitted to practise as public accountants in Ireland but practices are small in size and number. The Big Five international accounting firms are all represented in Ireland and they provide the most successful training route for prospective chartered accountants. These firms also offer a small number of training contracts to students wishing to study for the CACA and CIMA mainly in the taxation and management consulting wings.

Training in practice offers a great deal to the prospective accountant. In most of the large public accounting firms education and training structures exist which encourage the student to advance quickly. Moreover, the number of trainees is far greater than one would find in industry and this provides a strong "collegial" environment for professional students.

The examination structure of the Institute of Chartered Accountants in

Ireland is a good indication of the professional educational demands placed on the student accountant — see Table 24.5 below:

TABLE 24.5 *Examination Syllabus of Institute of Chartered Accountants in Ireland*

Professional One	Professional Two
Financial Accounting I	Financial Accounting II
Law I — General	Law II — Company and Partnership
Statistics	Data Processing and MIS
Organization and Management	Taxation I
Control Systems	
Economics	
Professional Three	Final Admitting Examination
Financial Accounting III	Financial Accounting*
Auditing I	Auditing II
Taxation II	Data Processing and MIS*
Management Accounting	Taxation*
	Management Accounting*
	Financial Management

\* Multi-discipline examination papers covering all material studied to date.

### ***Training in Industry and Commerce***

The majority of the professional students of the Chartered Association of Certified Accountants and the Chartered Institute of Management Accountants train in industry and commerce. The registered students of both these institutes come from a variety of backgrounds. At present the larger percentage of registered students have not pursued a course of full-time third level education but the percentage of graduates has been growing steadily during the past 10 years as opportunities for professional accountants have grown.

Training in industry and commerce has some advantages and disadvantages when compared with training in public practice. Probably the major advantage is the higher level of work satisfaction particularly for the student who demonstrates ability early. The primary disadvantage is that industrial and commercial enterprises are rarely in a position to match the generous examination study leave which the practising offices offer. Subject for subject the examinations of both these institutes are very similar to the examinations of the Institute of Chartered Accountants in Table 24.5 above.

### ***Training at “Technician” Level***

In the late 1970s the British and Irish professional institutes added further to the fragmentation of the profession by setting up two technician level

qualifications in accounting. The technician qualification is a lower level accounting qualification designed for those who wish to work in accounting but who, for whatever reason, do not aspire to full professional status. The Association of Accounting Technicians (AAT) is British based, sponsored by the Chartered Association of Certified Accountants and the Chartered Institute of Management Accountants and admits Irish students. The Institute of Accounting Technicians in Ireland (IATI) is an Irish organization sponsored by the Institute of Chartered Accountants in Ireland.

Applicants are admitted to the technician bodies after passing two sets of examinations and gaining suitable practical experience. The normal qualification period is two years and most entrants to these bodies will not have attended university. The professional institutes allow those who have gained admission to the technician body to proceed to take the professional accounting examinations and appropriate exemptions are granted.

### ***Continuing Professional Education***

Each of the professional institutes has developed programmes of post-qualification continuing professional education. These comprise evening lecture series on topics of relevance to practising accountants and managers. The content is broad and covers such issues as new professional standards, auditing standards, tax legislation, computer packages, new forms of financial instrument. The institutes do not require attendance at these courses, but attendance is strongly recommended and the courses are well attended. All professional institutes urge their membership to continue to educate themselves by attending courses relevant to their needs, the recommended time is 40 hours per annum. Perhaps as a result of the rigorous training which accountants undergo, there appears to be little demand from the members of the profession for more formal post-qualification study. Graduate and post-experience programmes in management such as MBA, MSc and PhD attract only very few professional accountants.

### **Conclusion**

The development and growth of university accounting education in Ireland has been very good for the country; the profession has assisted with the economic recovery and structural change in the country and has made a significant contribution to improving the strategic and financial management of Irish industry. Professional accountants have a high status within the business community and command high salaries. In fact, this is one of the reasons why it is difficult to attract bright young graduates to pursue academic careers.

As educators, we believe that the time has come for the profession to contribute something to the universities. In a small country it may be too optimistic to expect the level of funding common in the US but, there is

scope for the accounting profession as a grouping (perhaps under the auspices of the professional associations) to commit resources to accounting education specifically. In Ireland, certain large indigenous corporations have taken a lead by making bequests to the colleges and by funding professorial posts (though not as yet in accounting). One would hope that the accounting profession will take up this cause.

From the foregoing analysis of funding and teaching commitments, it might appear that the prospects for accounting education are bleak. This is far from true. On the whole morale among accounting academics is good. Recently, a group of concerned academics came together to form the Irish Accounting Association in order to promote and develop the research output within the colleges. The Association has now held four successful annual conferences and an annual journal is now being published. If suitable funding is made available for new lectureships and professorships, accounting education will continue to thrive. But, there will be other benefits: it will help to secure on a firmer footing the embryonic research community and in so doing strengthen the academic content of courses.

Finally, we might advise accounting academics reading this summary that the Irish universities (and Ireland more generally) provide a very suitable environment for researchers wishing to spend study visits of up to one year. In return for a small amount of teaching, the universities can usually provide an office, good library facilities, and in some cases modest payments. The opportunity also exists to carry out consulting work for the significant number of US corporations operating in Ireland. Moreover, Ireland allows easy and cheap access to Britain and mainland Europe and is relatively inexpensive when compared with major European cities.

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## APPENDIX 24.1

The Chartered Association of Certified Accountants  
9 Leeson Park,  
Dublin, 6.

The Chartered Institute of Management Accountants  
44 Upper Mount Street,  
Dublin, 2.

The Institute of Certified Public Accountants in Ireland  
22 Upper Fitzwilliam Street,  
Dublin, 2.

The Institute of Chartered Accountants in Ireland  
87 Pembroke Road,  
Ballsbridge,  
Dublin, 4.

# Accounting Education and Certification Process in Spain

ENRIQUE FERNANDEZ PEÑA

## History of the Accounting Profession

In the Spanish socio-economic environment the role of accounting was notable for its low level during the eighteenth and nineteenth centuries and the first half of the twentieth century, compared with that of the Anglo-Saxon countries. The situation was different during the sixteenth and seventeenth centuries, but the subsequent economic decline of Spain had a decisive influence.

In 1850 establishments known as commercial schools were constituted with three study cycles which, with many changes in their study curricula, were the only centers of official accounting teaching in Spain for several years. In 1953 the third study cycle was incorporated into the Universities and the second cycle was also incorporated into the Universities in 1970. Subsequently, in 1980 the first cycle was transferred to the “professional education” sector.

In the second half of the twentieth century there was a radical economic change which some call the Spanish economic miracle which occurred in the period between 1960–1975. With the arrival of significant foreign investments and the establishment of the Big Eight (now big six) auditing firms in Spain, a significant change occurred which it is hoped will be completed during the next decade.

## Pre-College Level Education of Accountants

Today accounting education is incorporated into the University teaching in the three phases which comprise: a first phase of three years, a second phase of two years and a third of a further two years, all within the curriculum known as business science study.

In order to enter the University, at 18 years of age, previous general studies are required which do not include accountancy. This does not occur in the case of students having what is known as “professional education” in accounting and administration.



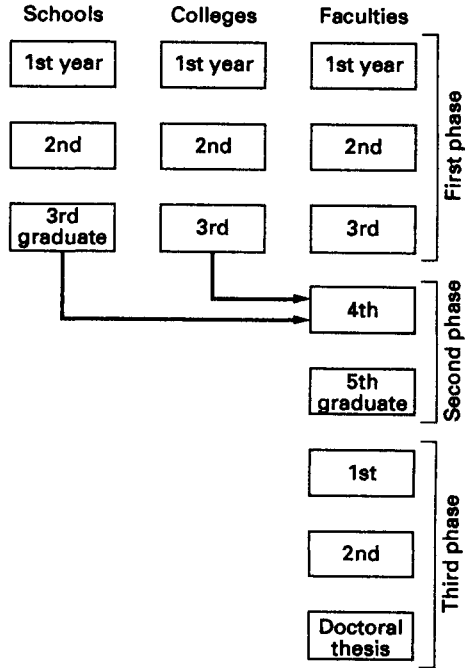


FIG 25.1

Figure 25.1 shows the composition and possible relation between the various University centers of business science study.

### College and University Level Education of Accountants

The University curricula are not directed towards the training of Accountants in the Anglo-Saxon sense, but towards graduates in business science study with courses in the disciplines of accountancy, law, economics and mathematics, as well as one foreign language.

Figure 25.2 shows, in comparative form, the career studies of the Faculty and the School of Business Science Study in the Complutense University of Madrid (UCM), detailing by years the various subjects comprising the course.

### Number of Courses or Credit Hours Required at Each Level

The information supplied in Figure 25.2 is considered to give sufficient information as regards courses and subjects in general, and as regards accounting in particular. Each annual course of eight months, October-May, is given in 90 hours of class time, including practical training.

UCM FACULTY

UCM SCHOOL

Business Economics  
Specializing in Auditing

Business Studies  
Specializing in Accounting and  
Information Systems

*First Course*

*First Course*

Introduction to Economics  
Business Mathematics (I)  
Introduction to Statistics  
General Accounting  
Economic History  
Civil Law (introduction)  
Administrative Law  
—

Introduction to Economics  
Mathematical Analysis  
Introduction to Statistics  
General Accounting  
Economic History  
Introduction to Public and Private Law  
—

English, French or German (I)

*Second Course*

*Second Course*

Micro and Macroeconomics  
Accounting and Costing  
Business Mathematics (I)  
World Economic Structure  
Mercantile Law  
Business Economics (introduction)  
English (I)  
—

Micro and Macroeconomics  
Cost Accounting  
Business Mathematics  
Economic Structure  
Mercantile Law  
Business Economics (introduction)  
English, French or German (II)  
Business Fiscal Regulations (I)

*Third Course*

*Third Course*

Economic Structure of Spain  
Economic Policy  
Business Statistics  
Business Economics  
Financial and Company Accounting  
Labor Law (four monthly)  
Industrial Sociology (four monthly)  
English (II)

—  
Economic Policy  
Business Statistics (second course)  
Business Economics  
Financial and Company Accounting  
Labor Law (annual)  
Business Sociology (annual)  
English, French or German (III)

*Fourth Course*

Financial Operational Mathematics  
Accounting Analysis and  
Aggregation  
Business Organization and Market  
Analysis  
Business Economics  
Public Treasury  
Business Econometrics

—  
Integration and Analysis of Accounting  
Statements (quarterly)  
—  
—  
—

*Fifth Course*

Business Economics	—
Spanish and Comparative Fiscal System	—
Management Information System (four monthly)	Analysis and Design of Information Systems (annual)
Theory and Methods of Decision Making (four monthly)	—
Spanish Financial System (four monthly)	—
Accounting Revision	Auditing (quarterly)
Fiscal Accounting	—
—	Business Fiscal Regulations (II)
—	Fundamentals of Management Cybernetics
—	Techniques and Methods of Administrative Rationalization

NOTE: The total hours earned for each course is 90; and the duration of each course is eight months.

FIG 25.2 Comparative Study Plans in the Faculty and School of Business Sciences of the Complutense University of Madrid (UCM)

***Minimum Level of Education Including Accounting Education Required for Professional Certification***

On July 12, 1988 a law was promulgated regulating the profession of auditor of accounts. Persons with a three-year University diploma may become members of the profession, regardless of the studies followed. The text of the relevant sections of the law is as follows:

1. The practice of auditing of accounts may be carried out by physical or legal persons who, being in compliance with the requirement described in the following Articles, are registered in the Official Register of Auditors of the Institute of Accounting and Auditing of Accounts.
2. The official Register of Auditors shall supply, at the request of an interested party, an up-to-date list of the names and professional office addresses of the members inscribed therein.
3. The inscription in the Official Register of Auditors of Accounts shall not be an authorization for the exercise professional activities, other than those provided for in Article I of this law, which shall require the conditions as to qualifications and degrees demanded by the legislation applicable in each case.
- I. In order to be registered in the Official Register of Auditors it shall be necessary to:
  - a. Be of legal age.
  - b. Hold Spanish nationality or that of one of the member states of the European community, without prejudice to anything which other regulations may provide regarding the right of establishment.
  - c. Not have a criminal record for fraudulent offenses.

- d. Have obtained the appropriate authorization from the Institute of Accounting and Auditing of Accounts.
- II. The authorization referred to in the previous subsection is granted to those persons who meet the following conditions:
  - a. Have obtained a University degree.
  - b. Have studied courses in the theory and obtained practical training.
  - c. Have passed an examination of professional aptitude organized and recognized by the State.

### **Training or Education for Professional Certification**

In accordance with the aforementioned law of July 12, 1988, in addition to the University studies, practical training should last for a minimum period of three years in work performed in the accounting and financial field, and it should relate especially to annual accounts, consolidated accounts, or similar financial statements.

### **Professional Examinations**

The professional aptitude examination, which should be directed towards an exacting proof of the capacity of the candidate to practice the audit of accounts, should comply with the conditions and deal with the subjects referred to in Articles 5 and 6 of the Eighth Directive of the Council of European Communities dated April 10, 1984, based on subparagraph (g) of paragraph 3 of Article 54 of the CE Treaty, relating to the authorization of persons entrusted with the legal control of accounting documents (84/153/EC).

Persons who hold the title of Licentiate, Engineer, Mercantile Professor, Architect or University Diploma shall be exempt in the professional aptitude examination from those subjects which they have passed in the studies required to obtain the aforementioned degrees.

The professional aptitude examination shall be held by each of the professional bodies representing the auditors and the Institute of Accounting and Auditing of Accounts, following approval in all cases of the respective convocation, which shall be published by Order of the Ministry of Economy and Finance.

Articles 5 and 6 of the Eighth Directive provide that:

The examination of professional competence referred to in Article 4 must guarantee the necessary level of theoretical knowledge of subjects relevant to the statutory auditing of the documents referred to in Article 1 and the ability to apply such knowledge in practice.

Part at least of that examination must be written.

The test of theoretical knowledge included in the examination must cover the following subjects in particular:

- a) – auditing,
  - analysis and critical assessment of annual accounts,

- general accounting,
  - consolidated accounts,
  - cost and management accounting,
  - internal audit,
  - standards relating to the preparation of annual and consolidated accounts and to methods of valuing balance sheet items and of computing profits and losses,
  - legal and professional standards relating to the statutory auditing of accounting documents and to those carrying out such audits;
- b) in so far as they are relevant to auditing:
- company law,
  - the law of insolvency and similar procedures,
  - tax law,
  - civil and commercial law,
  - social security law and law of employment,
  - information and computer systems,
  - business, general and financial economics,
  - mathematics and statistics,
  - basic principles of the financial management of undertakings.

### **Years of Experience Required to Enter the Profession**

As soon as the aforementioned examination is passed, the individual may practice professionally, as he will have been inscribed in the Official Register of Auditors.

### **Continuing Professional Education Requirements**

Continue Professional Education (CPE) is not required in Spain. As the law which regulates the practice of auditing is so recent, continuing education up to the present time has taken place at the individual level with results which, in general, have not been very beneficial. Individual continuing professional education efforts are not as effective as they should be.

### **How the Present Accounting Meets the Country's Socio-economic Needs**

Since 1960 a very significant progress has been made in the knowledge and application of accounting by the different economic entities, teaching centers and Public Administration in Spain. With this advance, together with the promulgation of the law for the audit of accounts, the accounting profession will be strengthened very significantly. Within a few years this progress should place Spain in a position comparable with other European countries, and thus meet the country's socio-economic needs.

# Accounting and Auditing in Switzerland

ANDRÉ ZÜND

## **Accounting**

### ***Introduction***

Switzerland is primarily regarded as an underdeveloped country in terms of accounting and auditing; its laws provide few rules on sound bookkeeping practice, hidden reserves are tolerated, auditing requirements are minimal, the profession is weaker than in other countries, and the standard-setting process is in a rudimentary phase. Nevertheless, Switzerland is one of the most industrialized countries in the world with one of the highest per capita gross national incomes.

Things are changing in Switzerland, however. Swiss Company Law is being revised. The draft of the new law provides more definite rules on annual accounts, consolidation, disclosure and auditing, partly inspired by the Fourth and Seventh Directives of the European Economic Community (EEC), although Switzerland is not a member state of the European Community. The Swiss Accounting Standards Board was created in 1984 to prepare recommendations for disclosure and reporting for Swiss companies.

The first part of this paper explains the reasons and consequences of the latest development in Switzerland in comparison with international trends in accounting.

### ***Law System Swiss Style***

Three main approaches for the establishment and implementation of accounting standards exist. The first is of a legal nature concerning accounting practices governed by laws and regulations. This is the method which prevails in the EEC, according to the method of the directives, and in some other European countries. The second method, which is predominant in the United States, Canada, Australia and New Zealand, and to some

extent, still in the United Kingdom and Ireland, is based on self-regulation in the accounting profession, in some cases in conjunction with the business community and other groups interested in the accounts. The third one, while being of a primarily legal character, relies largely on consultation between public authorities and accounting boards representing a wide range of interests (business, labor, professional accountants and financial analysts, and academic and administrative bodies which scrutinize the accounts). This consultative process is used in France, Belgium, the Netherlands, Spain, and Japan. It should be stressed, however, that no clear dividing line can be drawn from these different approaches. They are not fundamentally opposed but tend to reflect differences of emphasis often rooted in tradition.

Swiss principles of accounting are established and implemented by law. The Code of Obligations, part of the Swiss commercial law, contains some rules on sound bookkeeping practice to be followed by all business enterprises (commercial accounting, sections 957 to 964) and more detailed rules on accounting by companies limited by shares (corporate accounting, sections 662 to 670).

The law of commercial accounting is governed by general principles (such as completeness and clarity) without stipulating any operational rules. There is a tradition, for instance, that no section of Swiss private law should contain more than three paragraphs, and that one paragraph should be limited to only one sentence.

Because there is no intention of amending the statutory provisions on commercial accounting, the Swiss place the emphasis on corporate accounting, since the majority of Swiss enterprises choose the legal form of a joint stock company (Aktiengesellschaft, société anonyme, società anonima).

### ***The State of Swiss Corporate Accounting***

The accounting provisions in Swiss Company Law apply to all companies. One set of rules applies to a large number of extremely different companies. The company limited by shares (or joint stock company) is by far the most popular legal form of business enterprises and economic activities such as holding companies, family companies, real estate companies, industrial companies, and large multinational companies. Nearly 50 per cent of all Swiss companies may be considered small since their share capital amounts to no more than 50,000 Swiss francs (about 35,000 US\$).

The essential feature of accounting rules in Swiss Company Law is that in order to protect the maintenance of the share capital, the historic costs form the upper limit of valuation for fixed, as well as current assets, and that (with the exception of quoted shares and bonds) underevaluations are permitted practically without limitation.

Switzerland and Liechtenstein are the only countries with a specific statutory provision allowing the formation and dissolution of hidden

reserves. According to this provision, companies are entitled to form hidden reserves to an extent relating to the permanent development of the business and for an even payment of dividends. This allows the management to manipulate the profit and to submit annual accounts with a minimum informative value. The board must inform the auditors of the change of these reserves. The shareholders, however, have no right to be informed about the reserves formed or dissolved in the preceding year. If, from the information available, a shareholder is unable to form an opinion about the financial situation of the company, he has the right to request further verbal explanations from the board of directors during the general meeting of shareholders. It is left to the discretion of the management to decide in which respects and to what extent company secrecy is maintained. The law does not define the minimum information which may be disclosed. However, professional circles advocate that repetitive and material transfers from hidden reserves should be disclosed in the business report in order to give the shareholders a fair view of the profitability trend.

By dissolving hidden reserves, the board can increase the profits or even turn a loss into profit without having to inform the shareholders of the company or other recipients of the annual accounts. This convenient but dangerous method for reporting inaccurate figures has some critics, but more supporters. It is therefore obvious that any departure from the laxness of the present norms would lead to fierce political controversy. The problem of the hidden reserves will be the center and the crux of any company law reform in Switzerland.

Foreign observers may be of the opinion that the adoption of the practices of hidden reserves and minimum amounts of disclosure is in direct contrast to the requirements of other countries for an informative approach to financial accounting. Some exponents of accounting theory, the accounting profession and the financial analysts in Switzerland have been making various attempts to persuade company managers to implement standardized accounting principles. Although the revised company law will introduce additional requirements for financial statements, the Swiss environment does not promote sophisticated and expensive financial reporting and continues to encourage companies and executives to follow a conservative approach.

Permissive legislation in the field of valuation is not the only deficiency of the present rule. Disclosure requirements are very limited. Every creditor of a business entity recorded in the commercial register, for instance, has the right to inspect the latest financial statements of his debtor. The procedure, however, is slow and not widely practiced. Further requirements are contained in the regulations governing stock exchanges. Banks and insurance companies are required to publish their financial statements in the official Swiss Commercial Gazette, and companies are obliged to publish a prospectus when they issue new shares and bonds. However, there is no obligation whatsoever to indicate, for example, the turnover, and the profit and loss report may begin with the gross profit. Loans to and



from shareholders, amounts owed to personnel welfare foundations and the amount of the emoluments granted to the board and to the management need not be reported separately. It is not unusual to lump provisions and long-term creditors' amounts together, to offset interest paid and received, to include extraordinary income in operating income, or to deduct provisions for bad debts from interest receivable.

Since Swiss law does not contain rules to safeguard the formal and material consistency of the annual accounts, comparisons are often difficult. Notes to the balance sheet are not compulsory except in a very limited sense. Although it has been estimated that more than 50 per cent of all companies limited by shares are in one way or another related to another company, Swiss Company Law does not require consolidated accounts. As has been mentioned, companies are not compelled to file or publish their annual accounts, the only exceptions being banks, insurance companies, railways and quoted companies.

What are the reasons for the particular Swiss legal accounting system? It is true, as von Greyerz (1984) remarked, that prudence and secrecy are not only Swiss national maxims but also the basis of Swiss accounting law. He contends that the protection of shareholders, employees, or the general public are for many accountants, lawyers, businessmen, and politicians of minor importance. Our cautious approach to reporting on the state of affairs of a business is, we are constantly told, one of the bases of the economic strength of our industry and the main reason for the survival of many enterprises in the past years of economic recession. Balance sheet secrecy, according to von Greyerz (1984), has certainly spared the management of many companies the trouble of long and complicated discussions with minority shareholders or employees.

Jamie Pratt (1984), an American academic accountant who was confronted with the Swiss accounting system, gives the following explanation:

Switzerland is a relatively small country composed primarily of small, closely held family operations. These firms require little public capital. A number of the largest Swiss firms are privately held. Other Swiss firms, small and large, are often controlled by the relatively powerful banks there. Bank officers are normally on the boards of the largest Swiss firms. This implies that the ownership capital in Switzerland is not widely dispersed. Rather, it is usually held by an owner/manager or concentrated in the hands of relatively few individuals. The distance between the owner and the manager is relatively small.

Giorgio Behr (1984) summarizes the macro-economic level as follows: the Swiss procedure of law and the Swiss legal system (including the mechanism for passing new laws), as well as the characteristics of Swiss capital markets and the tradition of self-regulation within the Swiss economy, have so far not given rise to an important demand for accounting standards. However, the development of capital markets (with the trend of going public before the crash), the tendency towards increased professional

liability in any field — not only in the audit area — are currently pressing the parties concerned into a process of improving reporting and accounting standards. These needs are observed only in part by the legislators and for the rest are left to the self-regulating forces within the Swiss economy.

### ***Reality of Accounting and Reporting in Switzerland***

According to Behr (1984), accounting and reporting in Switzerland are often perceived by foreigners as a mixture of disclosing virtually nothing, hiding profits, and the creation and dissolution of highly mysterious hidden reserves. There is support for this view if judgment is made solely on Swiss Company Law. A review of the reports of larger Swiss companies would, however, lead to different findings. For example, one large Swiss multinational company not only presents accounts that could be compared to those of listed US companies, it also published a consolidated set of accounts showing the effect of changing prices some years ago.

Voluntary disclosure has made considerable progress during the past few years. This successful development can be attributed to the financial press, the accounting and auditing bodies, to some extent to the OECD Guidelines (1980), and to the efforts of the Swiss Association for Financial Analysis. Since 1965 the association has been conducting a critical annual inquiry into the reporting practices of larger Swiss public companies, thus contributing to the quantitative and qualitative improvement of the information policy of the firms. By 1986 the survey had covered forty-two important publicly held firms, compared to twenty-two firms in 1965. Although the results of the study reflect the disclosure and information practices of these companies, it is not representative of the remaining nearly 130,000 incorporated Swiss firms, of which only approximately 1,000 publish annual reports.

The Swiss Association summarized the progress during the past decade as follows:

It can be said that during the past few years a trend has become recognizable among (large) publicly held Swiss companies to intensify their flow of published information. There have not only been improvements in the information provided in annual reports and at shareholders' meetings, but intermediate information, whether in the form of letters to shareholders, press conferences or interviews with members of the board, is becoming more and more frequent.

However, according to Behr (1984), there are still companies with sales in billions of francs and extensive international operations which do not publish consolidated accounts and only release selected consolidated data such as consolidated sales or orders in book. Companies such as Brown Boveri and Elektrowatt may be taken as examples. So far only listed companies have been mentioned. If, instead, we refer to private concerns, overall judgment of accounting and reporting becomes rather embarrassing.

Neither Bühler Uzwil nor the Hesta Group, both ranking in the top twenty firms in Swiss industry, publish consolidated statements, and even the statements of the parent company are not very detailed and do not contain acceptable disclosure.

As far as empirical research on the contents of annual reports is concerned, the review by Coenenberg, Möller, and Schmidt (1984) confirms that Swiss firms observe relatively conservative disclosure behavior. This is also the case with group reporting, information about future events, social reporting, and interim reports, as well as flows and funds statements. On the other hand, there is empirical evidence that most of this additional information is used as a managerial tool for internal purposes only.

### ***Current Company Law Project***

Christoph von Greyerz, chairman of the Swiss company law reform committee, summarized the motives, the main measures, and the outlook of the project as follows.

The unsatisfactory state of the balance sheet law was the main reason for the reform of our company law. The lack of clarity of the company's affairs and activities, together with insufficient rules on auditing, caused the Federal Council, the Swiss government, to start reform proceedings as far back as 1966. After the appointment of one expert and two company law reform committees, and following two consultation procedures with the political parties, the economic associations, and all other persons and bodies interested, the Federal Council submitted a Companies Bill to Parliament in 1983. The main objectives of the proposed partial reform are:

- The increase of clarity.
- The strengthening of protection for shareholders.
- The facilitation of capital raising.
- The improvement of the structure and functions of the organs.
- The prevention of misuse.

One means of increasing clarity is to improve the informative value of the annual accounts. The Companies Bill endeavors to reach this objective by the following measures:

- By improving the format of the annual accounts.
- By converting generally accepted accounting principles into legal norms.
- By compelling the companies to include the amounts of the preceding year in the annual account.
- By fixing the content of the appendix to the annual accounts (notes to the balance sheet).
- By making consolidated accounts compulsory.
- By restricting the formation of hidden reserves.
- By disclosing the dissolution of hidden reserves.

- By allowing the re-evaluation of participation in other companies and of land and buildings under certain restrictions.
- By compelling public and large private companies to publish annual accounts.

The draft contains flexible rules on the presentation of annual accounts. Heterogeneous reality does not allow the format of the accounts to be described in great detail. The formal rules must be easy to adopt by all kinds of accountants and cannot therefore be restricted to large industrial enterprises.

The new company law will not become effective before 1992. The legislative procedure will then have lasted for more than twenty years. Although company law is a “*lex semper reformanda*”, it is hoped that the new act, like the present law, will remain in force for another fifty years.

### ***Impact of International Developments***

According to von Greyerz (1984), Switzerland has long been a balance sheet paradise. The attractiveness of discretion in financial reporting is fading away. The Swiss are beginning to realize that adequate disclosure of the financial position is in many respects the best and most efficient protection of all persons concerned. The impact of international trends in accounting on this learning process is obvious. Switzerland is a small but highly industrialized country whose economy is linked with the developments of other European countries on its borders.

In the author's view, four dimensions of international influence can be discerned in Switzerland regarding accounting: the practical, the professional, the academic, and the political dimensions.

In accounting practice, the strongest influence from abroad is the Anglo-American know-how in accounting and auditing. It flows through a number of different channels: the expansion of the Big Eight (now Big Six) accounting firms, the formation of international networks between accounting firms, and the exchange of practicing accountants for training purposes. In addition, the impact of transnational corporations of Swiss or foreign origin is worth considering.

On the professional level, it should be noted that the Swiss Institute is a member of the International Federation of Accountants (IFAC), the International Accounting Standards Committee (IASC), and the former Union Européenne des Experts Comptables Economiques et Financiers (UEC), now the FEE, and that it observes the worldwide professional tendencies very closely (see Figure 26.1). International congresses are a means of accelerating professional cooperation.

In the academic field, many connections exist between Swiss scholars and foreign colleagues, and mutual exchanges of ideas within the American Accounting Association (AAA) or the European Accounting Association (EAA) are increasing. Furthermore, it is hoped to intensify the relationship

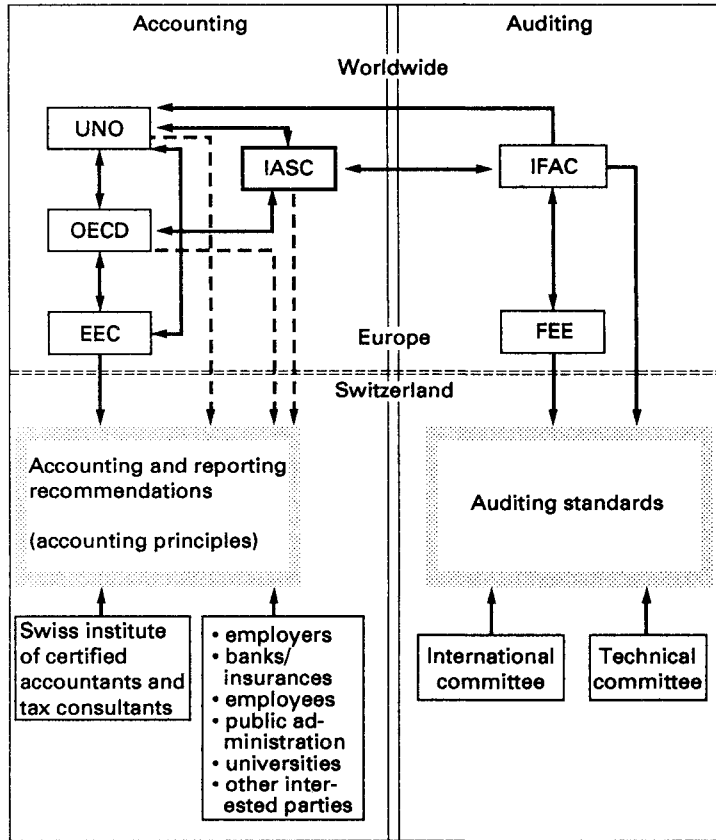


FIG 26.1

between the AAA International Section and the EAA to facilitate research links between American and European professors.

Finally, on the political level, the activities of the Swiss delegation to the United Nations and the OECD Working Groups on Accounting and Reporting Standards, as well as the close relations between Switzerland and the European Economic Community (EEC), are important. Without doubt, all these interactions greatly influence Swiss accounting thinking.

Von Greyerz is correct in stating: We have to solve our own problems but we are grateful for any help from the outside. In the field of accounting law, the comparative approach is not only useful but urgent and necessary, especially for the legislator. The EEC directives are in many ways shining examples, but for us they are often too detailed and complicated. Our legislative style tends towards simple solutions and plain wording. We hope to make laws which can be understood by the man in the street. Therefore, we must refrain from rules which are too technical. We adhere to this perhaps simplistic method even for laws addressed to specialists such as

accountants and auditors. We should be proud if we succeeded in finding the impossible: simple and adequate, liberal but effective rules in company disclosure.

### ***A Swiss Accounting Standard-setting Body***

In the official comments to the current Company Law Project, accounting, disclosure, and audit requirements have been emphasized. It was the intention, however, that no detailed rules should be included in the law. Therefore an organization providing guidance in such matters similar to those bodies in other countries is needed.

Through the initiative of the Swiss Institute, the Foundation for Accounting and Reporting Recommendations was created in February 1984. It is presided over by a former president of the Swiss Supreme Court, and it supervises a board which prepares recommendations for disclosure and reporting by Swiss firms. The board is composed of a maximum of twenty-five members equally representing business, auditing and accounting firms, employer and employee organizations, industry, banks and insurance companies as well as financial analysts and stock exchanges, small and international enterprises, universities, public administration, and other parties interested in accounting.

The board's objective is to establish recommendations concerning financial accounting and reporting, taking into consideration Swiss environment and providing reasonable guidance for Swiss companies. These recommendations should contribute to the harmonization of accounting in Switzerland, improve comparison, and generally increase the quality of annual accounts in the country. They should be understood to supplement and formalize the accounting and reporting rules of Swiss law, especially Company Law.

The representation of many interested parties in Swiss economic and public life should achieve a broad consensus. Thus the standards issued are not legally binding but rather represent guidelines provided by an independent private body, although de facto standards could result. If the members of the Swiss Institute are in compliance with the recommendations in their reports, this will be a further incentive to preparers of financial statements to follow the guidelines.

The recommendations comprised two parts: the "recommendation" in the narrow sense, and the "explanations". The "recommendation" deals with the basic rules which are expanded upon in the "explanations". The recommendations are published in German, French, Italian and English; the texts in the Swiss official languages are equivalent. However, the debates within the board are based on a German draft prepared by the Executive Committee itself or a special project group. The recommendations can show alternative accounting principles if the quality of information is equivalent. They represent solutions which are theoretically and professionally correct whilst at the same time practical and economical to apply. The recommendations will be updated when legal requirements change or

new experiences and knowledge evolve. The priorities of the subject lists have been assessed according to the importance of the present problems in the area of financial accounting. The Executive Committee of the Board prepares draft recommendations which the Board adopts taking into consideration the comments received after public consultation. The specific recommendations are part of a comprehensive system of financial accounting. They are inter-related since it is intended that not only specific, but all recommendations should be heeded in the financial statements.

The first recommendations on basic concepts of financial reporting issues treat such areas as the components of financial statements. To facilitate an understanding of the Swiss concept of accounting standard-setting a summary of the three recommendations issued is presented below:

Accounting and Reporting Recommendations (ARR) No. 0: Objectives, Subjects and Procedures of the Accounting and Reporting Recommendations in Switzerland, issued December 1985

Recommendation

1. All companies that adopt the "Accounting and Reporting Recommendations in Switzerland" (short: Recommendations or ARR) in their financial reporting are invited to state so in their financial statements. If this is the case, then the company should have their independent auditors examine and report on such compliance. The required circumstances, contents and the form of such statements, audits and reports are treated in another recommendation.
2. All accounting and reporting recommendations should be applied to the financial statements except where their use is expressly restricted.
3. The recommendations are based on the fundamental assumption of the continuance of the company (i.e. going concern). This means that the company's operations can be continued in the foreseeable future.
4. The recommendations do not deal with publication of the financial statements.

Accounting and Reporting Recommendations (ARR) No. 1: Components of Financial Statements, issued December 1985

Recommendation

1. The financial statements of an enterprise comprise a balance sheet and an income statement (profit and loss account), as well as an annex with explanatory notes and information concerning the cash flow (funds flow).
2. The information concerning the funds flow is to be shown in a statement if it is not clearly evident from other parts of the financial information.
3. The annex comprises the accounting policies including the valuation principles, if they are not derived directly from the law or the accounting and reporting recommendations, as well as information which analyses or further details the information in other parts of the financial statements. The additional information and notes on the financial statements as required by the law must be shown in the annex.
4. The financial statements must show next to the current year amounts the comparative figures of the previous year. If they are not comparable, this must be explained.

5. If the company is a subsidiary of a group its financial statements can be simplified if consolidated financial statements are prepared. However, the consolidated statements must be made available to the user of the subsidiary company's statements. In this case, the subsidiary company's statements can omit the information concerning funds flow and the additional data contained in the annex, except for the legal minimum.

Accounting and Reporting Recommendations (ARR) No. 2: Consolidated Financial Statements, issued September 1986

Recommendation

1. Consolidated financial statements are the financial statements of a group of companies as defined for this purpose.
2. Financial statements of the group companies included in consolidation must comply with uniform group accounting policies. Intercompany assets and liabilities in the individual financial statements, as well as expenses and income from intercompany transactions, must be eliminated.
3. Consolidated financial statements must be prepared according to the method of full consolidation. Any exceptions must be explained in the annex. The minority interest in the equity of consolidated subsidiaries must be disclosed as a separate item in the consolidated balance sheet. The minority interest in the net income (loss) of consolidated subsidiaries must be disclosed separately in the consolidated income statement.
4. The consolidation policies must be disclosed in the annex to the consolidated financial statements. In particular, the following must be disclosed:
  - criteria for inclusion in consolidation
  - accounting for non-consolidated investment
  - accounting for joint ventures
  - valuation principles
  - foreign currency translation
  - treatment of intercompany profits
  - changes of shareholders' equity.

Three more recommendations are in different stages of progress: a draft recommendation on generally accepted accounting principles was published for consultation in February 1988, a preliminary draft concerns foreign currency translation, and a project group is working on valuation problems within groups of companies.

The Swiss model of accounting standard-setting has doubtless been greatly inspired by the Financial Accounting Standards Board (FASB) concept. The Swiss hope to learn from the experience of the FASB and are confident that they are on the right track, but all progress in Swiss accounting needs time, much time. However, the first essential step has now been completed.

## **Auditing**

### ***Introduction***

The code of obligations is the legal basis for auditing requirements in Switzerland. The auditing requirement for joint stock companies and



cooperative societies is stipulated in the section concerning companies. The auditing of Swiss companies has been mandatory since 1936.

The current company law reform provides improvement in auditing principles and a wider scope for professional auditors in particular. It aims at strengthening auditors' independence and technical knowledge. Companies which exceed the three size criteria limits will be required to be audited in future by professional auditors. In addition, special audits must be conducted by professionals.

The second part of this paper provides an insight into the present state and the main problems of auditing in Switzerland.

### ***The Auditors***

Joint stock companies, cooperative societies and foundations dedicated to staff welfare such as pension funds are required to appoint one or several statutory auditor(s). On the formation of the entity the appointment is for one financial year, the renewals thereafter are for a maximum of three years. Prior removal is possible. Apart from such statutory auditors, companies with a share capital of 5 million or more Swiss francs and those which accept funds from the public or issue bonds must appoint independent accounting experts or qualified auditors. It is permitted, and widely practiced, for the statutory auditors to be appointed as independent accounting experts as well.

No ruling governing any audit by qualified or non-qualified entities exists, with the exception of a special audit such as a bank audit. In fact, non-qualified auditors generally audit the accounts of small and medium-sized companies. Without doubt, the number of audits performed in recent years by qualified auditors has greatly increased, although the law does not require audits by qualified auditors only.

Statutory auditors may be shareholders but must not be members of the board, management or staff of the company. Professional qualifications are required for statutory auditors of staff welfare entities and for independent accounting experts. Such qualifications can normally be obtained by education and professional practice. Before becoming qualified, an auditor must undergo high-level examinations to obtain the legally protected title of "qualified accounting expert" or certified public accountant, called "diplomierter Bücherexperte/expert-comptable diplômé". There is, however, no monopoly placed upon this title. These experts represent the auditing profession in the Swiss business community. Special qualifications are required of independent accounting experts of banks and mutual funds who require prior recognition by the supervisory authority.

Most auditors prepare for their examinations at auditor schools organized by professional bodies in four locations. While professional auditors in Switzerland are not required to have academic degrees, about one-third of younger candidates do hold a university degree. The University of Saint Gall is the only Swiss university which has included a special curriculum in

auditing for the past seventy years. At present, this author is responsible for the auditing education at this university.

### ***The Auditees***

As has already been mentioned, all joint stock companies, whatever their size, and cooperative societies must be audited. On the other hand, partnerships which are limited (private) companies are not required to be audited according to law. Therefore, the obligation of being audited depends on the legal status of an enterprise.

Non-profit organizations with the legal status of a foundation or association are not required to be audited, except foundations dedicated to staff welfare which have to be audited according to a special law promulgated since 1985. As far as governmental entities such as municipalities or states are concerned, special bodies more or less independent of the administration are in charge of auditing them. Because of the federalist structure of Switzerland, the features of auditing in the public sector are quite different.

### ***The Profession***

Qualified auditing may be carried out by individuals, partnerships, or companies who are members of the Swiss Institute of Certified Accountants and Tax Consultants (short: Swiss Institute), located in Zurich, a non-profit organization founded in 1925.

The structure of the Swiss Institute was changed on the 1st of April 1989. The new organization chart is shown in Figure 26.2:

The main activities of the Institute consist of:

1. maintaining a high level of quality by
  - developing a code of professional ethics
  - organizing examinations for qualified auditors
  - preparing juniors for these examinations, and
  - organizing biannual courses of permanent education
2. representing the profession in public
3. cooperating within international professional bodies.

No less than thirteen subcommittees support the board and the secretariat in the fulfillment of their tasks.

One of the most demanding activities of the Institute is the preparation and the organization of the professional examinations every two years. The average age of the over 300 candidates is about thirty-two years, only 60–70 per cent of whom are successful. To apply for the examination the candidates need to have at least seven years practical experience, four years of which must have been auditing work.

The Swiss Institute is a private institution without any legal requirements.

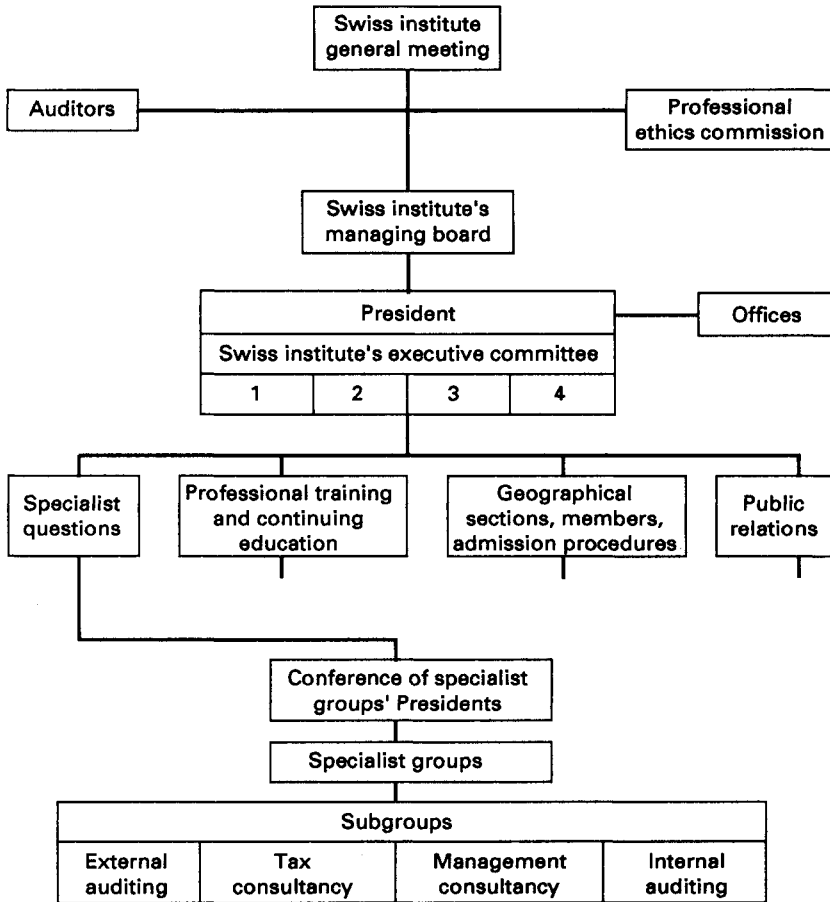


FIG 26.2

### **Objective of the Audit**

The statutory auditors of joint stock companies must examine the annual financial statements submitted to the general meeting of the shareholders and confirm that:

- the balance sheet and the income statement are in agreement with the books
- the books of account have been properly kept, and
- the financial position of the company and the result of its operations are presented in accordance with the principles of valuation prescribed by law and by the provisions in the articles.

The auditor's report must state and explain any material deviation from the above requirements and must, as a conclusion, provide a recommendation for the general meeting of shareholders as to whether to

approve or reject the financial statements submitted. Furthermore, it must confirm that the proposal of the distribution of the surplus conforms with the legality regarding the availability of profit.

Contrary to the practice in other countries, distribution of profit is part of the annual accounts.

The purpose of auditing is to enable the auditor to express an opinion on the conformity of financial statements with legal requirements. The Swiss auditor does not attest to the true and fair view or the fair presentation of the accounts but to the conformity of the accounts with law and statutes. Inasmuch as hidden reserves are tolerated by law, it is impossible for the Swiss auditor to attest to the true and fair view of the accounts as presented. The draft of the new company law does not provide any change in this respect. This presents one of the major obstacles to a worldwide acceptance of audit principles from the Swiss point of view.

The statutory auditors must give notice of observations regarding material deficiencies in the running of the company and offenses against the law or the articles. Such notice must be given to the manager supervising the person responsible, to the chairman of the board and, in important cases, to the general meeting of shareholders. It is usual to summarize comments on the internal control system. It has been made very clear by court rulings that in dangerous situations, i.e. in case of doubt regarding the integrity of the management or the going concern of the company, the statutory auditors must remind the board of directors immediately if certain necessary steps have not yet been taken. If the board is not willing or able to cope with the situation, the statutory auditors are entitled and obliged to call for an extraordinary general meeting. They are, however, not allowed to advise the judge in case of bankruptcy. This is to be changed with the new company law, although it is a very controversial subject in professional circles.

According to the Swiss auditing profession, the auditor is not bound to search systematically for fraud. Therefore, the auditor is not held responsible for failing to uncover irregularities as to whether the audit was carried out with due care. In this respect the Swiss and German doctrines are almost identical.

### ***Auditing Standards***

Ever since 1971, the Swiss professional organization's interpretation of auditing has been available in the Swiss Handbook of Auditing. This publication has been an excellent source of education and a useful guide for practical work. It gives a detailed account of auditing methods and enables the auditor to conduct adequate auditing tests and procedures.

In 1983 the Swiss Institute issued recommendations for audit practice in all three languages. The auditing standards are elaborated by a task force composed of members of the Committee of Audit Practice and the

International Section of the Swiss Institute. The drafts of the Auditing Standards are exposed to public comment before being officially issued. The standards are not, however, compulsory for the members of the Institute but only recommendations and therefore voluntary in character. They are more or less in agreement with the IFAC and FEE auditing standards.

Six audit recommendations were published before the end of 1987, namely:

- No. 0: Basic Principles, Objectives and Concept of Auditing, issued August 1983.
- No. 1: Scope and Extent of an Audit, issued June 1985.
- No. 2: Quality Control, issued August 1983.
- No. 3: Working Papers, issued April 1986.
- No. 4: Using the Work of Another Auditor, issued April 1986.
- No. 5: Confirmation of Balances, issued January 1987.

Drafts of some other recommendations are still under discussion, such as Inventory Audit, Fraud and Error, Events after the Balance Sheet Date, Using the Work of an Internal Auditor etc.

Swiss audit recommendations are not duplicates of the Swiss Handbook of Auditing. While the Handbook provides a maximal program, the recommendations contain only a minimal program for an audit.

Auditing practice in Switzerland has been intensively developed in recent years and is now approaching international standards. The Swiss Institute is a member of the International Federation of Accountants (IFAC), the former Union Européenne des Experts Comptables Economiques et Financiers (UEC), now FEE, and the International Accounting Standards Committee (IASC), and is keenly interested in establishing contact with similar professional bodies abroad with the aim of introducing international auditing standards as far as Swiss law will permit.

Doubtless, Swiss auditing practice has been primarily influenced by German practice for a long time. Today, Anglo-American influence is much stronger than before, owing to the presence in Switzerland of international accounting firms and to the increasing cooperation between accounting firms on an international level.

As there is a great deal of interaction between standards for accounting and for auditing, financial disclosure and reporting for Swiss companies should be further harmonized and their quality increased.

### ***Ethics and Legal Liability***

The 1986 edition of the Ethical Code of Swiss Institute contains only a few principles, namely due care, independence, secrecy, careful collection of collaborators, loyalty and teamwork among colleagues, promotion of the future generation, and permanent education. Furthermore, professionals

must make clients' documents available on request and respect the Fees Convention, an institution which is unthinkable in the United States. The Ethical Code is mandatory only for members of the Institute. No general code of ethics binds all persons carrying out an audit.

Complaints concerning violation of ethical standards by members of the Swiss Institute are submitted to a special committee of professionals. The sanctions range from admonition to fines (up to 100,000 Swiss francs) and to exclusion from the professional body. In fact, very few cases have been heard by this committee.

In several cases, Swiss accounting firms have been sued for damages, which have been settled out of court. Bankruptcy is the most common reason for lawsuits against auditors.

### ***Concept of Independence***

The independence of the auditor is not defined anywhere. According to Swiss practice, the "independence in fact" is much more relevant than the "independence in appearance" because independence is more a function of personal integrity than a question of formal criteria. According to a ruling of the Supreme Court, independence is primarily regarded as the physical and mental ability to do the right things at the right time. Nevertheless, accounting firms must be careful that the fees they receive from a single client do not exceed 10 per cent of their total income. Present Company Law does not expressly require the independence of the auditor, but the auditor cannot be either a member of the board of directors or an employee of the company. In the draft of the new law, the auditor's independence is explicitly requested, especially the independence from the board of directors and the main shareholders.

Very often, the auditor is also a consultant to the company he audits, generally functioning as a management consultant or tax adviser. More and more accounting firms are developing management advisory services. Until now, no major conflict between auditing and consulting functions has been reported.

No legal requirement stipulating that Swiss auditing firms must not be owned by a bank or persons other than auditors exists. In fact, one of the Swiss "big three" is owned by one of the three largest Swiss banks. The two other big Swiss accounting firms are owned by non-profit organizations such as foundations (for example pension funds) or by the managers of the firms. Most medium-sized accounting firms are owned by persons outside the auditing profession. Until now, no independence related problems have arisen.

### ***The Audit Report***

The law requires Swiss auditors to perform the following:

- to audit
- to report

- to act (for example, an auditor has the right to call a general meeting of the shareholders in case of emergency)
- to omit (professional discretion)

As far as reporting is concerned, the auditor has many ways of informing the users of the financial statements about the result of the audit:

<i>Type of Report</i>	<i>Purpose of Report</i>	<i>Addressee of Report</i>
Short form report	Attest function	Ordinary General Meeting of Shareholders
Long form report	Detailed information on the Audit	Board of Directors
Special report	Extraordinary events (such as Fraud)	Board of Directors (in the case of emergency general meeting of shareholders)
	Supplementary information on the Audit	General Meeting of shareholders

The standard text of an unqualified audit report is presented in Appendix 26.1.

The independent accounting experts must report to the board of directors upon the financial statements. The so-called “long-form report” is based on a professional audit. The audit work does not differ from that of the statutory auditors. Its objective has been to serve as a control instrument for the members of the board. Today it has also become the prime instrument for the supervision of banks and mutual funds. The supervisory authority of banks and mutual funds receives one copy of the report directly from the independent accounting experts. They have prescribed the form and content of the reports and closely control the punctuality of their submission. Based on this report, the authority may perform or initiate further investigations. The banks are obliged to obtain permission from the supervisory authority when they wish to change their independent auditor.

### ***Banks’ Due Diligence Agreement Audit as an Example***

The audit of the Swiss banks’ code of conduct agreement with regard to the exercise of due diligence can be taken as an example of an audit of a bank auditing firm in a politically highly sensitive area. At the same time, it provides an insight into some aspects of the self-regulation concept of the Swiss banking sector.

The Swiss banking system has long had a reputation for stability and confidentiality. Secrecy regulations and numbered accounts are expressions frequently spontaneously associated with the system. While this has undoubtedly contributed to the enormous deposit base of the Swiss banks, it has also had its darker side. Funds from questionable sources have found

their way into the system, resulting in adverse publicity and questions about the controls and ethics of the system. Faced with increasing pressure from both regulators and the general public, Swiss bankers concluded an agreement with the Swiss National Bank in 1977 designed to prevent assets being invested in the Swiss banking system anonymously, to maintain Switzerland's good reputation as a financial center and to combat economic crime, and to confirm, define and lay down in a binding way the established rules of good conduct in bank management.

This so-called "Due Diligence Agreement" was renewed in 1982 and again in 1987, although in the 1987 agreement the Swiss National Bank is no longer a party.

A short survey of the main provisions of the agreement which took effect on October 1, 1987, will show the difficult problems an auditor faces when he audits a Swiss bank.

The Preamble of the Agreement which contains the aim of the self-regulation convention reads as follows:

- With a view to preserving the good name of the Swiss banking community, nationally and internationally,
- with a view to establishing rules ensuring, in the area of banking secrecy and when accepting funds, business conduct that is beyond reproach,

the banks hereby contract with the Swiss Bankers Association in its capacity as the professional body charged with safeguarding the interests and reputation of Swiss banking:

- a) to verify the identity of their contracting partners and, in cases of doubt, to obtain from the contracting partner a declaration setting forth the identity of the beneficial owner to whom the assets entrusted to the bank belong;
- b) not to provide any active assistance in the flight of capital;
- c) not to provide any active assistance in cases of tax evasion or similar acts, by delivering incomplete or misleading attestations.

It is usual for a bank to take reasonable measures to properly identify its clients, for it is its duty to know its customers. Difficulties may arise for some foreign clients, especially if a so-called "domiciliary corporation" with no business premises of its own or no staff of its own other than an administrative staff is involved. Special problems arise when a customer is acting through a lawyer or a certified accountant, member of the Swiss Institute, who is bound by professional confidentiality.

In the event that the agreement is violated, the delinquent bank is required to pay a fine of up to 10 million Swiss francs to the Swiss Bankers Association. The amount of the fine is allocated to a useful public purpose, in fact to the International Red Cross Committee. The fine is imposed by the Oversight Board composed of five independent experts, one of whom is the author of this paper.

As far as auditing is concerned, Article 10 of the Agreement reads as



follows: "By signing this agreement, the banks instruct and authorize their external bank auditors under the Bank Act to ascertain through random tests conducted during the regular auditing of the accounts that the provisions of this agreement have been complied with. The auditors . . . shall inform the Oversight Board . . . and the Federal Banking Commission of any violations they may uncover or have reason to suspect."

However, some difficult problems still remain — to quote Alain Hirsch:

How far should a bank be curious, ask questions, and check answers? Where are the limits of illegality, immorality, or irregularity? And finally, what should a bank do if it appears that it has unwillingly cooperated in illegal or irregular activities?

### ***Singularity of Swiss Auditing***

Compared with the long tradition of auditing in Anglo-American countries, auditing in Switzerland may seem still underdeveloped. Auditing practice has, however, been intensively improved during recent years.

In conclusion, it is appropriate to emphasize a peculiarity of Swiss auditing: the equivalence of internal and external auditing. This can be demonstrated on the example of two aspects: the educational and the professional.

From educational standpoint, the curriculum of accounting and auditing education at the University of Saint Gall, the only place where these disciplines can be studied, offers courses in external as well as in internal auditing with examinations in both, thus preparing students equally for both careers and enabling them to switch from one kind of audit activity to the other without any problem. This concept is certainly one of the reasons why this curriculum has been highly appreciated by an increasing number of students in recent years.

At the professional level, the equivalence of internal and external auditing appears in the same examinations for qualification as a certified accountant, on the one hand, and in the same membership of the Swiss Institute on the other. The reason for maintaining only one professional organization lies in the small size of the country which compels the profession to concentrate human resources and material means, and in the belief in the synergetic effect of this concentration.

Experience of the cohabitation of internal and external auditing in Switzerland has given cause for optimism.

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APPENDIX 26.1

Report of the auditors to the General Meeting of . . . Ltd.

...

As auditor(s) of your company I (we) have examined the annual accounts for the year ended . . . in accordance with the legal provisions.

I(We) have come to the conclusion that

- the balance sheet and profit and loss account are in agreement with the books of account,
- the books of account have been properly kept,
- the financial position and the results of operations are presented in accordance with the legal valuation principles and the provisions of the statutes.

EITHER

Based on the results of my(our) examination I(we) recommend that the accounts submitted to you be approved.

I (we) further confirm that the proposal of the Board of Directors for the appropriation of profit is in agreement with the law and the statutes.

OR

Based on the results of my (our) examination I (we) recommend that the accounts submitted to you, disclosing accumulated losses of Swiss francs . . . , be approved.

Place and date

Name and Signature

...

Enclosures:

Balance sheet

Profit and loss account

Proposed appropriation of profit

# The Evolution of Education Policy within the Institute of Chartered Accountants of Scotland

KEN SHACKLETON

## Introduction

The major accountancy body in Scotland is The Institute of Chartered Accountants of Scotland (ICAS). There are other accountancy bodies in the United Kingdom but these are now London based organizations which operate nationally and internationally and have relatively few members practicing in Scotland. The ICAS had a total membership at July 1, 1988 of 11,915 (ICAS 1989a). The geographical listing of this total membership is:

Scotland . . . . .	6,786 of whom 1,701 hold practicing certificates
UK other than Scotland . . . . .	3,223 of whom 405 hold practicing certificates
Abroad . . . . .	1,906 of whom 231 practice on their own account

Despite its comparatively small size, the ICAS has always regarded itself as unique, particularly in the UK context. It is the oldest accountancy body; it has always prided itself on its education/training policies; it has pioneered the concept of a teaching as well as examining institute; it claims that it created a close and effective relationship with the universities in Scotland; it has constantly stressed the importance of quality over quantity and it has established an outgoing and international perspective in its relationship with other accounting bodies.

However, the independent status of the ICAS was jeopardized by proposals (May 17, 1988) that the ICAS be subsumed into a new accountancy body called The Institute of Chartered Accountants of Great Britain. The other body which planned to join in this scheme was the much larger Institute of Chartered Accountants in England and Wales (ICAEW) which has 88,918 members (ICAEW 1988). During 1988 and the first half of 1989, there was considerable controversy in Scotland about this proposal and

it was clear that the opposition placed great emphasis on perceived differences in the education and examination requirements of the two bodies and the compromises which would be required in order to forge a unified system. The policies on education and training which had been distinguished by progressive and innovative influences (Flint 1989) would be compromised.<sup>1</sup>

This chapter traces the chronological development of the education and training requirements of the ICAS and contrasts it with the alternative operated by the ICAEW. While proponents of the merger argued that there was similarity between the systems (Colquhoun 1988, 1989), critics of the merger pointed out that there remained fundamental differences in the philosophies which were being masked in order to promote the political proposal to form the “British Institute”. There was some misgiving that the overriding policy to be adopted would be that of the ICAEW which in turn would have serious implications for academic development of accounting in the UK.

## **Formation**

The Institute of Chartered Accountants of Scotland is the longest established accountancy body in the world. Although its present title was granted in a supplemental Charter on May 28, 1951 the origins of the ICAS date back to the formation of The Society of Accountants in Edinburgh which was created at a meeting held on January 31, 1853, chaired by Mr James Brown who later became the first President. The Royal Charter was granted on October 23, 1854, signed by Lord Palmerston and presented to the Society on December 18, 1854.

The Institute of Accountants and Actuaries in Glasgow was created at a meeting on October 3, 1853 and was granted its Charter on March 15, 1854. In similar fashion to the Edinburgh petition, it was noted “... that it is obvious that to the due performance of a profession such as this a liberal education is essential”. The third Society which came into being was The Society of Accountants in Aberdeen which received its Charter on March 18, 1867. These three Societies formed the nucleus for the ICAS, although they continued to exist as separate associations until 1951 (Stewart 1977). However, from the outset there was close consultation on all matters of common interest and, during the intervening years, they had developed and integrated their activities to such a point that, in 1945, the Joint Committee of Councils established a sub-committee to consider if the three Societies should merge. The initiative for this came from the largest of the Institutes which was Glasgow. At the end of 1945 the membership levels were:

<sup>1</sup> The author gratefully acknowledges the helpful comments of Professors Clive Emmanuel, David Flint, Sidney J. Gray, Simon M. Keane and participants in a University of Glasgow Workshop on an earlier draft of this paper. Responsibility for the views expressed herein rests solely with the author.

Edinburgh . . . . .	1,262; on formation . . . . .	61
Glasgow . . . . .	2,982; on formation . . . . .	49
Aberdeen . . . . .	222; on formation . . . . .	12

It could hardly be claimed that the negotiations proceeded with any degree of urgency. Indeed the ICAS official history noted that a speaker at the Jubilee Dinner of the Glasgow Chartered Accountants Students' Society in 1949 referred to the negotiations proceeding "at glacial speed" (ICAS 1954). The sticking point was the mechanism whereby the three Institutes could be combined. The objective was to preserve continuity as the oldest incorporated body in the world and this entailed obtaining a Supplementary Charter as The Institute of Chartered Accountants of Scotland. The chosen method was to admit to membership of the Edinburgh Society those members who belonged to Glasgow and Aberdeen.

### **Education Policy to 1953**

From the very beginning the training of apprentices was accorded the importance which had been recognized in the Petitions for the Royal Charters. The Edinburgh and Aberdeen Societies appointed "examinators", a Committee of Examiners, whereas Glasgow required that the apprentice present himself for examination before the whole Council. By 1892, no doubt to the considerable relief of the Glasgow apprentices, the three Societies had formed a General Examining Board for the Chartered Accountants of Scotland. During these early years, the relationship between the Scottish universities and the profession began to be formed when apprentices were required to attend university classes in the Law of Scotland with a particular emphasis on mercantile law. The requirements for entry to the profession, which remained unchanged for 60 years, were that the apprentice had to be at least sixteen years old and, after 1892, was indentured for a period of five years. The indenture agreement was a formal contractual agreement between the master and his apprentice requiring from the master that he would "teach and instruct his apprentice in all parts of the profession and employment of a chartered accountant and to conceal no part thereof from him, and to do his best to cause his apprentice to learn the same, so far as the apprentice is capable of learning" (ICAS 1954).

A major criticism that can be levelled at the master/apprentice system is that it is based on the assumption of equality and uniformity amongst masters in having and disseminating knowledge. However, the assumption is fundamentally flawed in any society where the pace of change in knowledge and skills accelerates and where that society has to specialize in order to meet new challenges. It places emphasis on learning by doing but cannot of itself provide the intellectual rigour which is now needed by practicing accountants (Shaw 1982).

At the time of its formation in 1892, the General Examination Board papers were as follows:

**Preliminary Examination:**

Five papers of one hour's duration

Core Papers:

Writing to dictation, English Grammar and Composition  
Arithmetic (Elementary)

Optional (3) from:

British History  
Geography of the World  
Geometry-Euclid Book 1  
Shorthand-Dictation and Transcription  
Latin  
French  
German

Intermediate Examination:

Mathematics — Advanced Arithmetic and Algebra  
Professional Knowledge — Bookkeeping, Framing Accounts and  
Correspondence

Final Examination:

Law of Scotland relating to Bankruptcies, Judicial Factories, Companies,  
Partnerships, etc.

Actuarial Science

Political Economy

General Business of an Accountant, comparison:

- (a) Theory and Practice of Bookkeeping;
- (b) Preparation of Balance Sheets and Profit and Loss Accounts;
- (c) Audit of Accounts;
- (d) Trust Accounts;
- (e) Schemes of Division;
- (f) Bankruptcies and Liquidations;
- (g) References, Remits and Proofs.

New syllabi were introduced throughout the years with the most important changes being the introduction of Cost Accounts and Taxation in 1906; Departmental and Branch Accounts in 1952. From 1926, apprentices were required to attend, on a part-time basis, university courses in Accountancy, Law and Economics. For many years the basic instruction, apart from the university law classes, had been given by the master, supplemented by text-book study. After a short while, the Societies began to arrange classes themselves and appointed Directors of Studies and formed Tutorial Classes Committees. The logical evolution of the acceptance of responsibility by the Societies of their obligations towards the apprentices was that the Societies, and eventually the ICAS, adopted the role of a "teach Institute" (ICAS 1954). This particular feature of the ICAS policy has distinguished it from the model adopted by all the other UK accounting bodies which have

restricted themselves to operating as merely examining bodies. The Scottish system is currently referred to as the “Collegiate” system whereby the student is required to attend ICAS classes held in Edinburgh and Glasgow. This arrangement is a contractual obligation and forms a binding relationship between the student and the ICAS (Marrian 1988).

### **Education Policy, 1953 to 1979**

During this period three major reviews were undertaken by the ICAS of the education and training of apprentices. The first was the report of the Special Committee on Education and Training of Apprentices published in 1956 (ICAS 1956). This Committee had been formed in 1953 under the Convenership of Mr Thomas Lister and the report was subsequently regarded as “a trail blazer” (Stamp 1970), “milestone in the development of British accounting education” (Solomons 1974), and “a landmark in the Institute’s history” (McDougall 1980). The main recommendation was that the study of accountancy, law and economics, then undertaken on a part-time basis at Scottish universities, should be on a full-time basis in the third year of apprenticeship. This programme was intended to complement the Institute’s own tutorial classes for its students.

It would not be unfair to claim that almost every subsequent amendment to the formal requirements in the system of education and training has taken as its foundation the Lister report. It began the evolutionary process which reinforced four particularly distinctive features of the ICAS system over systems adopted to this day by other UK accountancy bodies. The four features are:

1. It emphasizes quality in respect of pre-entry qualifications over quantity.
2. It affirms the responsibility of the Institute to be a teaching as well as examining professional body.
3. It formalizes and reinforces the close relationship between the ICAS and the Scottish universities.
4. It recognizes the need for an academic common body of knowledge as a prerequisite for entry into the professional training contract.

After exhaustive consultation amongst the members, discussions were held with the universities and the new arrangements came into force with the first academic year being held in 1960. The Institute’s professional examinations were expanded to a five-part system, with major revision to the subject syllabus.

In 1964 the ICAS appointed another Special Committee on Education and Training under the Convenership of Mr George Dewar. The terms of reference of this Committee covered a review of the workings of the “academic year” and considered the implications of the Robbins Report on Higher Education which had been commissioned by the Government (HMSO 1963). The Robbins Report was of special significance in Scotland



because of the tradition for Scots to value education as a means of self-improvement. Any expansion in tertiary education would enable them to satisfy their natural aspirations. Robbins had also identified vocational studies as an area for expansion which has always been a major feature of the Scottish universities. The Dewar report (ICAS 1966) concluded that there was a strong case for seeking to upgrade the academic level of entrants to the profession. This was not intended as a criticism of the record of members but a recognition that the world of education and employment had changed. A considerable number of young people, who in the past had made direct entry to the profession from secondary school, was expected to go into some form of tertiary education. Consequently, the Dewar report postulated that the very people who had been previously recruited direct from secondary schools might not be available, leading to a possible diminution in the overall quality of apprentices. An additional factor was the concern expressed about the high wastage rates experienced amongst apprentices as they sought to pass the professional examinations. This was regarded as an inefficient allocation of resources in the practicing offices as well as posing problems for the young people who were unable to meet the examination requirements. To meet this challenge, it was recommended that there should be enhanced minimum academic attainment levels for entrants to the profession and that recruitment of graduates be encouraged. For graduates who were considered to have studied sufficiently relevant subjects in their degree, those recruits should have a shorter training period and be exempt from some of the early examinations.

The Dewar recommendations were approved by Council with one small exception and implementation was set for February 1968. The main provisions were:

- (a) the minimum preliminary qualification to be an attestation of academic fitness for entrance to a Scottish university;
- (b) encouragement of the recruitment of graduates;
- (c) bringing the "academic year" forward from the third to the second year of apprenticeship;
- (d) the provision of four-week full time courses for new apprentices in bookkeeping and elementary accounting.

The basic training contract remained at five years. Taxation and Management Accounting were given greater study in depth, while the report recommended the inclusion of data processing, management mathematics and statistics in the examination syllabus. The professional examinations remained at five parts taken in each year of apprenticeship.

It was quite clear that the ICAS policy was to increase the proportion of graduates entering the profession with the ultimate aim of making it an exclusively graduate profession. The argument which had to be resolved was not about the principle but about the mix. The Dewar report had recommended that the intake comprise three streams:

Scheme A:

Graduates with subjects which establish their degree as “relevant”. These graduates would be exempt from some of the early examinations and their training would be subsequently shorter.

Scheme B:

Graduates whose degree does not satisfy the criteria laid down in Scheme A.

Scheme C:

Non-graduates who satisfied the minimum preliminary qualification.

The differences of opinion centred around the distinction drawn between Schemes A and B. Some argued that entrance should be restricted to those graduates who had completed university courses in their degree which were deemed to be relevant, i.e. that they contained a minimum core element of study in accountancy, law and economics. Proponents of this view held that “. . . practical work must be preceded by sufficient study and acquisition of knowledge for it to make the most valuable and effective contribution in the process of training” (Flint 1968a/b). Others argued that there should be no restriction on those graduates who had obtained a degree in a non-relevant subject but who would be attractive candidates for the profession.

While it has been argued that the Dewar report was evolutionary in its approach it has been overtaken by events and prevailing moods by the time of its implementation (Stamp 1970). However, the Dewar report had persuaded the ICAS membership to accept a predominantly graduate intake. If the report had concluded that the Scheme C entry should be eliminated it is possible that the proposals would not have attracted sufficient support. Indeed one of the major concerns expressed by members was that there would be insufficient numbers coming forward from the graduate stream to compensate for the Scheme C entrants who still provided the bulk of new apprentices. There was an overall reduction for the first two years but the graduate stream increased substantially thereafter and this concern did not become the major issue that some members had feared.

The consideration of the Dewar report by Stamp was only part of a much wider review of accounting education and training made in an address to the Joint Standing Committee on Degree Studies and the Accountancy Profession on December 19, 1969. Stamp reflected on the fact that he had raised the issue on at least five occasions during the previous two years although the ICAEW had initially “. . . not thought the time was opportune to pursue the matter”. Stamp contrasted the differences between developments in the United States, Australia, Canada and Britain and urged that a long-range enquiry be initiated immediately. The problems and issues which had to be tackled were given as:

- (a) Defining the nature and objectives of the profession with special reference to the future.

- (b) Definition of the work of accountants in all streams in the 1980s.
- (c) A wide-ranging methodology should be used, obtaining submissions from all groups likely to have useful ideas to contribute. Comparative analysis of thinking and practice in other countries should be made.
- (d) Defining the “common body of knowledge” required by accountants in the 1980s and the relevant disciplines to be covered in the education of accountants.

On these issues Stamp was, characteristically, frank and unequivocal. He said, “Above all perhaps, the study must make clear the value and the importance of theory in the future education of the accountant. The practice of medicine is an essentially practical occupation; but the medical profession is well aware of the importance of a sound theoretical foundation to the doctor’s (and the specialist’s) knowledge and skills. . . . It is a matter of shame that so little attention is given, even today, to the study of the theoretical foundations of accounting practice in this country” (Stamp 1970). This address should be recognized as a most important contribution which focused attention on education and training although, because of the integration debate, there was little immediate reaction. However, there is no doubt that Stamp’s vigorous promotion of the issue did play a significant part in the eventual creation of the Long-Range Inquiry undertaken by Professor David Solomons.

The third report emanating from the ICAS became known as the Charles report. Shortly after the Dewar report was implemented, the ICAS Council held a three day conference entitled “Tomorrow’s CA in the Making”. The conference provided an opportunity for the ICAS to air the subject of wholly-graduate entry and resulted in a report by the Apprentices (Recruitment, Education and Training) Committee (ICAS 1970). Council published this report as an exposure draft indicating that there would be no decision taken until members had an opportunity to read and hold discussions at area meetings later in 1970. Council did indicate that they saw the proposals as a logical development of policy and also stated that “many factors are involved and, primarily, continuing and increasing help from the universities over the communication to students of the initial conceptual understanding of professional subjects essential to the efficient practice of professional skills (is required)”. It is possible to detect during this period the emergence of three distinct views. There were a few members who still wished to retain the old master/apprentice model of education and training based on entry from secondary school level, but although vociferous, they were a very small minority. The second group contained members who were prepared to concede the graduate entry principle but did not wish this to be restricted to relevant degrees only. In other words they held that a more liberal education background would be acceptable and attractive not only in terms of the personal qualities of the entrant but also in the spirit of the Royal Charter. It should be appreciated that this latter model is still based on the discredited master/apprentice model. The third group argued

not only for a graduate entry but for a degree that included sufficient accountancy and cognate subjects to make it a relevant degree.

It is interesting to contrast the ICAS position at this time with a review being promulgated by the ICAEW in which they were recommending that the educational standards of entrants should be raised to that of university entrance. The ICAEW comments on graduate entry were confined to "... the profession must do all in its power to recruit an increasing number of graduates from universities and from colleges with degree courses recognized by the CNAA" (ICAEW 1970). The ICAEW position was that they were unwilling to move from the age-old model of entrance direct from secondary education. Furthermore, as an Institute, they were not prepared to promote positively the study of relevant subjects at tertiary level as a necessary prerequisite for entry. Thus it can be concluded that the ICAEW policy on entry qualifications has been reactive as opposed to the more proactive played by the ICAS.

The area meetings to consider the new ICAS education and training exposure draft took place in November/December 1970. There was strong support for the introduction of postgraduate diploma courses for non-accountancy graduates and there was also approval for, but concern over the cost of, block release classes organized by the ICAS. Council considered the report and a follow-up Memorandum from the Education and Training Committee in February 1971 and requested that a feasibility study be carried out with particular emphasis on training firms. Ultimately Council stated that it intended:

- (1) to give maximum encouragement to the recruitment of graduates, from all possible disciplines, with the aim of achieving as soon as possible a majority of graduates among the intake;
- (2) to require ...
  - (a) non-accountancy graduates, before they embark upon an apprenticeship of three years, to take a university postgraduate course of one year's duration in accountancy and, if necessary, in law and/or economics, and
  - (b) non-graduates to establish their preliminary qualification for apprenticeship through a new Higher National Diploma in Accounting (including the study of Law and Economics) and to serve a four-year apprenticeship;
- (3) to introduce a two-part Institute examination for all students;
- (4) to put on to a compulsory day-release basis, with effect from 1973/74, Institute classes in preparation for its examinations.

Council requested powers to implement the education proposals at a Special Meeting on January 26, 1973. The only major amendment to the 1972 intentions was the substitution of day-release by block-release within nine weeks of release in three separate blocks for Part 1, and six weeks release for Part 2. The Institute restricted the centres for these block-release courses to two, Edinburgh and Glasgow. The rules resolution was approved by 3,228 votes (90.7 per cent) with 331 votes against (9.3 per cent).

At almost the same time the ICAS was formulating its intentions on education policy in February 1972, the Advisory Board of Accountancy Education announced that Professor David Solomons had accepted an invitation to conduct a long-range enquiry into education and training. This report, "Prospectus for a Profession", was published in May 1974. The major recommendations made by Solomons, while made on the basis of a unified profession, were stated to be as valid if an integration system did not occur. It was thought that a unified profession "... would certainly be in a better position to implement the proposals expeditiously" (Solomons 1974). It was conceded that if unification was not achieved, then some bodies would find it easier to accept the proposals than others. The recommendations were:

1. A short period of work experience before starting academic study.
2. A minimum of two years full-time study leading to a Diploma in Higher Education (DipHE). The proposed curriculum contained accounting; law; economics; mathematics; statistics and computer studies; taxation; behavioural studies and options from special subjects in accounting.
3. A four-year degree course which combined two years of liberal studies, covering both sciences and humanities, and two years which would be more directly relevant.
4. Practical instruction following basic education, which should build on theoretical foundations, employing block-release study.
5. Work experience in both public practice and industry/commerce or the public service. A minimum of three years would be required to accomplish (4) and (5).
6. A Test of Professional Competence administered by the professional body.
7. Continuing education required because of developments in professional work and increasing levels of specialization.

The DipHE route was also to be seen as a means to enable students to continue for a further year and obtain a degree, which was expected to be the normal level of entrance. If the entrant already held a non-relevant degree it was recommended that the student should have an additional calendar year of study to cover the material outlined for the DipHE.

The proposal for a four-year degree course was made in order to resolve the argument between relevant and non-relevant education. Solomons noted that these two views were difficult to reconcile and that "... some of the proponents of graduate entry into the accounting profession believe fervently that the subject(s) to be studied to degree level should be anything — literally anything — except accounting". The fervour which he found, drew from him the comment "... it is doubtful whether the hostility expressed by some accountants towards 'relevant' degrees is matched in any other profession, either in Britain or elsewhere in the western world" (Solomons 1974).

Official reactions to the Solomons report were channelled through the Consultative Committee of Accountancy Bodies (CCAB). The immediate

response was something of a holding operation welcoming the report and asking for a full and frank exchange of views (CCAB 1974). For each Council the recommendations posed problems, which had been recognized by Solomons with his comment that there was "... something to offend everyone". However, praise for the Scottish relevant degree approach did give the ICAS less of a problem in welcoming the report than others. For example, it was recognized that some UK accounting bodies which were committed to recruit and train students overseas might have difficulty in accommodating the recommendations. The CCAB issued its consideration in November and stated, inter alia, that the six bodies recognized and endorsed:

- (a) the distinction between basic relevant education and practical instruction-cum-work experience;
- (b) the desirability that the majority of entrants should have satisfactorily completed a full course of approved tertiary education of degree equivalent level . . . (and) in cases where the degrees are not professionally relevant, recognize the need for a graduate diploma.

The CCAB comments, when read in their entirety, can be seen to be a rather bland response, which is probably predictable as the report considered areas which had never had a co-ordinated approach by the six bodies. Each body had made adjustments to its own education and training policies mainly influenced by political considerations concerned with recruitment problems. The response by the ICAS was that their new scheme was, in general, in accordance with the proposals subject to a few reservations. These doubts centred around the Institute classes which had been said to overlap with subjects studied at university. ICAS claimed that their classes brought all students to the same level because of the "diversity in knowledge and ability of graduates". There were strong objections raised to the proposal for a short period of training in commerce or industry and finally, because of the diversity of degree content, the ICAS insisted on retaining its examination structure until such time as "a greater measure of uniformity of academic course content can be achieved". (ICAS 1974). On this latter point it is interesting to note that the ICAS, despite claims that it was proud of its relationship with the Scottish universities, was sensitive to the charge that it would be interfering with "academic freedom". Most of the university accounting departments were relatively new and were probably defensive. Given these sensitivities there was little formal progress made and the ICAS did not make any overt and formal attempt to obtain this uniformity until 1988. A diploma year was established as a requirement for non-relevant degree entrants.

Perhaps the biggest impact in the short term was the attempt to restructure post-qualifying education which received a certain amount of attention during the late 1970s, although the ICAS was opposed to the establishment of a Fellowship grade in its membership on the grounds that

the recognition of a fellow membership downgraded the basic designation of the “unique” CA.

Through the remaining years of the 1970s, the ICAS consolidated its education and training programme, moving progressively over to a graduate entry. As evidence of its commitment to both pre- and post-qualifying education the ICAS opened its Glasgow Education Centre in July 1975 and Edinburgh in March 1981. A postgraduate diploma course was offered at five Scottish universities and, eventually, in 1979 at the London School of Economics. There were adjustment problems initially, particularly in respect of total intake, but this issue was short-term and had no long-term repercussions. The relevant degree intake did begin to make a substantial contribution to the total number of trainees as the various accounting departments in the Scottish universities expanded their own intake. To a certain extent the contribution was supplied as relevant degree study preceded the ICAS requirements and prospective entrants recognized the value of the programmes which were oversubscribed. The proportion of relevant degree entrants eventually settled at 75 per cent to 85 per cent of the total annual intake and contrasts with the ICAEW which has rarely had more than 20 per cent of its total intake coming from relevant degrees. The three issues which continued on through the late 1970s and early 1980s were firstly, the argument about relevant versus non-relevant degrees, secondly, a level of dissatisfaction with the amount of procedural skills, particularly in accounting which the graduate student had on entrance, and thirdly, the desirability of some period of training being undertaken in the industrial/commercial sector.

### **Education Policy, 1980 to 1988**

In December 1980, the ICAS published “The Impact of Change on the Accountancy Profession”, commonly referred to as the Flint report (Flint 1980). This review of the external and internal factors of influence on the profession made a number of recommendations. The report called for “a unified organizational structure to determine the common basic qualification in terms of education, training and experience for admission to the accountancy profession; and to regulate, supervise and discipline the accountancy profession”. It was recognized that this called for one universal standard of education, training and experience as a basis for admission. Having noted that there was no consensus on the need for relevant education the report concluded that “. . . the needs of future entrants . . . are such that they will require to have undertaken academic study of accounting and related subjects before professional education and training”. It was also stated that a common policy on admission requirements could be achieved as a vital first step towards a unified profession. Some seven years later this first step was taken but certainly not in the way in which the report had intended or assumed. By that time the ICAS had implemented changes to its education requirements which had brought it more

into line with the ICAEW and, perhaps, removed a major impediment to “unification”.

The education and training section of the Flint report did not cause great controversy and the subsequent discussion centred around other issues. However, there was a short debate on the subject of training in industry. The ICAS announced in 1984 that there was inadequate support “on a practical level” for the idea and had decided that it would not proceed, although it reserved its position in case a change of attitude took place.

In March 1982 the ICAS issued a Council-approved paper which set out proposed changes to the educational, training and examination arrangements which it was intended to introduce in autumn 1983 (ICAS 1982). The main recommendations were:

- (1) the introduction of a basic preliminary examination together with a preparatory course;
- (2) in 1986 a new examination, “a test of professional competence”, would be introduced.

These changes were promoted as being an updating of the existing scheme but the ICAS called for a more fundamental review to be undertaken (ICAS 1982). Reference was made to the Flint report’s suggestion that unification of the profession might be achieved if a first step could be taken in establishing a common policy on education and training. It was postulated that the process might be started by agreeing on a common examination system and that the first step might be to work backwards, i.e. start at the final examination and then work back towards entrance qualifications. It was noted that “Our own Institute is so far the only one committed to the principle of fulltime academic education in professionally-relevant disciplines and is the only one to prescribe a ‘relevant degree’ as the normal entry standard.”

The proposals attracted a certain amount of criticism. The introduction of the preliminary examination which tested students in the subjects of elementary accounting, elementary taxation and mathematics had been justified on the grounds that it would screen entrants at an early stage and identify students who would be unlikely to qualify at the earliest stage possible. It was also thought that it would establish a common body of preliminary knowledge for all entrants. Critics argued that the preliminary examination had been introduced as a concession to those who claimed that the graduate’s technical competence was limited. Furthermore, comment was made that this additional hurdle and some retiming of the Parts 1 and 2 examinations would inhibit entrants particularly with non-relevant degrees and “. . . The continuation of the ‘Scottish option’ for students outside Scotland, particularly in London, must be jeopardized. . . . The Advantages (of) earlier examinations, longer and better periods of practical experience, will disappear when compared with the English Institute scheme”. (Smith 1982).



In none of the years since 1983 was there ever less than a 91 per cent pass rate in the preliminary examination, indicating that the test did not pose a significant problem for students and that the numbers who were screened out was very small. Thus one of the objectives cannot really be said to have been achieved. The fear expressed by Smith was amply borne out of the fall in the numbers and quality of non-relevant degree holders who found that the hurdle presented by the ICAS made the ICAEW option more attractive. This preference appears to be supported by three factors. First, the quality of non-relevant degree student undertaking the diploma year was thought to be declining and the ICAS examination statistics reveal that diploma student performance was not regarded as satisfactory. Secondly, there was strong evidence of a reduction in the intake of English-based students for the ICAS option and finally, and probably more serious to the ICAS as evidence, was the increase in Scottish students going for the ICAEW option. The ICAS was able at first hand to gauge the impact of the new system at career fairs. At such meetings it became clear that the four examination system was seen as unattractive on a comparative basis (Lothian 1985). In retrospect it could be argued that the introduction of the preliminary examination was a serious error of judgement which did not satisfy the original objectives and furthermore gave rise to more serious recruitment problems than had been either intended nor appreciated. It was probably the first serious mistake in education policy that the ICAS had experienced and the consequences were to lead them into a later fundamental review which effectively destroyed the whole philosophy on which the ICAS education and training had been developed over a period of twenty years.

In January 1984, the Education (Policy) Committee commissioned Niall Lothian of Heriot-Watt University to produce a report entitled "The CA in the 1990s: An Educational Profile" and this was submitted in March 1985. In the report, Lothian reached a number of conclusions and two sets of recommendations which he termed "fine tuning" and "structural". However, he did caution that the methodology he had used in this survey led him to believe that "... it would be unwise ... to proceed to the implementation stage without further analysis and research".

The "structural" changes which were recommended (but never implemented), were:

- (1) the introduction of residential management schools to address the multi-disciplinary analysis of business issues;
- (2) the introduction of a six-months' industrial secondment.

Responses on entry requirements were interesting, although perhaps not surprising. Lothian commented that the relevant/non-relevant argument was still very much alive, "no topic touched on during the project interviews produced such forceful or conflicting opinions as that of the position of CA students who possess 'non-qualifying' degrees". He found that most

training firms attempted to recruit a constant mix each year although they admitted that the relevant proportion was increasing due to "... a perceived drop in the quality of non-relevant graduates." The reasons for this drop were not clear but were attributed to students being advised of the relevant route path which had become the "norm" in Scotland and also the "risk" associated with the diploma year. The risk was associated with the fear of not obtaining a student award and/or not subsequently being able to obtain a training contract after making the year's investment. Thus it was thought that students who wished to train as accountants were going to the ICAEW scheme, or were going direct into the financial services sector. There had been two proposals to deal with this "non-relevant" problem. One proposal was that the CA qualification should be marketed as a "business" qualification rather than as a "technical" one. The second proposal was to remove the diploma obstacle and "... place the onus on training firms to 'convert' their own students". Lothian noted that the latter proposal might attract quality non-relevant graduates back into the CA fold although this was heavily qualified. With the warning that "... by taking away its academic input completely, the conversion concept becomes even more 'absurd', indeed the two intake streams would become incompatible" (Lothian 1985).

The ICAS appointed an Advisory Board to assist the Education (Policy) Committee in conducting a fundamental review of its education policy. The Chairman of the Board was Dr Tom Johnston, Principal and Vice-Chancellor of Heriot-Watt University. The Board comprised 6 members, drawn from all sectors of the business and academic community and with a major of non-accountants. The proposals which eventually surfaced were published in February 1987. The implementation process envisaged that the first intake to university affected by the proposals would be in session 1989/90, with the first entrance to training contracts being autumn 1992 (ICAS 1987d). The recommendations were made in the form of three propositions:

### ***Proposition 1***

The great majority of entrants to the profession should have a (relevant) university or CNAA degree.

The major issues to be determined related to the non-relevant students who were required to undertake a diploma year and the students who entered with the HND in accounting. The Committee recognized that there was still a wish in training firms to retain the non-relevant route but noted that concern at current "quality" levels had been expressed. However, the committee also recognized that "... as the body of knowledge continues to expand in the accountancy profession, it becomes difficult to sustain the belief that a one year diploma course, no matter how intensive, is equivalent to a three or four year 'relevant' degree, particularly as and if the 'relevant' degrees become more 'relevant'". The Committee proposed that in order to meet this problem the diploma year should be "topped-up"

by the ICAS mounting a full-time three month course for these students within the first six months of the training contract. The proposals for the HND route were to stop this intake, primarily on the basis of falling numbers and the very poor examination records.

### ***Proposition 2***

The great majority of accounting education would be supplied by the universities and colleges and the formal practical training by the training firms backed up by classes at the Institute.

It was claimed that the content of relevant degrees varied considerably and it was proposed that the ICAS should hold discussions with each academic institution on the basic content of their degree and the departmental resources which were committed. These discussions would lead to the recognition of the degree as an approved relevant degree.

The proposed syllabus was expected to take not less than 80 per cent of the qualifying degree, leaving 20 per cent available for options offered or required by each institution. The accounting core would make up approximately 50 per cent of the degree. Informal discussions with the Heads of Department of Accountancy Departments in Scotland had led the Committee to conclude that this could be accommodated. The ICAS role would be threefold:

1. To top-up the diploma course.
2. To act as a bridgehead between university and the training firm through the provision of block release classes through the first twelve months of the training contract.
3. To prepare students for the Test of Professional Competence.

It was also proposed that the ICAS should approve training offices to ensure a minimum environmental standard for all students.

### ***Proposition 3***

The Institute would examine only in the practical application of accounting and related topics by means of a two-part case study based examination.

It was proposed that these two examinations should be taken at the end of each of the first two years of the training contract. As a consequence the preliminary examination would be dropped. It was claimed that the original objectives of this examination "... would no longer be appropriate if the universities were teaching an agreed upon common syllabus which was constantly being monitored by the Institute". Part 1 of the Test of Professional Competence would consist of single subject case study examinations in accounting, auditing, taxation and data processing. The Part 2 Test would be a comprehensive case study examination.

The Committee concluded that the proposals set out an integrated education and training programme which emphasized the degree of responsibility of the three partners in the process. Comments were invited by March 31, 1987. The proposals, subject to three major amendments, were approved and announced at a press conference in London on July 28, 1987.

The relevant degree route was classified as “fully accredited” and this accreditation would be awarded by ICAS who would specify the outline syllabus content. All relevant degrees which the ICAS had approved were to be granted the status of fully accredited degrees from September 1, 1988, with the active accreditation process developing in 1988/89. Students entering under this arrangement would complete their examinations after 27 months of their three-year training contract. Non-relevant degrees were to be classified as “qualifying degrees” with exemptions being granted for individual Professional Examination subjects accredited within each degree course.

However, the original proposals were heavily and significantly amended, although there had been no previous indication that the proposals were being modified (Black 1987). As a consequence, when the ICAS published a copy of the new education and training programme, there was considerable surprise, particularly in the universities.

The modifications were:

- (a) Non-relevant degree holders were able to enter a three-year training contract directly, without being required to undertake a diploma year.
- (b) Non-relevant degree holders would obtain their basic conceptual knowledge from professional examination courses, taken during their first year of training.
- (c) The new programme would be introduced in September 1988.

The professional examinations would be taken during the first year of training. The ICAS would design its own courses and examinations “. . . in those subject areas considered necessary to provide a foundation upon which candidates can build towards their TPC1 and TPC2”. The examinations would take the form of objective testing in:

Financial Reporting (including Business Finance and Managerial Reporting (2 papers)).  
Taxation (half paper)  
Auditing (half paper)  
Information Technology  
Mathematical Techniques  
Economics  
Business Law

The course would comprise a total of 13 weeks of block release tuition spread over nine months and linked by home exercises. The programme would be designed to enable the examinations to be taken in two diets, half in

December and the other half in June. Thereafter the students would undertake the TPC1 and TPC2 examinations, completing the syllabus after 33 months of the training contract.

Mr A. D. Black, Convener of the Education Committee, explained and justified the new system. He said that "The Education Committee recognized that the programme for qualifying graduates may be seen by a few as a reduction of standards. This is not a view shared by the Committee or the Council in the light of submissions and comments received from training firms and from those who employ such graduates after qualification through the ICAEW scheme. Provided we attract good, high quality graduates, the evidence is that they are, by the end of their three-year training contract, and during their careers as CAs, at par with accountancy graduates. What they may lack in an academic accountancy base is compensated for by their broader education. This often provides a better ability to continue absorbing information and to develop the profession in the future. The Committee believes that for this reason the two routes proposed are compatible and tenable" (Black 1987). There appears to be a level of inconsistency in the arguments which Black espoused. He implicitly accepts the expanding core of knowledge argument put by the Advisory Board by insisting that relevant degrees should be required to go through an accreditation process, yet it is refuted by the argument that a qualifying degree can be upgraded to equivalence in a matter of 13 weeks block release and home exercises within a period of nine months. He rejects completely the argument that a nine month diploma course requires topping-up by a further three months study.

It is possible to trace the systematic and logical development of the ICAS education policy over a period of thirty years in which the Institute moved progressively towards the full-scale implementation of relevant university study based on a firm principle that academic study of accounting and related subjects was a necessary prerequisite for admittance to a training period.

The suspicions, which proved unfounded, were that a move to a graduate profession would necessarily leave the ICAS with insufficient entrants.

It can be noted that of all the UK accountancy bodies the ICAS was closest to the recommendations of the Solomons report.

It is a matter of record that the relevant degree graduate intake of the ICAS assumed the most significant proportions.

Every single President of the ICAS throughout this period referred to the various developments with pride and each and every one of the number highlighted the "elite" nature of the Scottish Institute, based on its education, training and examination policy.

However, in the six month period between February and August 1987 the carefully structured edifice was consciously dismantled. It is right to enquire what sound education and training arguments there were for this fundamental policy change.

Perhaps the underlying reason only became clear in the summer of 1988

when it became apparent that one of the major impediments to uniting the UK profession had already been removed.

### **Unification Proposals, 1988–1989**

So far as the ICAS general membership was concerned, unification of the accountancy profession was not a pressing issue until they were startled to read in the “Glasgow Herald” of May 6, 1988 that the ICAS was seriously considering a form of merger with the ICAEW, leading to the formation of a “British Institute” (Baird 1988). The Secretary of the ICAS complained that the article had contained unfounded assertions which had caused disquiet among the members who had contacted him (Tait 1988). However, the unfounded assertions proved to be the constitutional arrangements required for approval of the proposal, while on the key issue that such action was being contemplated the report was accurate. What had occurred was that an ICAEW Council meeting had been held on May 4, at which it had been unanimously agreed to accept a report recommending the creation of the new body. The ICAS meeting, held the next day, had been expected to reach a similar agreement but it became necessary for the Council to adjourn their deliberations until May 17 to allow the members more time to gather information (Connon 1988).

The source of the proposal was a report issued by a Joint Working Party of the ICAEW and the ICAS which had been formed in November 1987 (ICAEW/ICAS 1988). The remit of this Working Party stated that it was required to advise both Councils on the scope for exercising certain of their responsibilities on a unified basis. Preceding this announcement, there had been a long period of softening up taking place with great prominence given in leader comments in the ICAS monthly journal. This process began in May 1987 after the ICAS Council had authorized the office-bearers to consider “. . . a range of proposals, as yet vaguely established, with their opposite numbers — principally in the English and Irish Institutes”. The leader (ICAS 1987a) concluded that “Authoritative reports will be carried in TAM as the issues develop”. Unfortunately this promise was only kept in announcing the formation of the Working Party; thereafter, all was silent until the newspaper report was read by members. During the summer of 1987, Mr Don Hanson of Arthur Andersen, in an address to the ICAEW summer school, had called for the Government to pressure the accountancy to integrate, primarily on the grounds that there were no substantive grounds for retaining the present system of uncoordinated action by each of the professional bodies (ICAS 1987b). A subsequent development was the formation of a Committee of the senior partners of Britain’s top eight accountancy firms which stated that they wished to speak out on specific issues (ICAS 1987c).

The pressures which had built up on the “leaders” of the accountancy profession were almost all regulatory changes affecting the practice of accounting. The major Acts of Parliament which had been passed and

which were perceived as having major impact on the profession were the Insolvency Act 1986; the Building Societies Act 1986; the Banking Act 1987; and, probably most important of all, the Financial Services Act 1986. In addition the Government was preparing a new Companies Bill which would affect the regulation of auditors. A common feature of this regulatory framework is the emphasis given to regulation of the firm, not the individual. In these circumstances, firms have to choose one or the other of the ICAEW or the ICAS as the firm's regulatory body. The evidence has been that it was the ICAEW, being the larger numerical and geographical body, which attracted the biggest level of registrations. The problem for the ICAS was that the large accounting practices regarded London as their centre and consequently registered all offices through the ICAEW (Kidd 1988).

The Report of the Joint Working Party was completed on April 18, 1988 and advocated the creation of a British Institute. The proposals attracted fierce criticism in Scotland and eventually a number of major concerns began to emerge (Lee 1988). There were:

- a) The loss of independence of the ICAS to which members were deeply attached.
- b) The suspicion that the profession was being hijacked by the big eight accounting practices.
- c) The belief that the existing and potential legislation could be handled on a joint basis without dismantling the two Institutes.
- d) The fear that the education/training system would ultimately be modelled on the ICAEW scheme.
- e) The belief that the proposal ran contrary to the social and political climate prevailing in Scotland, which has been demanding a greater, not lesser, say in running its own affairs. (The Committee had specifically rejected a federal system).

The debate over the proposals was conducted with some intensity in Scotland as opposition focused on the major issues. The only published survey of members' opinions was a poll taken by System 3 in December 1988 which indicated that 24 per cent were in favour and 43 per cent were opposed. The sample size was 620 from a total membership of 12,000 (Baird 1989). It was known that not all members of the ICAS Council were in favour of the proposals. As voting was about to take place in May/June 1989 the ICAS claimed that there was confidence that a majority would come down in favour of the plan. The Secretary of the ICAS revealed that an unpublished poll showed that support for the merger had doubled during the last few months (Milne 1989). Announcement of the voting was set for June 6, 1989.

### **British Institute Education/Training Proposals**

The Report of the Joint Working Party addressed the issue of education and training and argued that if the British Institute were to have credibility it

had to be underpinned by the same admission process, on the logic that "... (We do not see) how it is possible on the one hand to say that it is the rigorous, carefully structured and monitored systems of Education and Training that distinguishes chartered accountants from other accountants, yet on the other to maintain two separate routes to a professional qualification that is regarded as unique in its excellence". It was also argued that "... as regards education, we see the ICAS collegiate tradition of educating students as a resource on which a British Institute would be able to build". It was proposed that the education/training policy, teaching for the British Institute and relations with the higher education sector should be located in Edinburgh. There is no question that the steps taken by the ICAS in 1987, whereby non-relevant graduates could make direct entry to the profession, had facilitated this amalgamation of the education/training route. The ICAS policy of relevant degree or diploma as the only routes to training had proved to be a major impediment to those who wished to integrate the ICAS with the ICAEW. The educational and training requirements of the ICAEW do not suggest a policy with the intention of moving towards relevant study as the normal standard for entry. Currently, the ICAEW argue that as relevant degree student numbers are not allowed to expand (UGC Report 1988) this makes it impossible to move towards this approach.

So far as actual proposals for education and training were concerned the two bodies assembled a Discussion Document which circulated in September 1988 and after small amendments was incorporated in the formal proposal (ICAS 1989b). This paper stated that the education and training systems of the two Institutes were "... very similar ... in most important areas, and to a degree which may not be widely recognized". In one extremely important respect the Discussion Document was totally silent. It failed to mention the extent to which the ICAS had emphasized the relevant degree as the "standard" level of entry to the training contract. Current proportions are running at 85 per cent relevant degree which compares with 20 per cent intake by the ICAEW for graduates with a relevant degree. In the US, Canada, Australia and much of Europe, entrance to the profession requires study for a relevant degree. The ICAS was alone of UK accounting bodies in conforming with the prevailing international practice. The proposals for the British Institute contemplated the continuation of the ICAEW recruitment philosophy. Indeed, the ICAEW had already announced that they intended to grant entry to students who did not have a degree but had studied accounting to HNC level (Thomas 1988). (HNC is a national certificate obtained by study at a tertiary college.) They have embarked on this move, primarily because of demographic trends which show that by 1995 there will be two-thirds of the present 18–21 age group available, thus intensifying recruitment problems. There are, however, arguments that the total population of graduates will not fall due to the social class composition of entrants to higher education (Bourn 1988). The ICAEW have also opened up this route just 18 months



after the ICAS formally closed that level of entry on the grounds that the quality of such students was markedly inferior and after it had been demonstrated that they were unable to handle the professional examinations. Concern had been expressed that the ICAEW position would be adopted by the British Institute and this was confirmed when the formal proposal documents were published.

In the Discussion Document, it was also stated that there was similarity between the two syllabuses to the extent that the harmonization should be straightforward. The Committee of Heads of University Departments of Accountancy in Scotland (1989) responded unanimously to this assertion by pointing out that this was “seriously misleading”. They claimed that the document did not recognize that syllabus revisions which had taken place in 1988, in response to the ICAS requirement for reduction in duplication, had not been fully recognized and that representations which had been made had failed to secure safeguards for Scottish relevant-degree holders. This latter point referred to the requirement to take the intermediate examination which embraced areas of study covered in their degree courses. The Heads of Department concluded that the profession in Scotland would be taking a great step backwards. They stated that there would be four major consequences for the accounting profession in Scotland:

- (1) increased training cost for Scottish practices;
- (2) a decline in the links between the accounting academics and the profession, with a consequent fall in the co-operation given by the academics in areas such as recruitment and the encouragement of students to take up Chartered Accountancy;
- (3) a decline in the standing of the Scottish Chartered Accountant and of the accounting profession in Scotland, until such time as pressures from Europe require (at considerable cost) the reinstatement of a “relevant degree” profession;
- (4) a greater involvement by Scottish accounting academics in the provision and support of alternative qualifications such as the MBA, and a greater interest by accounting graduates in obtaining such qualifications in preference to Chartered Accountancy.

Officials of the ICAS responded to the Heads of Department criticisms by stating their regret at the inward looking and fearful attitude being taken (Motyl 1989). However, the final opposition submission to ICAS members laid emphasis on education and concluded that “The single most important strength of ICAS is its education, examination and training system” (Brown, Lee and Valentine 1989). Although the times and circumstances were different, a similar concern had been expressed in 1969–70 when a previous attempt to rationalize the UK accounting profession had been attempted.

Under the existing system of examinations there are in fact considerable differences between the two systems. The ICAS examination system is more rigorous at the front end, intermediate stage and is completed with a case study approach as the final test of competence. This is more easily

adopted due to the level of understanding which relevant degree students are deemed to have acquired at university. The ICAEW system is generally recognized to impose its major hurdle at the final stage which remains a traditional examination and is still considering the use of a case study as a final test of competence. For the ICAGB it was considered that a case study approach "... would seem to be a valuable technique ... subject to more detailed work on the logistical and management problems which may be associated with handling large numbers of case study answers".

The Discussion Document proposed that the undernoted examination structure should be introduced for the British Institute:

Foundation<sup>2</sup>

- Financial Reporting and Elements of Business Finance
- Managerial Accounting
- Information Technology
- Economics for Business
- Business Law
- Mathematical Techniques
- Taxation

Intermediate

- Auditing
- Financial Reporting:
  - external
  - internal
- Taxation
- Business Policy
- Information Systems and Control

Final Test of Competence

- Auditing and Financial Reporting
- Finance and Business

**Outcome of Unification Proposals**

The month of May 1989 was marked by final exhortations of the opposing camps asking for support for their respective positions. The ICAS (1989c) concluded that "It was now or never if the Scots wanted to operate in the mainstream of the profession in the future", while the ICAEW argued (1989a) that "... the issues were about how the British profession wanted to be seen internationally and about how best to contribute to accounting worldwide".

On June 6 the respective voting figures were announced. Both the ICAS and ICAEW required a 66.6 per cent majority in favour of the resolution to create the British Institute. The results were:

<sup>2</sup> Graduates with appropriate degrees are or would be eligible for exemptions from some or all of these papers.

TABLE 27.1

	ICAS	ICAEW
FOR the resolution	3,274..... 45%	33,495..... 94%
AGAINST the resolution	4,023..... 55%	2,291..... 6%
Total valid votes	<u>7,297..... 100%</u>	<u>35,786..... 100%</u>
Turnout % of total members	60%	40%

The ICAS President Gordon Lowden commented that the ICAS members had responded in an emphatic manner and that the vote was decisive. Lothian said that education had been a crucial issue in the debate and that the universities would be ready to rebuild the bridges to the Institute and assist in re-establishing the supremacy of the ICAS qualification. It was subsequently revealed that the ICAS had formed a strategy review group which had been discussing future policy to be adopted for an independent ICAS. This group had been formed in January 1989. At a subsequent Council meeting the proposals were accepted and distributed to the members.

The ICAS statement on future strategy (1989d) outlined a "clear strategic objective: which was stated to be: pre-eminent in the education of chartered accountants, in the development of accountancy, and in serving members in practice, industry and commerce". Implementation of this objective would be based on six main principles:

### **1. Education**

Continuing to develop the education system so that it becomes yet more flexible, forward-looking and innovative, appealing to incoming students and members and meeting the requirements of practice, industry and commerce.

### **2. Research**

Advancing the profession of accountancy by research into practical areas to serve the business community, government, members of ICAS and other accountancy bodies and university students, by ensuring that the Scottish Institute is at the forefront of developments in accountancy.

### **3. Commitment to Serve Members' Needs**

### **4. Professional Authorization and Supervision**

Adopting a sensible approach to supervision in co-operation with ICAEW and ICAS.

## **5. The Institute's Profile**

Maintaining of influence through quality comments on professional and business matters to Ministers of Scotland, Whitehall and Brussels and to the national and international accountancy profession.

## **6. Communications**

Communicating with members and those interested in accountancy through quality publications and other means.

Significantly, the education section of the ICAS statement assumed 40 per cent of the document and proposed radical changes and developments. One of the fundamental criticisms levelled at the education/training system had been the biased emphasis on auditing which in itself did not provide the student with experience and skills demanded by commerce and industry. Paradoxically it had been recognized that the profession was becoming more specialized and that this was being reinforced by legislation. This position had been referred to in the Flint report and the recommendation had been the creation of faculties of specialism taken at post-qualified levels (Flint 1980). The ICAS proposal dealt with this problem in a structurally different manner and, in one most important respect, sought to encourage training outside the traditional route.

The ICAS proposals were:

1. The maintenance of the current syllabus and training requirement for those students who wished to become "Registered Auditors".
2. The creation of an alternative syllabus with less emphasis on auditing and more extensive grounding in business and management related subjects.

It was suggested that students who followed the second route but who later wished to become Registered Auditors would be able to do so by post-qualification examination and training. The ICAS proposals also envisaged that training could be obtained in commercial and industrial concerns thus reviving the policy which had been agreed to in principle in 1984 although never implemented. Furthermore it was stated that in order to "meet the needs of members in Europe and to respond to the challenge of the single market in 1992, ICAS will encourage firms and companies of Scotland to apply for training status".

In order to gather opinion on these proposals a major conference will be held in the latter part of 1989 to which will be invited heads of accounting departments in the UK, senior partners and training partners in professional firms in Scotland and members in industry who are interested in receiving the new "training in industry" proposals. The ICAS conclusion was that this Conference "... will undoubtedly be a landmark not only for ICAS but for education of accounting generally".

## **Concluding Remarks**

This chapter has reviewed the development of education policy to demonstrate that the ICAS has been consistently in the forefront of progressive developments in the area of accounting in the UK. It has been argued that almost all adjustments relate to the Lister report of 1956 and have been based increasingly on the principle that entrants to the profession should have undertaken academic study of accounting and related subjects prior to professional education and training. This philosophy prevailed until 1988–89 when the ICAS hurriedly and without apparent reason made a decision to dispense with the principle and opt for a more pragmatic policy which conceded entry to graduates in all disciplines. Those entrants with a non-relevant degree were required to undertake study within the training firms utilizing ICAS courses which, after a period of less than one year, were deemed to be of equivalent status to the three-year Scottish ordinary or four-year Scottish honours degree. Paradoxically, the ICAS were at the same time demanding a uniformity among Scottish degrees which often entailed students being required to undertake additional courses for their degrees to be accorded fully accredited status.

Accounting education in the ICAS has been compared with the ICAEW because of the proposal to form the ICAGB and it became clear during the debate that this was one of the most important issues receiving attention. The philosophies and policies of the two institutes were historically different in a substantial way although official presentations attempted to mask these differences. The failure of the merger proposals leaves the ICAS in an interesting position full of promise and yet potentially vulnerable.

The problems facing the ICAS are twofold. Firstly there is the danger, which was at the forefront of the merger debate, that the ICAS could become professionally marginalized. There is little doubt that the ICAEW has sought for a number of years to establish its hegemony within UK accounting. This is normally presented as “working towards further rationalization of the UK profession” (ICAEW 1989b). Note should be made that within one week of the merger vote being taken the ICAEW announced that it was to discuss merger with CIPFA (Jaskowiak 1989). The ICAS has a status and a capability greater than its size ranking yet it could become isolated in the surge for a unified UK accounting profession desperately seeking to speak with one voice. The second problem facing the ICAS is that competitive recruitment pressures may restrict its pace of development to that of its larger sister institute. It is believed that this issue lay at the heart of the direct entry for non-relevant graduates.

The promise is that the ICAS could be revitalized and grasp the opportunity to reappraise its policies, thus reasserting its historical role as a leader in the development of education and training policies. The education conference affords the opportunity to establish the foundations of this policy which will be required for the remaining years of this century. However, concern must be expressed that the research on which this policy

depends has been partial and outdated. It is recommended that the ICAS undertake a major research programme based on delphi studies similar to those conducted by the Task Force on Accounting Education in Australia (see for example Birkett 1986, 1987). Furthermore, in reviewing its education and entrance policies, the ICAS would do well to consider the conclusions of Zeff (1988). "A spirited and critical examination of extant practice — one that goes beyond the incantation of ritual explanations offered in support of that practice — is an indispensable part of the education of future professionals."

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# The Profession in the UK — Current Developments and International Influence

MICHAEL SLEIGH

## Introduction

### *Structure of the Profession*

For a country of 56 million people and measuring less than the size of Texas, the United Kingdom's six professional accountancy bodies with a total of 400,000 members and students worldwide may seem excessive. The number of accountancy bodies, however, reflects both the national differences which exist within the UK and the wide range of specialization which the modern accountancy profession encompasses.

The six bodies are the Chartered Association of Certified Accountants (ACCA), the Chartered Institute of Management Accountants (CIMA), the Chartered Institute of Public Finance and Accountancy (CIPFA), the Institute of Chartered Accountants in England and Wales (ICAEW), the Institute of Chartered Accountants in Ireland (ICAI), and the Institute of Chartered Accountants of Scotland (ICAS). The three Institutes of Chartered Accountants are separate organizations, and their Royal Charters (from which the term "Chartered" derives) restrict some of their activities, principally their examination and training functions, to the countries in their titles. Members of the Institutes of Chartered Accountants mainly qualify by working full-time for an accountancy practice, some or all of the partners of which should be Chartered Accountants. Once qualified, the Chartered Accountant who holds a practicing certificate is entitled to audit limited companies and other enterprises.

The statutory audit of companies is a right shared with members of the Chartered Association of Certified Accountants. Certified Accountants can qualify in industry, commerce and the public sector, or they can work for an accountancy practice (which may be either Certified, Chartered or a mixed



practice). Only Certified Accountants holding practicing certificates are entitled to audit limited companies and other enterprises.

Of the remaining bodies, the CIMA does not enjoy any statutory or other auditing recognition. As its name implies, CIMA offers a management accounting qualification, and its members qualify normally through their work in industry and commerce or in the public sector. The CIPFA offers a specialist qualification in the public sector (local government, the Audit Commission, etc.); members of the CIPFA are not entitled to audit limited companies, but may be involved in the audit of public sector bodies, if in possession of a practicing certificate.

Numerous attempts have been made over the years to merge some or all of the six Chartered bodies. The most recent of these was in 1989, when members of the ICAEW and the ICAS were asked to vote on a merger to establish a joint body to be known as the British Institute of Chartered Accountants; the proposed merger was heavily supported by members of the ICAEW, but was defeated in Scotland, possibly as a result of fears that Scottish accountants would lose their unique national identity. The defeat of earlier merger proposals, in 1971, led to the formation of the Consultative Committee of Accountancy Bodies (CCAB). The role of the CCAB is to coordinate the activities of the six bodies; specifically in relation to government agencies in the UK, and to international bodies such as the International Federation of Accountants and the International Accounting Standards Committee. The CCAB also determines the long-term strategy of its main subcommittees, the Auditing Practices Committee and the Accounting Standards Committee.

The six Chartered bodies have their own rules and regulations governing the qualification of their members. All, however, stipulate that potential students must hold certain minimum educational qualifications before being accepted for registration. This is usually equated to university entrance level — 2 Advanced and 3 Ordinary Level General Certificate of Education (GCE) passes in five separate subjects, or 3 Advanced and 1 Ordinary Level GCE passes in four separate subjects. Qualifications deemed to be equivalent to the GCE passes include: the Business and Technician Educational Council (BTEC) National and Higher National Awards, which are offered at Colleges of Further and Higher Education and at Polytechnics in the UK; and membership of the Association of Accounting Technicians (AAT) which is an independent body providing a technician-level qualification in its own right.

The ICAEW additionally requires prospective students to have either a degree or to have completed a one-year approved foundation course. The ICAS requires candidates to hold a university degree or diploma. Holders of degrees and other professional qualifications may also, of course, register with the ACCA and the other bodies; in this case, they are entitled to exemptions from the bodies' examination syllabus. The number of exemptions on offer varies, depending on the body, the content and standard of the degree or professional qualification, when and where it was taken.

A candidate registering with the ACCA, for example, with the minimum entry requirements will have to take all eighteen papers in the syllabus. The ACCA's examinations are divided into three levels; Level 1 (the preliminary examination); Level 2 (the professional examination); and Level 3 (the final examination). Level 1 of the ACCA's examinations consists of five papers: Accounting, Cost and Management Accounting I, Economics, Law, Business, Mathematics and Information Technology. There are nine papers at Level 2: Auditing, Company Law, Taxation, Cost and Management Accounting II, Quantitative Analysis, Information Systems in Development and Operation, the Regulatory Framework of Accounting, Advanced Accounting Practice, and an optional paper. The final Level consists of four papers: Advanced Financial Accounting, Financial Management, Advanced Taxation, and Auditing and Investigations.

The wide range of topics examined by the ACCA reflects the broad base of its qualification, and the composition of its student population, which trains in industry, commerce, and the public sector as well as in public practice. In line with the working environments normally associated with the qualifications offered by the other bodies, their syllabuses tend not to reflect the same breadth and depth of subject coverage as the Association's syllabus. Regardless of the route followed, the qualifications of all six Chartered bodies are deemed to be at least equivalent standing to a university degree, both by employers and for the purposes of admission to postgraduate and MBA courses at universities in the UK and elsewhere.

### ***Accountancy Education***

A notable feature of the accountancy profession in the UK is the lack of any imposed structure on the way students study for the examinations. Of the six bodies, only the ICAS requires its students to enroll in courses organized by the Institute. Generally, the professional bodies allow students to prepare for the examinations through homestudy, by enrolling in correspondence courses, or by full- or part-time courses at educational institutions. (It should be noted that, because the Institutes of Chartered Accountants require their students to be employed by practicing firms throughout their period of training, the option of attendance at full-time courses is not open to these students.) The choice of a method of study may be influenced by the nature of a student's employment, his or her location, or financial position.

Students in full-time employment who have access to reputable educational institutions find that part-time courses — day release, evening class or Saturday class or a combination of these — are the most suitable method of tuition. Part-time courses are offered by colleges and polytechnics in the state sector of education, and in larger cities may also be available at private sector colleges. A part-time course usually involves attendance at classes one day a week or up to three evenings a week.

Students deciding to attend full-time educational courses may either be

able to obtain a Government scholarship or be sponsored by an employer. Full-time courses may either prepare the student for the professional body's own examinations (such courses are known as "externally examined courses") or may lead to the internal examinations of a college or polytechnic approved by the professional body to examine on its behalf ("internally examined courses"). Successful completion of the latter courses enables students to claim exemptions from the equivalent papers in the professional body's examinations. Internally examined courses are only approved if the professional body is satisfied that the college's staffing levels and facilities are of a high standard and it has a wide experience of teaching for professional qualifications and degrees. Close contact is maintained to ensure that the professional body's syllabus is adequately covered, and the internal examinations are of an equivalent standard; external examiners, who moderate the setting and grading of papers, are appointed for all internally examined courses.

For many students, especially those living outside the UK and studying for a UK qualification, tuition using correspondence courses or study manuals are the main methods of study. Correspondence courses are usually offered by private organizations, and for a set fee students are supplied with study texts and are given tests, which are graded by a tutor. These courses enable students to fit study time around other home and work commitments, while the requirement to submit written work disciplines students to maintain a steady program of study. The flexibility of this method of study is perhaps its greatest advantage; the main disadvantage is the absence of a personal tutor with whom students might discuss problems or difficult points.

As indicated earlier, most of the professional bodies in the UK view themselves, first and foremost, as examining bodies; it is not usually part of their function to provide teaching or educational facilities on a large scale. The bodies do, however, provide a number of study aids for students, including cassette packages and books, and also organize short-duration study schools and courses.

There is a growing realization among the Chartered bodies, however, that the modern-day student requires more from the professional body than merely being offered the facility to sit for the examinations. The ACCA is the first of the UK bodies to commit a great deal of its resources to developing study packages linked to its examinations. The ACCA is in the process of developing in conjunction with The Open College in the UK a set of study packages based on the "open learning" principle. Eventually, there will be a package for each of the papers in the ACCA's examination syllabus; each package will contain four workbooks, two audio-cassettes, and computer graded assignments. The packages may be used on their own similar to the study manuals mentioned above. Under an "open learning" scheme, however, students may also choose to register with colleges and other institutions, where they would have access to study facilities as well as the services of tutors who would provide advice to students on their study

programs and on any points they might misunderstand. The program being developed by the ACCA is thought to be the largest ever “open learning” course in accountancy, and it has already attracted the interest of other professional bodies, international aid agencies and the Commonwealth of Learning.

### ***Practical Training***

In the UK, examination success is only one aspect of qualifying as an accountant. The Chartered bodies expect that by the time their graduates apply for membership, they have also obtained approved training and practical experience. The period of practical training required for entry to the bodies is, for several of the bodies, determined by the educational qualifications students have at the time of registration; others set a fixed period. For example, candidates with a university degree or professional qualification are required by the ACCA to have three years’ approved accountancy experience before being admitted to membership. Students with two A levels, or who have attended an approved course of full-time instruction for any level of the ACCA’s examinations or equivalent, must have four years’ approved experience.

The requirements for practical training are the clearest difference between the six Chartered bodies in the UK. Candidates for membership of the Institutes of Chartered Accountants mainly train in the offices of practicing Chartered Accountants. Students of the CIMA, because of the lack of any statutory auditing element to their qualification, tend to be confined in their training to industry and commerce or the public sector. CIPFA is a public sector organization, and its students train in that sphere. Trainee Certified Accountants, however, may obtain their experience in a wide variety of industrial, commercial and public sector concerns, as well as in public practice.

When applying for membership of the Association, candidates must demonstrate that their experience has been gained in the following areas:

- systems of maintaining financial records (basic accounting);
- a reasonable range of technical accounting functions;
- management (the control of staff or work programs).

Trainee accountants in industry, commerce and the public sector should, in addition, obtain some experience in the financial and management accounting areas. Trainees in public practice should obtain experience in each of accounting, auditing, and taxation. All experience must be verified by employers and/or principals. Experience contributing to practicing certificate requirements must be gained in a practicing office under the supervision of an approved principal (e.g., a member of the ACCA or Institutes of Chartered Accountants holding a practicing certificate). Many accountancy practices and industrial concerns offer their trainees structured

programs to ensure that they gain the necessary breadth of experience. Generally, though, the experience obtained will depend on the size, nature and structure of the organization in which a student works. The practical experience requirements of the Association are sufficiently flexible to take account of the many and varied training opportunities a candidate for membership will face. In addition to providing evidence of technical and practical expertise, students are expected to show that they have developed personal skills which enable them to communicate effectively, to exercise judgment and motivate others, and to understand the importance of professional attitudes.

### ***Continuing Professional Education***

Practical experience is only one aspect which, in the UK, differentiates a professional qualification from a university degree. Another is the demand the bodies make on their members to undertake regular Continuing Professional Education (CPE). The importance the Chartered bodies attach to CPE is reflected in the following statement which was issued by the ACCA's Council to its members in 1988:

The Chartered Association's regulations state that all members have a duty to the public to ensure that the quality of their knowledge and service is maintained after qualification.

To achieve this, the Council urges members to set themselves objectives for their own continuing professional education. Such objectives are likely to be achieved by a combination of formal and informal study but they must contribute directly to a member's professional competence, including accountancy and taxation as well as any specialized areas of the individual's work (e.g., auditing for practicing members). Since most accountants are also managers, the Council advises members to adopt personal management development programs and also to obtain regular updates to trends in the business and commercial environment.

A minimum period of study would be 35 hours per year of which it is recommended that not less than 21 hours should be undertaken by attendance at relevant structured courses. Council strongly recommends that members record the CPE which they undertake, both for self-monitoring purposes and for the information of future employers, business partners, etc.

The ACCA's statement recommends that a minimum period of continuing professional education should be thirty-five hours per year. This broadly represents a basic working week and is considered to be the appropriate amount of time that members should set aside for this activity. The exact CPE requirements of the other Chartered bodies vary slightly, but in the

main their CPE rules are all enforced by recommendation and not obligation. The ICAEW's Council has agreed that CPE should be compulsory for members seeking Fellowship or a practicing certificate; members have to fill in a record sheet and must achieve 150 "points" — with points being offered for structured and unstructured learning activities.

Structured learning activities consist of formal courses, seminars, conferences and updates. These events are organized by the Chartered bodies on a national and regional basis, and by a variety of private training organizations. Many of the large practices and industrial concerns also have their own in-house CPE programs.

Unstructured CPE activities may include: reading technical journals; preparing lecture material; active participation in research work; using audio cassettes and computer-based training (CBT). The balance of time spent between structured and unstructured CPE is largely determined by the accountants themselves and according to their particular circumstances, although the bodies prefer a majority to be spent on structured courses.

Self-determination by accountants may become a thing of the past, however, as the Chartered bodies, and those with auditing recognition in particular, face major legislative changes in the UK.

### **Changes in UK Legislation**

The accountancy profession in the UK has traditionally enjoyed a great deal of self-regulation. The government department responsible for the accountancy profession, the Department of Trade and Industry (DTI), has devolved many responsibilities, including the licensing of auditors, to the Association and the three Institutes of Chartered Accountants. This liberal attitude extended to overseas qualified accountants, who could, subject to being enrolled on a register maintained by the DTI, carry out a limited amount of work in the public practice sphere, using the professional title gained in their country of origin. (Overseas-qualified accountants can only call themselves "Chartered Accountant" or "Certified Accountant" if they have successfully completed the examinations and practical training requirements of those bodies; a varying number of exemptions from the examinations of the Chartered bodies are offered to holders of overseas professional qualifications.)

An increasing amount of legislation in recent years has, however, had a significant effect on the self-regulating nature of the UK profession, and has, in turn, placed tighter controls on overseas-qualified accountants. For example, 1986 saw the enactment of legislation governing insolvency work and the provision of financial services. Under the terms of the 1986 Insolvency Act, those wishing to undertake insolvency appointments in relation to UK registered companies must hold an insolvency licence. Applicants must be able to meet requirements as to academic qualifications and experience in insolvency work over a specified period. From January

1, 1990, there is a requirement for applicants to pass an examination in insolvency.

Under the provisions of the 1986 Financial Services Act, any firm that wishes to carry on investment business must be authorized to do so. The authorizing bodies are the Securities and Investments Board (SIB), five self-regulating organizations, and nine recognized professional bodies (known as RPBs). The UK auditing bodies — the three Institutes of Chartered Accountants and the ACCA — have been granted RPB status. This status authorizes members of these bodies to conduct investment business. Holders of overseas qualifications will either be covered by their employer's authorization, or need to apply to an authorizing body if they wish to practice as investment advisors on their own.

The main changes facing the UK auditing bodies, however, are in the area of companies legislation. In 1989 the UK Government introduced a new Companies Act seeking inter alia to implement the Seventh and Eighth European Community Company Law Directives, strengthen investigation powers, and reform various procedures for companies and the Registrar of Companies. The Bill which introduces the Act also contains miscellaneous provisions including amendments to the law of financial services, insolvency, and building societies.

With regard to the licensing and certification process for auditors, the Bill provides for securing the appointment of suitably supervised and qualified persons as company auditors; the Bill states that to comply with these requirements auditors should be members of recognized supervisory bodies, and should hold suitable professional qualifications. A supervisory body means one maintains and enforces rules as to (a) the person eligible to seek appointment as a company auditor and (b) the conduct of audit work, which are binding on persons seeking appointment or acting as company auditors, either because they are members of that body or because they are otherwise subject to its control. (The ACCA and the other auditing bodies in the UK are seeking recognition under these terms.) It is recognition under this section of the Bill which will replace eligibility for appointment currently given to the auditing bodies under Section 389 of the Companies Act 1985.

Requirements for recognition as a supervisory body include making provision for members' professional integrity, independence and technical proficiency, as well as establishing procedures for maintaining members' competence. This latter point means that the UK auditing bodies will have to satisfy themselves that their "registered auditors" — which will be the title conferred on all individuals and firms recognized under the new Act — have availed themselves of continuing professional education, and will mean the introduction by all the bodies of a form of compulsory CPE. The bodies will also have to satisfy the Government that they have in situ suitable arrangements for the effective monitoring and enforcement of the provisions of the new Act.

The provisions of the Bill relating to the recognition of professional

qualifications set out the entry requirements for persons to the profession. For the first time, the proposed legislation details the subjects to be covered by examinations leading to a professional auditing qualification, in line with the provisions of the EC's Eighth Directive. The UK auditing bodies have been given notice by the DTI that their examinations cover the suggested syllabus in the Bill. The Bill also lays down regulations with regard to practical training; arrangements have to be made by the professional bodies to monitor both the standard of the examinations and the adequacy of practical training.

For overseas accountants in the UK, the provisions of the Bill state that holders of overseas accountancy qualifications wishing to carry out statutory audits will have to: hold an approved overseas accountancy qualification; satisfy such additional requirements the DTI may specify to ensure that such persons have an adequate knowledge of UK law and practice; and agree to be supervised by a recognized supervisory body.

### **International Influence**

Traditionally, the British-qualified accountant has always been keen to export his skills; the adoption of British legal and professional structures in many countries of the Commonwealth had meant that the British accountant was able to use his qualification in a large number of these countries.

Expatriate accountants were soon joined by local accountants, whose families had been wealthy enough to pay for them to travel to the UK to serve articles and become Chartered Accountants. A major policy decision by the ACCA in the 1930s, however, saw a dramatic increase in the number of locally-qualified accountants. At that time the ACCA became the first accountancy body to establish overseas examination centers. This decision meant that the ACCA's examinations were accessible to many young men and women without the need for them to have long absences from their home countries. The ACCA's flexible training arrangements also meant that these students did not necessarily have to travel to serve articles in the office of a practicing accountant. The ACCA still maintains the policy of examining overseas, and now holds its professional examinations twice-yearly at some 300 centers in over 120 countries.

The large number of accountants overseas holding UK qualifications meant that, when Commonwealth countries were looking to develop accounting legislation and to form professional organizations, it was the UK model which was usually adopted. As a result, the companies acts which are in existence in many countries are based on UK legislation of varying vintages. The organizational structure of professional accountancy bodies were transported wholesale, often under the guidance of UK-trained and qualified accountants, who became the first leaders of the indigenous professions. Consequently, the professional regulations, codes of conduct, examination procedures, and the CPE requirements of many bodies in



Commonwealth and other countries exhibit a strong bias towards UK practices.

Whilst recognizing that such a course of action has the advantage of gaining indigenous bodies immediate access to tried and tested procedures governing licensing and other matters, a number of established bodies, notably the ACCA, came to the conclusion that more was needed to be done to assist accountancy bodies in developing countries. The ACCA's first tentative steps in this area took place over 10 years ago, when the Association introduced its first "Joint Examination Schemes" with accountancy bodies in the Caribbean. Under the Schemes, students registered with both the local body and the ACCA; after successfully completing the examinations, candidates were eligible to apply for membership of either or both bodies.

The first Schemes involved the use of the ACCA's examinations papers overprinted with the name of the local body. Using the ACCA papers in this way has enabled the Caribbean bodies to introduce examinations which are of a high standard and known to be comparable to the ACCA examinations in the UK and other countries. This has enabled the emergent bodies to concentrate on matters such as providing improved services to local members and students and consolidating their position with their respective governments.

All the papers in the above Schemes are set and graded by the ACCA, but the disadvantage is that there is no adaptation to suit local circumstances. The early 1980s, however, saw the introduction of Joint Examination Schemes which included papers adapted to take into account local legislation. The first of these Schemes was with the Hong Kong Society of Accountants (HKSA). This Scheme involves the substitution of local variant papers for the UK papers in Company Law, Taxation and Tax Management. The variant papers are set by locally based examiners, and are scrutinized in the UK by members of the ACCA's main panel of examiners who are responsible for checking comparability of standard. In addition, UK-based inspectors are appointed to check other papers in the syllabus, notably those in accounting and auditing, to ensure that the papers reflect local law and practice. This can result in questions in these papers being adapted or replaced.

The ACCA now has Joint Examination Schemes with the recognized accountancy bodies in nine countries. Administratively, the introduction of local variant papers into new or existing Schemes presents few problems. The ACCA maintains a policy, however, that local variant papers can only be introduced provided that: (a) the local legislation is sufficiently demanding to permit examination papers of a complexity comparable to the ACCA's own to be set in those subjects; and (b) suitable tuition in the local variants and a pool of examiners, assessors and graders is available.

The Joint Examination Schemes outlined above lead to dual membership of the ACCA and the local body. The ACCA is now taking a more flexible approach to assisting overseas bodies, and is developing a number of

“Service Agreements”, which would involve the ACCA in offering certain of its papers or its moderation service to the bodies concerned. The Agreements would not lead to students automatically being eligible for membership of the ACCA.

The ACCA (together with several of the other UK bodies) has also been active in the area of staff development. Training schemes have been developed to enable appropriate staff from overseas institutions to visit equivalent bodies in the UK to enable them to gain a “feel” for running a professional body.

## **Conclusions**

The preceding sections detail the main aspects of accountancy education and the licensing procedures followed in the UK. The chapter is necessarily written from an ACCA viewpoint, and the other Chartered bodies may not endorse all the comments made therein. What cannot be denied, however, is that the increasing demands of modern business life and the envisaged demographic changes in the UK mean that the syllabuses of the professional bodies and the methods of imparting education to students will have to become increasingly flexible if the accountancy profession is to continue to attract large numbers into the 21st century. Increasing Government control of licensing and other procedures is a result of the trend towards increased consumer protection and the adoption of EC legislation, and is a challenge the accountancy profession for the most part has yet to face. With the UK’s long tradition of exporting its procedures and practices, there can be little doubt that accountancy administrators and educators in other countries will shortly be called on to face these challenges.

# A Perspective of Management Accounting Education and Training in the UK

JAKE CLARET

## Introduction

The essence of a profession is that its practitioners operate within society. It creates philosophies, knowledge, methods and standards that are useful. It does not study a body of knowledge for its own sake. The education and training of professionals has to take account of the trends in society's expectations. These, in turn, are driven by environmental factors.

Accountancy is no exception to this. It has to react to changes. There are changes in the law, in standards and regulations of all kinds. These affect all accountants but particularly the relatively more knowledge-based public practitioner.

In contrast, because management accounting exists to serve management in an environment that is subject to trends in business and economic pressures, it has to be particularly sensitive to those trends. Frequently, it recognizes a direction in which development should proceed, even to the extent of providing solutions for which the business world may not yet be ready.

The UK business and economic environment is going through environmental structural changes. The UK is not the only country experiencing this change: every country is affected by global developments although, naturally, the effects differ according to factors such as local resource availability, level of development, culture and politics.

There are a large number of developments which are currently affecting UK business. It would not be incorrect to say that there is a revolution taking place. Among these developments are general industrial regeneration; the growth of industries in new technologies; global competition for markets with pressure on quality and service as well as price; global availability of technology, finance and materials — old local advantages no longer exist; huge development of the service sector and its heavy

concentration; and the immense influence of information technology on the strategy of every kind of business or other activity.

As these affect business, so they create trends in management accounting and its education and training.

### **Management Accounting in the UK**

The traditional ground of management accounting was the manufacturing industry. Cost accounting methods were created for factory job and process products.

Today, as old industries automate and new industries spring up with completely new production techniques, the old methods have to be reapplied and new ones sought. Emphasis on quality, on techniques like Just-in-Time, and on flexibility and customer service cast new burdens onto managerial reporting systems.

The growth of the service sector brings needs for better management accounting in this sector. Indeed, managers in many parts of the sector are discovering that they do not have any information with which to manage objectively. Banking and financial institutions of all kinds, retail and other trading activities and those who supply essentially labor-based personal services are creating systems for planning to monitor performance and make decisions that enhance the control of their businesses.

Many management accountants have migrated from the manufacturing to the service sector, taking the methods they have learned with them but often finding that they have to develop new approaches. Fundamental issues arise as to what is a business, profit center or product in that environment. Much work is being devoted to determining how best to provide information to further business aims as well as to control costs.

At the same time, the global financial market place is creating almost a new profession, financial management. This is a large part of management accounting today. Businesses need the specialization which can help them deal with relative changes in interest and exchange rates and in the availability of finance. They need this to support their overall capital structure and their various patterns of trading. Indeed, financial management is essential to the profitability of the trading management process.

At the same time, business managers are finding that traditional accounting approaches are backward looking. As such, they are unsuitable for decision making. From within the profession has come strategic financial management to provide a remedy for this. This itself will create a pressure on the profession to adapt its approach.

The most visible of all the developments is Information Technology. For the accountant, computing was a tool for bigger, faster bookkeeping; an extension of mechanization akin to the movement of manufacturing from manual to machine methods.

Information technology is now in the course of coming into every function, a new tool for actually carrying on business and a means of

radically altering the processes. It cuts out whole functions, merges others, creates new products and services and new ways of delivering them to the customer. The technology becomes central to operations.

Management information is frequently a product of these business systems. That makes it imperative that management accounting play a part in their creation. Alternatively, information comes from the far more powerful tools, such as databases and models, to which the accountant now has access.

A survey (The Impact of Information Technology on the Management Accountant, by Paul Collier, 1985) among the membership of the Chartered Institute of Management Accountants (CIMA) in the UK found that, for almost all of them, managerial accounting included heavy involvement in information technology. Many managed the technology in action; others were as involved in new systems as one would expect computer systems professionals to be; all used the output from information systems most of which were spreadsheets, models and databases.

The role of management accounting in contemporary industry has been shifting. Far less time is spent on the analysis, preparation, presentation of management information. The role is increasing, becoming one of interpretation, explanation, control and involvement in decision making. The provider of information is becoming a “translator” and user of information. Management accountants are technology managers, information managers and business managers.

These are the trends in management accounting that are affecting the education and training of students and the continuing professional development of already qualified people.

## **Management Accounting Education**

There are six bodies of accountants in the UK and Ireland. All have royal charters. In general, their education systems are similar and have regarded education for a university degree as having fundamental differences from education and training for a professional qualification.

Four of the bodies have long operated a joint approach towards accrediting accountancy degrees and other educational qualifications as bases for an exemption from their first or foundation level of examination. They operate together through a Board of Accreditation of Educational Courses (BAEC).

CIMA specializes in management accounting, its approach is designed specifically for that branch of the accountancy profession. For that reason, this paper is based heavily on the CIMA syllabus and examinations and its training requirements.

No attempt has been made here to compare this with the approach of bodies whose primary aim is to prepare people for other roles such as auditing and taxation specialization in a public accounting firm.

CIMA is not a teaching body. It establishes a syllabus which is the basis

for education by various educational institutions and facilities and for bi-annual examinations which are set and graded by CIMA.

A new syllabus (Appendix 29.1) shows an outline which was recently adopted, under which the first examinations were sat in May 1987. The creation of the syllabus was the culmination of a long process of consultation with the users of the education process. CIMA responded to pressures from two main groups: employers faced with the need for students to be capable of operating in the intensely competitive post-depression era; and educators seeking to eradicate flaws which they had identified in teaching the previous syllabus.

The main strands which ran through the syllabus change may be summed up by the words: orientation, integration, application, computing and information technology, theory and exemptions.

### ***Orientation***

Every management accounting syllabus has a traditional base in cost accounting. The very fact that cost accounting developed in the manufacturing industry tended to give any syllabus a bias towards manufacturing.

With so much economic activity outside this sector, and a change towards the need for management information in marketing, strategic and treasury functions even within the manufacturing sector, a management accounting syllabus has to change its orientation.

The new CIMA syllabus aims at having a neutral orientation. It is applicable to manufacturing, commercial and service organizations whether in the private or public sectors of the economy.

This has received a warm welcome from educational establishments, who previously complained that most of their students were working in the service sector and expected to spend their careers there but had to be taught management accounting methods based on material and examples from manufacturing.

### ***Integration***

The previous syllabus contained a weakness common to many. It included a wide range of subjects all of which were treated separately. Non-accounting papers seemed to aim at an appreciation of subjects like organization, planning, quantitative techniques and marketing. This might have been designed especially to make students think that, once they had passed an examination in the individual subject, they could proceed to ignore and forget it.

Even in accounting subjects, there was similar separation. This contrasts with the real work environment where the management accounting practitioner can expect to find that financial and cost accounting systems are integrated; need to work on management reports and published accounts simultaneously; be equally concerned with measuring performance and

decision making equally; consider financing and new investment as part of the same proposal. There are no clear boundary lines between the different activities. Yet accountancy is frequently treated as a group of discrete subjects.

The new syllabus aims at integration. The final stage of the syllabus is entirely based on management accounting issues and, although there are four separate papers, they are regarded as different facets of the same subject with a great deal of explicit overlap.

The non-accounting subjects are either depicted as forming supporting material for later subjects or are actually integrated into accountancy subjects.

Management accounting strategic planning and marketing at the final stage contains aspects of economics, planning, marketing and marketing information. Management accounting techniques at the third stage are a blend of quantitative techniques and management accounting. Management operations and systems audit are incorporated with other aspects of control like budgetary control and investigations in one paper while management accounting control and audit are in the final stage.

### **Application**

During the extensive consultation that preceded the new syllabus, the importance of shifting emphasis towards application of knowledge and skills was constantly stressed by all parties concerned. Management accounting had to be practical and the qualification process had to move further away from regurgitation to application as a test of professional competence. There is progressive movement toward methods that test application. Through these examinations, there are still tests of knowledge, but the use of objective testing for this purpose is growing.

There are four levels of ability. Level 1 is appreciation; the basics of accounting subjects in the early stages; and an ability to handle non-accounting subjects to enable the management accountant to be at home with the other functions of business. Level 2 is knowledge; management accountants need a large knowledge base of law, taxation and economics. The remaining two levels are the essence of the practicality that is needed.

Level 3 is skill; the student is expected to apply an easily determined skill, technique or method to a specific set of data in normal accounting tasks.

It is Level 4 which comes closest to the real world. Here the student has to determine the most appropriate technique to use in a given situation and to select the data that is relevant to the task.

Typically Levels 3 and 4 are examined through case studies of different levels of complexity and at times these are used also for the lower levels. Gone are the days when questions such as "List the ten requirements of . . ." or "Describe the seventeen reasons why . . ." were asked in examinations.

Instead, there is a situation and the student has to determine exactly what

the requirement is before being able to decide how to answer it. Learning by rote can no longer be of use.

This development expects a different approach to learning and teaching with a heavy emphasis on practice by the student, feedback by the lecturer and constant dialogue between lecturer and student. Heavy note-giving and traditional lectures have to give way to more intensive interaction.

It has been remarked that the approach overwhelms some students from abroad because of extreme cultural differences in methods of teaching which start at the primary school level and continue through tertiary education.

In addition, even where more traditional questions are used, there is an element included which tests more than the non-examinations ability to draw up an account, carry out a computation, do an appraisal. Increasingly such questions are including further requirements, such as: explain the result obtained; outline additional information that would enhance the decision making process; discuss the limitations of the method used.

### ***Computing and Information Technology***

At present, most accounting is done with computers. Gradually, all office functions are becoming keyboard or screen based. There are new tools to carry out old tasks and new tasks that the technology makes possible. All this has to be included in the syllabus somehow. Until all subjects in the syllabus are taught and examined using the technology, teaching and examination will lag behind normal office practice.

Under the CIMA program accounting subjects incorporate computer applications. The phrase “accounting with computers” is used in the syllabus. It is easier to include such words in the syllabus than to test them through examinations. However, there is a gradual development of methods and questions that is likely to change the whole appearance of such papers.

The professional’s ability to manage technology is included in stage 2 as Information Technology Management. This assumes that the student has had direct hands-on experience of a spreadsheet, a database, a word processing system and applying accounting software.

It concentrates on the accountant as a manager, making decisions about choosing, justifying, installing, running and maintaining systems, responsible for their controls and able to deal competently with data processing professionals.

### ***Theory***

It might be thought that the development towards application and practicality would reduce the theoretical content of the syllabus; that theory has a place in academic study but not in a professional education aimed at creating practitioners.



The practitioner of today as well as tomorrow has to be flexible and be able to adapt to a constantly changing management, business, technology, economic and social environment. Theory plays a major role in the underpinning for that flexibility. It has a place in a professional accounting syllabus.

Theory provides a framework and foundation for future studies. It provides a safeguard that candidates who obtain exemptions for academic studies which are more theoretical do not exclude or omit essential details, which should be studied at the first stage. This is now located at stage 2 from which only college degree candidates with a highly practical orientation get exemption.

### **Exemptions**

With the exception of stage 4, candidates may receive credits towards stages 1, 2 and 3 of the management accounting examination papers.

Such credit is given to a student who has qualifications equivalent to the material covered in the CIMA syllabus in terms of depth and rigor.

This demonstrates a trend in contemporary accountancy education. The orientation of university accountancy education was considered theoretical while professional education was practical. Undergraduate degree examinations in accountancy were full of “discuss” questions while professional examinations asked for accounts of all kinds to be drawn up from lists of information.

Gradually, syllabuses of both types of accountancy education are incorporating similar subjects. The examinations of both types of accountancy education include theory and practice with objective testing as well as case studies. The proportions differ at the moment but are moving closer to one another. It is possible that the UK will eventually follow the trend in other countries where education and examination of accountants are largely carried out by the universities and where training is the main domain of the profession.

### **Management Accounting Training**

CIMA regards education and training as the twin pillars upon which the qualification process is supported. Both are of equal importance. To qualify for membership, a candidate has to satisfy a practical experience requirement as well as passing the examinations.

Three years' validated experience has to be demonstrated in the following four defined areas: i) basic accounting; ii) management accounting; iii) involvement in decision making; iv) working with other functions or disciplines.

These four areas establish competences that have to be achieved. They do not define the precise aspects of management accountancy practice that

are to be experienced, although clear guidance is given as to what may be included under the headings.

Specific cost accounting and other systems could be prescribed for trainees who have obtained their practical experience in manufacturing industry and worked in the factory environment. With the range of different kinds of training environment and the shift into commercial and service sectors, the practical experience requirements are becoming general and flexible. Whatever the trend in business or management accounting, training can be developed by CIMA to accommodate it.

### ***Approved Programs***

There is a growing commitment by business people to the developing of training programs in accountancy. CIMA approves programs that meet high standards. These are called Professional Training and Development Programs (PTDPs). There has been an increase in the number of these programs in recent years.

Many of the UK's major companies have PTDPs in the new and traditional manufacturing sectors, commerce and service industries. Businesses such as British Telecom and British Gas, government owned businesses such as the Post Office, British Rail, central government departments, some health authorities, and the large consultancies which are part of the big six chartered accountancy firms have adopted PTDPs.

It is not the environment that is defined, but the experience to be gained. A lecturer or an auditor, for instance, is unlikely to gain the required experience through his occupation alone. If they work as consultants, depending on what tasks are undertaken, they may obtain the required experience, qualify and be admitted to membership.

### ***Provision of Education***

Each candidate may choose the particular method of education which he or she wishes to use. Courses are available at public sector polytechnics and colleges. There are either full time, block release, day release or evening classes. There are private sector businesses which offer similar courses as well as correspondence courses. Some candidates choose to study independently and without tutorial help.

Various employers provide for work release time for study and pay for courses, student subscription and examination fees.

In the case of PTDPs, the employer includes in the program the provision that will be made for education. The effectiveness of the options and their affordability tend to vary.

### ***Professional Skills***

A competent professional needs to possess personal and managerial skills. These are in the realm of communication, including written and oral

presentation, negotiation and persuasion. The management accountant has to be able to manage his or her own time, supervise and lead others, manage the processes of accounting and carry out all the aspects of recruiting, training, retaining, appraising, and dismissing staff.

PTDPs now ensure that the required skills are gained through a variety of learning experiences, including in-house courses and workshops and on the job instruction by employers. This is an area that is receiving increased attention and further development is expected.

### **Continuing Professional Education**

CIMA provides a broad range of continuing professional education courses in a management and professional development program that has expanded dramatically in recent years. Courses on financial management and for personal and management skills have overwhelmingly the highest demand and are increasing in number.

This provides what may be called a marketplace confirmation that the inclusion of these courses in the education and training of students and the importance attached to them are both correct.

### **Conclusions**

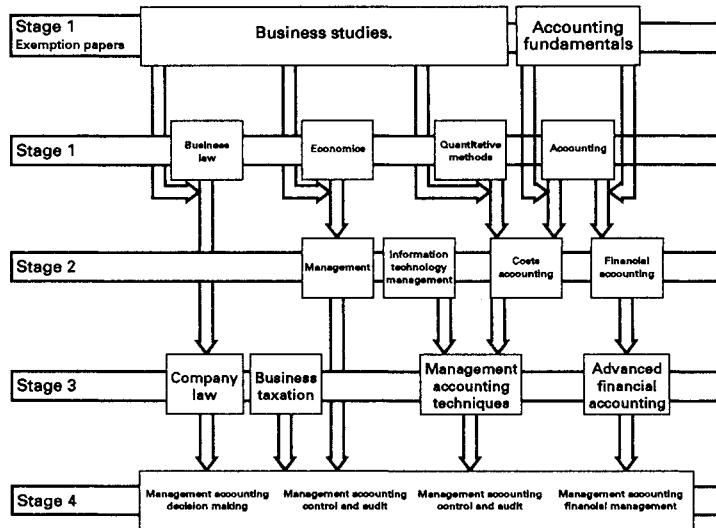
CIMA has established a revised pattern of education and training for management accountants which is appropriate for the trends in management accounting which are themselves determined by trends in the business and economic environment.

That pattern has flexibility built into it but may become outdated as new environmental pressures affect it. These can be seen already and work is progressing constantly to identify what changes will be needed.

Such pressures may include: the creation of a single European market in 1992; changes in the business and economic environment; increased interest by business in management education; further advances in information technology; new examination techniques; changes in the availability of public sector education courses; universities and professional bodies moving closer together in syllabus and examinations; and potentially greater government regulation of the profession in the UK.

It is likely that further changes in the education and training of management accountants in the UK will take place in the early 1990s as a continuation of the current trends. The new trends that are developing promise to generate the need for even more radical change.

## APPENDIX 29.1



### Aims of the syllabus

The aims of the syllabus are:

- to provide the Institute with an adequate basis for assuring society that those admitted to membership are competent to act as management accountants for entities, whether in manufacturing, commercial or service organisations, in the public or private sectors of the economy.
- to enable the Institute to examine whether prospective members have an adequate knowledge, understanding and mastery of the stated body of knowledge and skills.
- to complement the Institute's practical experience requirements.

### Summary of subjects

#### Stage 1

- Accounting
- Economics
- Business law
- Quantitative methods

#### Abbreviation

- AAC  
ECO  
BSL  
QUM

#### Stage 1 exemption papers

- Accounting fundamentals
- Business studies

- XAF  
XBS

#### Stage 2

- Cost accounting
- Financial accounting
- Information technology management
- Management

- CAC  
FAC  
ITM  
MGM

#### Stage 3

- Management accounting techniques
- Advanced financial accounting
- Company law
- Business taxation

- MAT  
AFA  
COL  
TAX

#### Stage 4

- Management accounting — Decision making
- Management accounting — Control and audit
- Management accounting — Strategic planning and marketing
- Management accounting — Financial management

Stage 1 exemption papers  
Instead of Stage 1 papers, graduates can take the Stage 1 exemption papers as detailed below:

Non-relevant graduates  
Both accounting fundamentals and business studies

Semi-relevant graduates  
Exemption from Stage 1 may be given to semi-relevant graduates but they may be required to take either accounting fundamentals or business studies, according to the content of their degree.

The stage 1 exemption papers will only be available in the UK and Republic of Ireland

# Accounting Education in the People's Republic of China

ER-YING LOU

## Introduction

Contemporary accounting education has existed in China for more than half a century. Long before the turn of the twentieth century, accounting in China was largely learned by the youth through apprenticeship, whereby the knowledge and art of keeping books of account were obtained through a three-year period of practical work under the guidance of experienced accountants. There were neither printed accounting textbooks, formal accounting classes and teaching nor distinctive accounting courses.

A rapid growth in accounting education has occurred since 1949, with the founding of the People's Republic of China (PRC) under the leadership of the Chinese Communist Party (CCP). This was made possible when a unified government came into force and growth of national economy got momentum. However, full-fledged developments in accounting education were not attained until 1979, when the Third Plenary Session of the Chinese Communist Party's Eleventh Central Committee convened and adopted a resolution to shift the focus of work of the whole party (thereby the whole country) to the materialization of four modernizations — which are, modernization in agriculture, in industry, in national defence, and in science and technology. That is the cornerstone for building up a modern China, and is a critical turning point which has far reaching influence upon political, social and economic lives of the Chinese people. A positive course of development is called for in every line of activity, including, of course, that of education in general and that of accounting education in particular.

The National Conference on Educational Work which was in 1985, jointly called by the Central Committee of the CCP and the State Council, had a profound influence upon education. A decision was reached by the CCP Central Committee after that conference to carry out educational structure reform, whereby vigorous measures were taken to shape education to meet more closely the requirements of four areas of modernization. It is explicitly stated by the CCP Central Committee in its decision that

education must serve the socialist construction, and socialist construction must rely on education.

Thus the stage was set in recent years for healthy developments of accounting education in the PRC. Now we may turn to the questions about how and to what extent accounting education has fulfilled its tasks. In line with the requirements of four areas of modernization, China has in recent years implemented a policy of invigorating national economic activities and of opening up to the outside world, with encouraging results that agricultural and industrial outputs increased steadfastly, that both domestic and foreign trade flourished and that the general standard of living reached an unprecedented high level. One of the imperative issues faced by accounting education under such a situation is to provide adequate training to potential newcomers and to turn out enough and competent accountants, who can:

- replace those retired or otherwise leave the work force;
- fill in positions offered by newly established entities;
- handle accounting affairs and join business negotiations where foreign investments are involved;
- serve the society with their accounting expertise as certified public accountants;
- enrich their accounting knowledge in their office hours through continuing education; and
- be able and prepared to assume responsible and senior positions in later years.

Besides, accounting education is also necessary for those whose main responsibility is not in accounting, but in management, finance, statistics, planning, and other functions of management.

The above needs can evidently be divided into different levels, which are currently addressed in the PRC by multiple types of accounting education, which form a national network. There are mainly three types of accounting education, each of which has a distinct objective and serves specific purposes, namely, higher education, vocational technical education and adult education.

### **Higher Education**

The major part of higher education in accounting is a four years' undergraduate program, under which about 2,600 to 2,800 class hours are required to complete 38 to 42 courses, varying in different colleges and universities, which may include the following: political theory courses such as political economics and philosophy; general basic courses such as foreign language and higher mathematics; basic courses in finance and economics such as statistics and public finance; and courses in accounting. Undergraduate programs based on the credit system, which gives room for selective sources, is under experimentation by some of the universities. Upon the successful fulfillment of all the requirements called for under the program, a Bachelor of Arts (BA) degree in economics is conferred.

There are 84 colleges and universities offering undergraduate programs

in accounting as of September 1986, with a total enrollment of about nine thousand students in accounting.

One of the unique features of accounting education in the PRC is the co-existence of auditing concentration alongside with accounting concentration at the undergraduate level. It is estimated that this number has increased significantly and will continue to do so in the future. The separate appearance of auditing concentration is justified on the grounds that senior auditors have been in great demand to take care of urgent and important auditing engagements ever since the establishment of State Audit Administration and thus the resumption of audit work in 1983. And also on the grounds that auditing as a discipline is seen to be more independent from accounting. Education is after all a means of meeting practical needs. Since there is a big demand, a separate concentration is offered to meet the need.

There are two kinds of postgraduate programs in accounting. A program leading to the Master of Arts (MA) degree and the other leading to a Doctoral (PhD) degree in accounting. An overall evaluation process is conducted by educational authorities to select from among institutions (be it a college, a university, or a research institute), judging from their faculty strength, quality of education, and physical equipment, etc., before being authorized to offer the master's program, which usually takes the candidate 2 to 3 years. Authorization to conduct the doctoral program in accounting is currently conferred to qualified professors on an individual basis. Professors of outstanding academic achievements are thus qualified and authorized to conduct the program. At this initial stage of development, there are altogether 8 professors, affiliated to 6 institutions, who are entrusted to offer PhD programs, which normally takes the candidates 3 years to complete.

### **Vocational Technical Education**

The main objective of this type of education is to provide students with vocational training after their general education. There are two kinds of educational units under these types. One is a college for professional training, which offers 3 years' training for students who have graduated from senior high schools. Graduates from such colleges are expected to become senior accounting staff of enterprises or non-profit organizations. The other is a specialized secondary school which provides 4 years' vocational training for students who have finished their schooling in junior high schools. Specialized secondary schools are designed to cater to the needs of junior accounting staff.

### **Adult Education**

Adult education in accounting is handled through evening colleges, correspondence colleges, television colleges, and higher education self-taught accreditation examination programs. Upon the successful completion

of the program in adult education candidates receive a diploma that is equivalent to one granted by colleges for professional training in accounting. All these programs are designed to satisfy the desire for further education, by those who have accounting or accounting-related jobs, in the evenings and after working hours as a means for advancement in their jobs. Lessons in correspondence colleges are not taught through correspondence exclusively. Classroom lectures are often delivered 3 or 4 times each semester for each course, to help students comprehend fully some of the essential points covered.

The higher education self-taught accreditation examination program is another unique feature of accounting education in the PRC. Accounting is one of the concentrations covered by the program. When a candidate passes all of the 13 courses required by the program through accreditation examinations, which can be taken at the candidate's own pace, a diploma is granted. There is no specific sequence of courses in which examinations are to be taken and there is no time limit to complete the program. A candidate is allowed to continue to sit for a failed examination until all requirements are satisfied.

Despite the effective measures mentioned above to strengthen accounting education, China is currently facing an acute shortage of trained personnel to discharge accounting duties at various levels. To cite one instance, at Shanghai University of Finance and Economics by summer 1986 the number of graduates needed amounted to as many as 10 times the number available for filling new job vacancies. This situation is expected to last for some years to come, because faculty forces and facilities could not be doubled or tripled within the short run period.

The principle of integrating theory with practice is strongly advocated in accounting education of the PRC, especially in the area of higher education. Accounting as a discipline is not regarded as purely theoretical, but one of practical application based on sound theoretical support. In general, accounting theory is seen to be logical abstraction from practical experiences, and in turn is expected to exert an important influence upon the evolution of accounting practices. The validity of accounting theory is tested by:

- its capability of being applied to solve "real" world problems;
- its ability to explain logically and fully accounting phenomena in our economic life;
- its value of promoting healthy accounting developments.

Thus, how well the principle of integrating theory with practice is being carried out is one of the imperative criteria in judging the quality of class work, including lectures and group discussions, and accounting textbooks.

One of the measures taken to make certain the implementation of the principle of integrating theory with practice during the educational process is that undergraduate students having either accounting or auditing



concentration are required under the program, within the period of four years, to join two social surveys. Each of the surveys is performed on site, be it a factory, a farm or a commercial establishment, and is under the leadership of an instructor. The first survey is usually called for by the program at the junior level, over approximately five weeks' period, and is aimed at familiarizing the students with general business and accounting environment. The second social survey offers senior students with a glimpse into the real world again for a period of about eight weeks and a final chance to check on their knowledge learned from textbooks and classrooms with accounting work in real life.

Another feature closely related with the principle of integrating theory with practice is the direct involvement of accounting education activities with professional accounting work. There are thus far three universities or colleges, namely: the Shanghai University of Finance and Economics, the Dong-Bei University and the Li-Zin Professional College of Accounting; which have established respective in-house CPA firms by their accounting faculty members. This is done in collaboration with a local accounting society, which can recruit from among its members experienced accountants to become CPAs to join them in rendering service to the public. The reason for such a move on the education side is to give more practical exposure for:

- senior students to broaden and intensify their accounting knowledge by confronting them, usually during vacation periods, with real world problems; and
- younger members of the faculty to inspire them with current accounting issues emanating from contemporary economic and structural reforms, where theoretical explanations or justifications may be inadequate and needed, and to enrich them with vivid cases that might be employed to enhance their teaching and research effectiveness.

Although the above aspect of accounting education was initiated only a few years ago and has in some respects yet to be perfected, feedbacks from students and faculty members have been favorable and its advantages of improving accounting education quality are readily discernible.

Accounting education reform is an endeavor undertaken in recent years by some of the leading universities to shape accounting curricula to meet more closely the requirements of China's four areas of modernization. It was argued that since economic conditions are ever changing practically everywhere, it is logical and necessary to assess the contributions made by accounting education from time to time, and adjust the educational process accordingly. Major adjustments touching almost every essential aspect of education is currently termed accounting education reform. Some of the highlights of accounting education reform may be generalized as follows:

- Objective of accounting education in universities or colleges is more clearly defined; that is, graduates are expected to become able and competent

senior accountants or good accounting lecturers or researchers, who after some work experience might be promoted to either a controller of large or medium-size enterprise or a university professor.

- Education program is adjusted to be more specified on a broad basis, so that graduates will be equipped with knowledge and skill deep and varied enough to answer challenges after graduation.
- Class hour system is replaced by credit system to allow more room for flexibility in education.
- Duplications of lecture efforts are eliminated to give way for full utilization of class hours.
- Core accounting courses are completely reshuffled. In one case, five core accounting courses — Accounting Fundamentals, Financial Accounting, Cost Accounting, Management Accounting, and Auditing — are installed to replace traditional core courses, courses which are established on the basis of major sectors of national economy. For instance, there were three traditional core courses, namely, Accounting Principles, Industrial (or Agricultural or Commercial) Accounting, and Analyses of Industrial (or Agricultural or Commercial) Economic Activities. In another case, besides Accounting Fundamentals, accounting problems in industrial, agricultural and commercial enterprises are grouped together into two major courses — Enterprise Finance and Enterprise Cost. In line with the reshuffling, new textbooks, in which teaching materials are up-dated and new research achievements are incorporated, have been compiled and published.

For undergraduates, it has been established that the paramount issue in accounting education is not merely the transmission of knowledge but the training of ability. Students with high score but low ability are less valuable to the society than able students with inferior academic records. Attention is paid therefore to the training of accounting students to have:

- The ability to identify, analyze, and solve problems.
- The ability to make judgments and decisions.
- The ability to cope with changing situations. And
- The ability to organize and coordinate activities.

Ability and intelligence, however, are not the only qualities a well educated student of accounting is expected to possess. Even more important is his or her consciousness and devotedness to the socialist course to which the Chinese people are all after. Otherwise, all educational efforts will be nullified, short of the desired effectiveness. Education, after all, is viewed as a kind of superstructure, which must serve its foundation, the economy on which it is built. China's economy is socialist in nature. It is explicitly stated that to bring up those educated with firm determination and dedicating enthusiasm to serve their mother country, while at the same time teaching them accounting knowledge and skill, is the honorable duty of accounting educators in the People's Republic of China.

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# Accounting, Auditing and Education in the People's Republic of China

ADOLF J. H. ENTHOVEN

## Introduction

The national economy of the People's Republic of China is a socialist planned economy based on the economy of public ownership (including the economy of ownership by the whole people and the economy of the collective ownership), and regulated mainly by economic plans with assistance from the market forces. In the economic environment the State by means of accounting systems and accounting information reflects and supervises the economic activities of different units, examines the execution of the State plan and the State budget, strengthens its control over the micro as well as the macro economy, and satisfies the management needs of the different economic units.

The State has established a specialized agency, the Department of Administration of Accounting Affairs under the Ministry of Finance in Beijing, which is charged with the responsibilities to institute a uniform accounting system within the country and to administer the accounting work of the whole country.

The accounting system is administered as follows: In the administration of accounting work as well as the institution of the accounting system, the State exercises unified leadership through its authorized administrative bodies at different levels. The Ministry of Finance administers the accounting work for the whole country. The departments of finance in the people's governments at different local levels (for example, provinces, autonomous regions, municipalities) administer the accounting work in their areas. The business administrative departments at the different levels, of which each one is directed by a department of finance in their accounting work, administer the accounting work of the subordinate units.

National uniform accounting systems are instituted by the Ministry of Finance, and the important ones are reported to and promulgated by the State Council. The departments (or bureaux) of finance of the provinces, autonomous regions and municipalities directly under the Central

Government could, in accordance with the national uniform accounting system, institute accounting systems as well as supplementary provisions for local application. They report to the Ministry of Finance. Important local accounting systems and provisions are examined and approved by the Ministry of Finance. The supplementary provisions promulgated by the business administrative departments under the State Council, in accordance with the uniform accounting system made known by the Ministry of Finance, is to be reported to the Ministry of Finance for the record. Specialized accounting systems, of which no uniform provisions will be given by the Ministry of Finance, may be instituted by specialized departments in light of the characteristics of their industries and are to be reported to the Ministry of Finance for examination and approval before being executed by a specialized department, and to be uniformly applied by local units concerned, should be examined, approved and made known by the Ministry of Finance or promulgated jointly by the Ministry of Finance and the specialized department.

The Chinese financial accounting system can be separated into two broad principal categories, i.e. 1) enterprise accounting and 2) budgetary unit accounting, e.g. administrative and non-profit unit accounting.

(1) *Enterprise accounting* — covers the accounting by enterprises to account for and supervise the production and business activities, to calculate profit and/or losses, and to examine the economic effects of and within the enterprises. Enterprise accounting can be separated, according to the system of ownership of the enterprises, into: State enterprise accounting, collective enterprise accounting, and accounting in joint venture enterprises with Chinese and foreign investments. The principal differences between the collective enterprise accounting and the State enterprise accounting are in the sources of funds and the distribution of profit. Joint venture enterprise accounting has many similarities as well as dissimilarities compared with State enterprise accounting. For the Chinese and foreign joint venture enterprises established in the country, the accounting system is, in principle, based on relevant laws and regulations of China, ventures, taking as reference the applicable part of the State enterprise accounting system. The accounting system for the State industrial enterprises is the main body of the enterprise accounting system. According to the national economic function it serves, enterprise accounting can be divided into: industrial enterprise accounting, agriculture enterprise accounting, construction enterprise accounting, communication and transportation enterprise accounting, commercial enterprise accounting, and so on.

(2) *Budgetary unit accounting* covers the accounting by the department of finance at different levels to account for and supervise the execution of the budget. Closely associated herewith is the administrative and institutional accounting unit to account for and supervise these administrative and non-business budgets and expenditures.

The accrual basis of accounting is essentially adhered to in enterprise accounting while the cash basis is applied for budgetary unit accounting (e.g. administrative and non-business units).

Before moving to the accounting and auditing elements, it would be worthwhile to look at the ecopolitical framework which underlies accounting in China.

### **The Political, Social and Economic Structure of China**

All State power in China rests with the people, from which people's delegates are elected to the National People's Congress (NPC) and head congresses at different levels. The national congress (NPC) enjoys great power: it amends the Constitution, makes laws, elects the Head of State, etc. The State Council is the highest organ of State administration; members of departments, e.g. the Auditor General, also sit on the State Council. The Council has the power to adopt administrative measures, rules and regulations. The State Council is responsible to the NPC. The Department of Administration of Accounting Affairs, within the Ministry of Finance, directs and administers accounting activities. The Auditor General, distinct from the accounting administration, exercises administrative control over the audit bureaux.

The basic social forces in China are: workers, peasants and intellectuals; they constitute the basis of the socialist system. Intellectuals in contrast to workers and peasants are not a "class", but are differentiated according to the nature of their work, and they join special branches of labor unions. Labor unions and peasants' organizations currently constitute the most powerful mass of organizations in China, and delegates' seats are allotted to them in the People's Congresses.

As for the economic structure, public ownership of production is at the foundation of the system. In the past individual production was deeply rooted in the economy. Production is now largely carried out collectively. The socialist planned economy in China is a planned commodity economy in which the law of value is followed and applied. Guidance, regulations and administrative control remain principal forces; pure mandatory planning, however, has been abandoned; it now exists side by side with guidance (indicative) planning. Workers are paid according to their quantity and quality of work, with due consideration to differences between mental and physical labor, skilled and unskilled work.

Two types of ownership exist: 1) ownership by the whole people, i.e. State economy and 2) collective ownership by the working people (i.e. principal form in rural areas such as communes, cooperatives, etc.). Individuals are allowed to operate their businesses in cities and rural areas, as prescribed by law. Foreign investment is currently actively promoted. Joint ventures with foreign investment may take the form of either equity ventures or contract ventures.

For better comprehension of the existing patterns of accounting and

auditing and their manner of education in China, it might be useful to review briefly the historical developments of accounting in China.

### **The History of Accountancy and Auditing in China**

Accounting has a long history in China. During the Shang Dynasty (1500–1000 BC) the first forms of accounting emerged. However, accounting developed and auditing started to come to the fore in the period 700–200 BC. China's non-governmental accounting originated during this period from the handicrafts and commerce industries. In ancient accounting in China, "Chi" was the earliest character used to indicate account books, which were either bamboo slips or wood pieces bound together with marked characters on them.

History shows that more than two thousand years ago China already applied a highly developed accounting and auditing system for finance and economic activities. The input-output or debit/credit basis of accounting in China may have its origins in China's ancient words *chu* and *ru*, meaning "in" and "out" in economic activities, while the balance was to be transferred to the next period. It appears the Chinese at that time had mastered the balancing principle of receipts and disbursements, in that within a certain period the balance at the beginning plus receipts equals expenditures plus the balance at the end. Various accounting "marks" existed to show the transactions. At that time too, the Sihui, the accounting minister, was responsible for copying all account books into a single unified record each year, and he reported total receipts and disbursements to the emperor.

Further developments in accounting and auditing took place during subsequent dynasties (Qin, Han, Wei, Jin) in the periods 200 BC — AD 600. A "center of responsibility" system developed during these periods by which receipts and disbursements for grain were recorded by various entities; furthermore the adoption of standardized characters and measures came into effect. Strict supervision of accounting practices and responsibilities were adhered to. During the Han Dynasty (25–200) paper was invented, which substituted bamboo slips and silk pieces for recording purposes. Subsequently the abacus was developed and put into use. The development of paper and the abacus created important changes in accounting in China and elsewhere.

The early days of the Tang Dynasty (618–907) were the golden age of economic achievement. During this period currency was the chief measure of exchange, while falsification of contracts and records was regulated and punished by national law. Advances were made in the simplification of annual reports, and so called accounting and auditing controls and supervision were enhanced.

During the Song Dynasty (960–1279), the historical policy of despising commerce was changed in order to help finance State revenue and increase economic welfare. Foreign trade was encouraged. Methods to settle

accounts were developed for trade. Copper coins and paper notes facilitated transactions, and were used for paying taxes on commerce and land. Currency became the main form for government operations, accounting and finance. In AD 992 the Auditing Institution had been set up; this was the first time a government auditing organ was created. During the dynasties of Ming (1368–1644) and Qing (1636–1911) the Ministry of Revenue was established to manage State receipts and expenditures as well as to supervise the economy and finance. A separate unit (Qinglisi) dealt with the registration and examination of receipts and expenditures, while it also investigated unpaid taxes and payouts. Understanding of accounting and auditing by the feudal governments had been extensively enhanced. Accounting in industry and commerce also developed during the Ming and Qing dynasties. After the First Opium War (1840) China fell step by step into a semi-colonial/semi-feudal society. The Ministry of Revenue was replaced by the Ministry of Finance and Expenditure, which took over all responsibilities, also from the Qinglisi. The Qing Dynasty was overthrown by Dr. Sun Yet Sen and the Republic of China was founded (1912–1949). Dr. Sun Yet Sen adopted the system of separation of powers, and the Ministry of Finance was set up for national financial activities. Government accounting adopted the dual entry system. A separate Ministry of Auditing was set up to check income and expenditures of administrative units and public enterprises. Pre-audit and post-audit procedures were adhered to. During this period the following important developments took place: reform of the Chinese system of accounting; introduction of Western dual entry systems; use of professional accountants and auditors.

We shall now move to the current structures of accounting and auditing.

### **The Existing Requirements of Financial Accounting and Financial Statements**

Chinese financial accounting systems essentially are fund management oriented; they aim at: reflecting the source and application of funds, ensuring the validity of funds flow, assuring that immediate action is taken in accordance with laws and regulations, and various other purposes.

The balance sheet in China is a statement prepared periodically to reflect the increases and decreases, and their interconnections between fund sources and fund applications at the end of the period.

In preparing the balance sheet, emphasis is put on: fund management, the principle of specific funds for designated purposes, and the balance between the categories of funds (as explained above). The source of funds represents the equities; the application of funds the assets. Therefore filed funds comprise both fixed assets and fixed fund sources; current funds comprise current assets and current fund sources: specific funds comprise specific assets and specific fund sources.

The balance sheet is divided into the fundamental part and the supplementary information; the former embodies the principle of specific fund for



specific purpose, fixed assets, etc. As for the supplementary part: it comprises, for example, the value of materials supplied by the units, unreceived payments or installment sales, etc.

The format of the uniform accounting statement for industrial joint ventures has been set forth by the Ministry of Finance. In this statement, assets include five categories: current, fixed, in process, long term investment and intangible and other assets. Liabilities include three categories: current, long term liabilities and capital. In addition there are five separate statements: i.e. inventory statement, statement of fixed assets and depreciation, statement of construction in process, statement of intangible and other assets, and statement of foreign funds.

Net income of the country's enterprises is calculated by: deducting the factory cost, sales tax, selling expense and knowledge transfer from the product sales. This gives the income from product sales. Added or deducted herefrom are income from: sales, non-operating income and/or deducting the non-operating expenses. Interest expenses is part of the product cost, and is not treated as a non-operating item.

The accounting structure is in accordance with the Chinese uniform accounting system. The uniform accounting system has stipulated specifics regarding the determination of operating income.

In enterprises the accrual system is adhered to; operating income for each period is to be matched with the cost incurred for generating the income. The valuation of assets and equity is at the actual historical cost.

The statement of net income is to be prepared each month: to reflect the reductions and distribution of enterprises net income or loss, to examine the results of the execution of the profit/loss plans, and to analyze the movement in profit/loss. The statement also reflects the production level and is used to evaluate performance in production and management.

Financial statements in China are mainly used for:

1. enhancing the enterprise's business accounting
2. appraising the benefits of the enterprise's economic activities
3. macroeconomically for meeting the State's planning requirements; these statements are used for decision making, planning and control at the national level.

The enterprise uses the statements to analyze financial and operating conditions, while the financial and banking units analyze the fund uses and applications, and determine the need for funds. Strict guidelines exist for the preparation and submission of financial statements. The "Accounting Law of the People's Republic of China" stipulates that all enterprises are to prepare their financial statements in accordance with specific norms; specific explanatory comments are to accompany the statements. State enterprises have to submit statements monthly, quarterly and annually.

In addition to the balance sheet and net income statement, other statements are required, such as:

- a. statement of specific fund sources and appropriations
- b. statement of loans for capital construction
- c. statement of remitted payables and reimbursed funds
- d. statement of analyzing net income from product sales

In March 1985 the Ministry of Finance promulgated "The Accounting System of the PRC in Chinese-Foreign Joint Ventures" and "Account Titles and Statements for Chinese-Foreign Industrial Joint Ventures". They have to adopt the calendar year. All documents are to be written in both Chinese and the foreign language.

Since governmental operations comprise such a major part of the economic activities, a close look will be given to the governmental accounting system.

### **Governmental Budgetary Unit Accounting**

In China, both the State budgetary unit accounting system, which is centrally prescribed by the Ministry of Finance, and the local budgetary system, which is drawn up by the local departments, constitute the complete system of "budgetary unit accounting".

Budgetary control is exercised through both central and decentralized (local) administrative levels. The central budgets include: the unit budgets of all central departments and those of key enterprises under the control of government. The local budget consists of the budgets of local units and local enterprises as well as summarized subordinate local budgets.

The State budget serves as an important vehicle by which the State carries out its task in collecting and distributing its financial resources. The State budget also serves as the basic State financial plan and its planning mechanism; the State Council is responsible for preparing and implementing the budget.

The State budget comprises both the acquisition (revenues) and disposition of budgetary resources. Budgetary acquisitions are approached from two points of view, i.e. by sectors of the economy (State, collectives, individual entities and joint ventures) and by branches of the economy (industry, agriculture, commerce, transport, etc.). Currently budgetary acquisitions come from a variety of these sources.

The disposition of budgetary resources is carried out through the State plan and its policies. Budgetary dispositions comprise two categories, i.e. one based on the character of the disposition (such as education, culture, defense, administration) and the other based on use (such as capital construction, extra current funds, operating expenses in branches of the economy, etc.).

The State budget of China has the following specific features: 1) it acquires and disposes of budgetary resources, 2) it accumulates the necessary funds for development of the economy, 3) it applies the greater part of budgetary funds for socialist construction and welfare purposes, and 4) it adheres to keeping revenue and expenditure in balance.

Budgetary unit accounting comprises: 1) main categories, 2) functions, and 3) characteristics. The main categories consist of the accounting for state budgetary units and accounting for administrative and institutional units. Overall budgeting comprises three corresponding levels: 1) the Ministry of Finance at the central level; 2) the bureaux of finance at the provincial level and 3) departments of finance at the county level. Other categories involve accounts: for the national treasury, for capital construction, for agricultural fund appropriations, etc. In turn there are three kinds of administrative and institutional units at different levels which draw up the unit budget and carry out independent unit budgetary accounting. These are: competent (primary), second level and basic accounting unit.

Budgetary unit accounting has the following functions: 1) to handle accounting events and transactions, 2) to prepare regular financial statements, 3) to supervise all units in preparing budgets, 4) to assist the national treasury in receiving and disbursing funds, 5) to formulate the overall and unit budgetary systems and 6) to guide and supervise unit budgetary accounting. Financial administrations at all levels have to carry out the State budget effectively and efficiently. Such functions aim to improve budgetary control and to safeguard State resources.

The characteristics of budgetary unit accounting comprise the following principal features: 1) a uniform accounting system; 2) the cash basis of accounting and 3) (non) calculation of profit or loss.

The original documents used by overall budgetary unit accounting are of three sorts: 1) statistical statements of revenue etc., 2) budgetary appropriations and 3) monthly statements of payment for capital construction.

Four different fund source accounts are set up to reflect budgetary inputs; these are: 1) budgetary revenues turned over to the national treasury; 2) budgetary grants appropriated from financial administrations at a higher level and 3) budgetary funds transferred in from extra budgetary funds. The accounting system therefore comprises three budgetary statements: 1) statement of financial accounting for budgetary revenue and expenditure, 2) statement of basic data showing such items as organization, personnel, etc., and 3) other supplementary statements.

Unit budgetary accounting for administrative and institutional units is used to: record, report and supervise the performance and results of these units, budgets. These units, however, have little or no operational revenue of their own, and their expenditures are mainly compensated by State budgetary appropriations. These units therefore concentrate on reducing budgetary expenditures and improving efficiency and effectiveness of budgetary funds.

We shall now turn to the area of cost/management accounting.

### **The System of Cost and Management Accounting in China**

Previous to 1949 China was fairly well up to date on international developments in cost and management accounting; however, during the

subsequent three decades few foreign ideas penetrated the country. Since the late 1970s China has aimed to update and upgrade itself again in new developments. A great interest exists in China in the whole area of management accounting. Under the new economic reform measures, management enterprise accounting has received particular attention in all circles. Between the late 1970s and 1980 the systematic exposure to foreign literature took place and foreign texts were translated. Management accounting gradually was practiced again as an endogenic discipline with several books written by Chinese authors in this area. The purpose is to make management accounting suitable for Chinese conditions both from an academic and practical point of view.

Areas that have attracted special interest are: long- and short-term decision making (e.g. discounting methods), planning and control, cost behavior, feasibility studies, budgetary techniques, responsibility accounting (e.g. profit, cost and investment center concepts and transfer pricing methodologies). Standard costing methods are compared with those used in Western countries, while direct or variable costing has gained considerable interest. Whether management accounting and financial accounting should be so distinctly separated is a subject of considerable debate in China as many Chinese feel that all accounting reports should serve both socio-economic planning and external and internal administrative purposes. Others feel that management accounting should above all be an instrument for management.

Enterprises in China are an integration of rights, responsibilities and benefits ensured by legislation. The relatively independent operational rights are subject to the guidelines of national policies regarding: operational planning, financing, purchasing and selling, and personnel. Enterprises are required to carry out the State's assigned tasks and meet the contractual requirements with other enterprises. Recently profit distribution has been redirected from egalitarianism to that of performance evaluation. The management system of the enterprise is a mixture of centralized leadership and democratic management; the former comprising the chief director and his staff, while the latter consists of the workers' congress within the enterprise.

Planning, control and evaluation are executed through a system of management accounting; also the estimation of available financial resources, their applications and economic impacts are implemented through the management accounting system. Within this structure Fund Plans (as outlined previously) play an important role; they comprise the sources and application of the Current Fund and Fixed Fund Plan. Recently Current Fund sources have changed from appropriation by the State without compensation to bank loans with interest. Fixed Fund plans also predict its applications within the planning period. The source of the Fixed Fund can come from the State, transfer from the enterprises, international sources and depreciation, and bank loans. Extensive cost-benefit analyses are required for capital investments. Capital cost becomes an important factor in feasibility studies.

Cost plans have to show the required production inputs in terms of money. Product cost is defined as the amount allocated to the product for the value of production means consumed; and in the unified accounting system these costs include both the variable and overhead costs (e.g. interest) involved. Production expenses in turn show the total expenditures incurred during an accounting period.

In addition to some cost plans for internal cost control, there are three main cost planning statements: 1) the Statement of Planning Product unit cost; 2) the Statement of Planned Commodity Product Cost and 3) the Statement of Planned Production Expenses.

Adequate estimates of product costs are to be made for each cost plan. Features involved are: State production targets, contracts, previous cost data, current production conditions, and ability to improve productivity and efficiency. The estimates or forecasts involve: product cost; cost reduction targets; and influences of the cost reduction measures, e.g. fixed and variable cost.

As for the profit plan, this is based upon the State assignments, sales contracts and market demand. The plan should show the following amounts: 1) estimated product sales profit, 2) total profit and 3) profit distribution. Profit ratios, relating profit to other factors of operation, are required to be reflected in the profit plan.

In cost accounting, the basic principles to be adhered to in China are conformity to law, honesty, consistency, comparability and timeliness. The concept of expenditure/expense tends to be very broad, especially when compared with product cost. The selection of costing methods for products is mainly determined by considering the manufacturing process and management requirements of the enterprise, and adhering to the uniform accounting system requirements. "Norm costing" (adopted from the Soviet Union) is different from "standard costing". Norm costs reflect the "latest best cost", while standard costs are determined at different levels of operation and subject to current conditions. The norm costs are based on technical norms, such as material consumption norms, production capacity norms, etc.

Cost statements are prepared for two purposes: external and internal. The external ones are in accordance with the uniform accounting system and are used for national economic (statistical and planning purposes) and evaluating enterprise performance. The internal cost statements are geared towards managerial requirements; the format is more flexible than the external one.

### **Auditing in China**

Since the founding of the Auditing Administration in 1983, more than 3,000 government auditing institutions have been established at the local and upper levels; they employ over 30,000 staff members. More than 10,000 internal auditing institutions have been set up within government

administrative departments, industries and enterprises. There are more than 70 accounting firms in China.

Auditing is developing rapidly in China, and auditing methods are being improved continuously. Auditing under the Current Economic Structure Reform ensures that the policies of open-door and stimulation of the economy are carried out. Large scale auditing within an industry is being replaced by individual auditing.

There are three types of auditing in China. These are: 1) Financial Auditing; 2) Auditing Against Violations of Economic Law and Discipline, and 3) Economy-Effectiveness Auditing. Financial Auditing involves an independent review of the revenue and expenditure and final accounts of departments of the State council and local government, and the accounts of government financial and monetary organizations and enterprises. Auditing Against Violations of Economic Law and Discipline deals with the government's financial and economic guidelines, laws and decrees. This auditing is of a limited and special nature. Economy-Effectiveness Auditing is concerned with development of alternative approaches to increasing economy-effectiveness of an enterprise, industry or department. They consist of: 1) management auditing and 2) operational auditing. The former stresses managerial performance and efficiency, while the latter relates to the performance of inputs and outputs of enterprises and enhancing proficiency.

The national auditing network consists of: government auditing, internal auditing and auditing by accounting firms. Government auditing is the guiding force. The Government Auditing Administration, as part of the Ministry of Finance, is headed by the Auditor General; he is a member of the State Council. The State Council has established the Auditing Administration requirements in China; the Auditing Administration is the auditing office at the highest level. Government auditing institutions at the rural, regional, city and other levels are organizationally subordinate. Central government auditing and its institutions can audit enterprises directly, or ask accounting firms to do the work. Government auditing is coordinated with internal auditing at the enterprise level.

In the PRC there are more than 100,000 State enterprises, and many have internal audit units under the direction of the government auditing institutions. Auditing by accounting firms is a necessary supplementary function in the national auditing network. These firms render auditing services at the request of enterprises and governmental auditing institutions on a fee basis. Presently these firms are mainly responsible for auditing joint ventures.

The function of government auditing institutions involves the enforcement of financial and economic laws and discipline, increase in economy-effectiveness, strengthening macro control and administration, and ensuring progress in economic reform.

Internal auditing takes place within an industry or department and within an enterprise. The former is an internal auditing system within each department or industry of the State Council and all local governments. An

auditing institution has to be established within a government department or industry. Internal auditing within an enterprise applies to medium sized and large enterprises, financial and monetary institutions, and capital construction organizations.

The main responsibilities of an internal auditing institution are 1) to examine accounting statements, vouchers and receipts; 2) to attend relevant meetings; 3) to investigate audit funds; 4) to express opinions on correcting and preventing violations of financial and economic laws; 5) to give suggestions for fixing responsibility; and 6) to keep the internal auditing institution at the higher level informed about significant matters. The audit approach involves drawing up and submitting an audit plan; to keep the organization informed of findings; and submit decisions of significant audit items.

Auditing by accounting firms was revived in 1980 by the Ministry of Finance. A draft of regulations for "registered accountants" (certified public accountants) is being prepared. Accounting firms are approved and regulated by the Ministry of Finance or the public finance department of provinces, regions, etc. A "registered accountant" (RA) must be approved for registration by the Ministry of Finance or public finance department. Qualification is obtained through evaluation. A uniform examination to qualify as an RA will be held in the near future. An Institute of RAs is in the process of being established. No government officer will be allowed to work as an RA. A registered accountant (RA) cannot practice individually but must be a member of an RA/CPA (CA) firm. Only two such Chinese firms have been approved so far.

Services performed by RAs are of a dual nature: 1) public account verification and 2) consulting services. The former requires that the service must be done according to the law and regulation of the State. The consulting services include the design of financial and accounting systems for enterprises, acting as accounting advisers, training financial and accounting staff, etc. The major international accounting firms have established representative offices or sent resident representatives to the PRC. They are not RAs registered in China and do not have the same rights as Chinese RAs. They are permitted to: 1) perform audits in cooperation with Chinese RAs; 2) accept engagements for foreign investors and participate in negotiations; and 3) provide consulting services jointly with Chinese RAs. An audit report issued by a foreign accountant will not be accepted as valid by the Chinese authorities.

China has taken an active part in a variety of international auditing exchanges, and has sent a great number of people abroad for accounting and auditing training. China is a member of the International Organization of Supreme Audit Institutions (INTOSAI) and its Asian affiliate (ASOSAI).

### **Tax Structure, Policy and Administration**

Extensive measures have taken place during recent years to modify the tax system to the economic reforms. Three stages of tax reform can be

distinguished: one from 1949 to 1958; the second from 1958 to 1979, and the third from 1979 to the present.

Taxation is the major source of revenue for the State; it assists in economic development, and is a force in mobilization of national resources. Taxation has both micro and macroeconomic objectives. The supreme tax authority is the General Tax Bureau under the Ministry of Finance. Tax policy and issues are decided by the State Council.

Local tax issues are acted upon by local authorities. Currently there are more than twenty tax categories such as: tax on turnover, inventory tax, agricultural tax, property tax, etc. The tax year is the calendar year. State enterprises also pay income tax; taxable income is computed on operating income plus income from associated enterprises less net income distributed to affiliated units. Expenses are deductible before income tax computations. Inventories and fixed assets are valued at historical costs; fixed asset depreciation is generally computed on the straight line method based on the useful life of the asset less salvage cost. Accelerated depreciation is not allowed, except by special permission. Income tax rates are 55 per cent or less on smaller incomes. Income taxes are computed and levied annually.

Collective enterprises also pay income tax and tax deductions are fairly similar to State enterprise computations. Wages and bonuses distributed out of retained profit, and funds and dividends allocated from income, are non-allowable deductions. The income tax rate is similar to that for State enterprises. Income tax on individual and commercial operations is a maximum of 60 per cent. Taxable income of joint ventures is the excess of gross income over its deductible expenses; depreciation again is calculated on an average straight line method, based on historical cost. Special approval is needed for accelerated depreciation. Inventories are also based on historical cost. The income tax rate on joint ventures is 33 per cent.

The accounting records of a joint venture are to be kept in Chinese, or in both Chinese and the foreign language. The tax returns are to be submitted to local authorities; included therewith should be the accounting procedures applied. Foreign companies operating in China are also fully taxable entities. Income tax rates of foreign enterprises in China are 40 per cent or less plus a local surtax of 10 per cent. Income tax is computed in local currency. Value added tax is levied on a series of products. Favorable tax policies are implemented in the special economic zones; the tax rate may be reduced to 15 per cent for joint ventures. Double taxation treaties are in existence with many countries (e.g. US, Japan and most European).

A resident individual is allowed a standard deduction of RMB 800 (US \$220) per month from wages and salaries. Personal income tax rates are 45 per cent or less. Several categories of exemptions exist in computing personal income. Income tax paid by a tax payer to foreign countries for income earned abroad is allowed as a tax credit. Closely related to the tax system are the investment regulations.



## **Investment Laws and Regulations for Foreign Entities**

Since 1979 China has entered into a policy of allowing foreign investment. Foreign investment has enhanced rapidly in China in the intervening years. China also established several special economic districts and a number of coastal cities for favorable investment terms.

A special law and rules on Joint Ventures using Chinese and Foreign Investment was promulgated. Foreign investors are allowed to set up business in China in three principal forms: 1) equity joint ventures; 2) contract joint ventures and 3) business operated exclusively with foreign capital.

Special fields of investment (under the Seventh Five Year Plan 1986–1990) include: energy development, building materials, chemicals, manufacturing industries, etc. Legitimate interests and rights of foreign investors are guaranteed under the Constitution. The laws and regulations pertaining to Chinese-foreign joint ventures covers specifics regarding: the time period, procedures for filing, and the accounting regulations. The latter is promulgated by the Ministry of Finance of the People's Republic of China.

When applying for approval of a joint venture, the parties must submit to the relevant authorities the contract and articles of association together with a feasibility study.

The accounting regulations for joint ventures involve the following steps: 1) the accounting work must abide by the laws and regulations of China; 2) the principle of equality and mutual benefits is to be enforced; and 3) international accounting practices are to be adhered to. Joint ventures are allowed to borrow money from the Bank of China as well as foreign banks. China's foreign exchange control regulations require that all joint foreign ventures exchange receipts and payments; China encourages enterprises to earn foreign exchange. Repatriation of net profits and other earnings requires permission from the Bank of China. Exclusively owned foreign capital enterprises have to prove they are beneficial to China's economic development. Fairly similar regulations apply to those described for joint ventures. During the current five year plan (1986–1990) the Chinese government intends to work out additional laws and regulations to attract foreign investment.

The Accounting Regulations of the PRC for Joint Ventures using Chinese and Foreign Investment (promulgated March 4, 1985) set forth specifics regarding such items as: accounting office and staff; general principles of accounting; accounting for paid-in capital, cash and current accounts, inventories, long term liabilities and investment, fixed assets, intangible assets, costs and expenses sales and profits; classification of accounting and accounting statements; accounting documents and books; audit; accounting files, dissolution and liquidation; and some other provisions. These regulations are formulated to strengthen the accounting work of joint ventures in accordance with other investment laws. They are applicable to all such joint ventures. Amendments to these accounting

regulations can be made by the local department of the Central government as well as by the regulatory departments of the State Council. The accounting principles are similar to those set forth for Chinese entities including: historical cost of assets and inventories; no "reserve for bad debts" accrued; and straight line method of depreciation based on original cost. Underlying the improvements in the accounting oriented elements is the educational set-up.

### **The Education and Training of Accounting and Auditing Personnel**

The Central Committee of the Communist Party of China and the State Council have outlined some Educational Structure Reforms in 1985 whereby heavy emphasis was placed once again on education. Great attention is given to the discipline of finance, economics and accounting. These three areas are generally part of an interrelated body of knowledge and learning within academic institutions. Considerable needs exist to educate students in these fields in the years to come for a variety of functions. The State Auditing Administration also is in need of qualified personnel in areas of accounting and auditing to perform the respective functions adequately. A vast network of educational institutions has been established to cater for these needs; this network involves various levels of training and various specializations (e.g. auditing).

The three levels of education in finance, accounting and economics are: higher, secondary, and technical and adult education; however, each has different objectives. General higher education is still weak.

The Ministry of Finance now has five institutions under its jurisdiction, e.g. three universities of higher education for finance, accounting and economics, including Shanghai University of Finance and Economics (SUFU). These three universities are to constitute the "centers for excellence" in finance, accounting and economics.

Undergraduate education at full time universities is four years. In accounting the core courses include: Elementary, Financial, Cost/Management Accounting and Auditing. Specialized courses are: Capital Construction Unit Accounting; Financial Accounting for Capitalized Enterprises; Accounting Theories; Accounting Systems; Application of Electronic Computers in Accounting. The Auditing specialization was added recently. The State also has established short-term on the job training programs for cadres, and advanced studies for teachers in accounting and auditing specialties. SUFU in conjunction with the Economic Development Institute (EDI) of the World Bank has sponsored short-term courses in financial management; SUFU together with Coopers & Lybrand and Touche Ross & Co. have sponsored tutorial classes in specialized accounting and auditing.

Vocational technical training schools are rapidly expanding; they consist of various levels with different specializations. These programs run between 3 and 4 years. Adult education is considered important to supplement full

time education; it is carried out through evening and factory run colleges, radio and television colleges.

Related to education is the research to be pursued and the organizations involved.

### **Accounting Organizations and Research**

The national research organizations are the Accounting Society of China (1980) and the Auditing Society of China (1984), while a number of local societies exist in almost every province and large city. The local ones hold group membership in the national societies. All these societies are autonomous organizations concerned with current accounting and auditing issues. Admission requirements are: practical experience, educational background and research orientation. The basic objective is to study current problems and promote the development of accounting and auditing; its aim is to integrate theory and practice. The basic methodology is dialectical materialism and historical materialism; a fundamental task is to establish a framework of accounting and auditing theory and methodology adapted to the socialist system. In addition to the national and local societies there are accounting societies of major industries, such as textile, steel, etc. Other units exist to do specific accounting and auditing research.

As for periodicals, the Accounting Society of China publishes bi-monthly *Accounting Research* (circulation is over 110,000) and the Auditing Society issues monthly *Auditing Research*. Local entities issue their own periodicals such as *Shanghai Accounting* and *Shanghai Auditing*. The Ministry of Finance and the Audit Administration have their own publications geared to more practical issues.

An important function of the societies is to conduct training and refresher courses, and to hold seminars. Their responsibilities include motivating research endeavors; summarizing past experiences to serve the economy; investigating new requirements and problems; carrying out international exchanges and fostering friendly relations with foreign organizations.

Chinese accounting researchers and professionals have recognized the need for a sound theoretical framework to govern and guide accounting practice as theory and practice were lagging behind economic conditions. Several fundamental issues were evaluated in this regard:

1. The essence of accounting which had three different points of view. One view is that accounting is a means for managing economic activities; a second view holds that accounting is primarily an aspect of economic management; a third view is that accounting is an economic information system to enhance economic effectiveness and strengthening economic management and decision-making.
2. The objectives of accounting have also been widely discussed, resulting in three views related to the essence of accounting. One view holds that accounting under a socialist system has as its object the measurement of production in terms of money. Others view the object as the movement

of value in a commodity economy. Fund movement is the essence under this pattern. A third view is geared to economic effectiveness — excess of production over consumption.

3. The function and role of accounting may convey different notions according to some, while others see function and role as synonymous. Another view is that function is objectively inherent in the nature of accounting while role is an effect of usefulness after the objectives have been attained. Still others split the function in reflecting and controlling elements; while a number see a great variety of functions such as: supervising, decision-making, forecasting, and analyzing.  
Through performing its functions, accounting can be seen as playing four roles: strengthening planned management; strengthening business accounting and effectiveness; carrying out financial discipline; and protecting socialist property.
4. As for the nature of accounting, this has raised much controversy in China since the 1950s; consensus on this topic has not been reached. Three representative opinions have emerged: the first holds that accounting not only reflects the process of socialist production but also brings the nature of social production to light. The second opinion is that accounting is mainly a discipline of methodology of a technical nature; they do not look at it from a socio-economic point of view. A third hybrid view admits that accounting has both a class nature and technical nature. They opine that accounting originated from the process of production to achieve maximum economic effectiveness, but with the need to reflect also relationships between individuals in the production and consumption process.

Chinese accounting has established a set of basic concepts geared to Chinese conditions and its philosophy. The concepts are linked to the objectives. A very distinct concept is fund application and fund sources, whereby the two equate. Fund application is the state of existence of fund; fund source is the source where fund is obtained. Technically the two equate to assets and equities in Western accounting, although the two cannot be used interchangeably.

Accounting principles are embodied in the uniform accounting system and its methods. Four unique principles are observed in Chinese accounting: (1) the principle of serving the economic plan; (2) the principle of serving the State's general and specific economic and social policies; (3) the principle of the national interest as a whole and (4) the principle of the laboring masses, i.e. accounting must rely on the masses to reach the objectives.

So far Chinese accounting has adhered to historical cost as being verifiable and objective. Although other accounting alternatives, such as replacement cost, current value data, have received much attention, they have not been adopted.

Extensive international exchanges have taken place and are taking place to enhance research and development in accounting; Chinese scholars nowadays participate actively in international conferences and seminars.

Research in auditing has developed rapidly since the establishment of the

Audit Administration in 1982. The achievements in auditing research to date have been:

1. Justification of auditing — It is argued that auditing is needed to strengthen economic management and control of the economy, while auditing is also required to ensure that the financial and economic regulations and discipline are observed. Thus, auditing is found useful in maintaining economic law and order. Furthermore auditing is needed to enhance economic effectiveness of enterprises through evaluation of current performance and identification of defects and inefficiency in management.
2. Essence of auditing — No consensus exists regarding the essence of auditing. Some hold the view that auditing is the act of examining financial accounts while others contend it evolved from accounting and is still part of accounting. It is, however, difficult to have a uniform auditing system within the uniform accounting system. Another view is that it is an independent discipline and that modern auditing goes far beyond the verification of accounting data.  
Auditing and auditing supervision are different concepts in China; supervision is one aspect of auditing authorized by law. The state auditing organizations are the only ones having authority to supervise according to the Chinese constitution. Auditing by RAs (CPAs) is a different function from supervision. Auditing is professional work by independent auditors in order to form an audit opinion as to whether the activities are in compliance with legal regulations, efficiency and effectiveness, and whether the information is fair and reliable.
3. The tasks in auditing are regarded as its function, while its roles are the end result. The most important function is the supervision of economic activities of the units under audit. Another function is attestation, i.e. certification. A third function is the coordination of efficient, economical and effective operation of enterprises.
4. Auditing can be classified in different ways, i.e. financial auditing and economic effectiveness auditing. The former type is done to prevent violation of economic law and discipline; the latter consists of management auditing and operation auditing.

### **An Overall Assessment**

China is currently in the process of making drastic changes in its accounting and auditing systems and educational setup. It is encouraging to see how this vast country, with a population of over one billion, is aware of the need to adopt effective and efficient accounting and auditing methods to pursue its future development objectives including the implementation of the policy of opening to the outside world. The “Law of Accountancy” passed by the People’s Congress in 1985 has given a great spurt to the development of accounting in China.

The Ministry of Finance, which is responsible for the profession, wants to drastically increase from 1,000 to 10,000 the number of “registered accountants” (CPAs) by the year 1990, and many times beyond that by the year 2000, having a major impact on education and training of accountants.

The international reader should take into account that China is a State with a socialist structure, and its accounting has to serve these ends. The accounting objectives and functions therefore tend to be different from other countries due to distinct socioeconomic conditions and objectives. Also the enterprise is not visualized as a private business undertaking but as an individual entity in the context of the national economic plan. The contrast is between public ownership means of production versus private ownership, and effective overall economic management versus private enterprise management. While, for example, in setting principles or norms Western countries are motivated by profit-making prospects, in China the focus is more on physical production to serve public requirements. However, as is seen in other developing countries (socialist and capitalist), while the aims may be different, the means (e.g., assumptions, standards, procedures and techniques) tend to show great similarities. For example, cost-benefit or cost-effectiveness appraisals, decision-making frameworks, and accounting and auditing principles and procedures show great similarity.

China as a society is very group or mass oriented, which has its impact on the economic-financial-accounting methodology. The user orientation is different; in China the users are mainly economic and administrative bodies with macroeconomic interests, while in other countries the stakeholders are largely shareholders, creditors and others with private interests.

Notwithstanding that China is a socialist planned commodity economy and highly regulated, a strong trend exists to open up to the outside world (as a long-term and basic State policy) and to stimulate joint venture (and small domestic private) enterprises. Foreign investment promotion has left its impact on the investment laws, taxation and accounting procedures, requiring some readaptation of some economic and accounting activities. China may have to monitor international accounting and auditing standards and procedures that have a major impact on education and research.

Accounting education, which was subject to stagnation in the 1970s, has received wide attention in China. China has clearly recognized the importance of sound accounting education in its new socioeconomic development plan and process. Radical changes have occurred in the teaching methodology and coverage of accounting.

In order to enhance accounting education further and efficiently, it might be desirable to have an accounting manpower inventory and accounting development plan prepared, which would set forth the needs for the various areas of accounting and auditing under its current and future five-year plans. Furthermore, due to the great shortage of educators and trainers, the development of "accounting training centers", and the types of updating to be entered into, could be subject to refinement in view of the manpower needs in the various sectors of the economy.

The Accounting and Auditing Societies have been doing extremely useful work; however, these bodies are not necessarily geared towards the professional accounting/auditing aspects. It is therefore encouraging to see that a somewhat distinct professional accounting body or institute is in the

process of being developed to foster close links with the Accounting and Auditing Societies of China and their local branches. Inherent to such professional developments would be such characteristics as a common body of knowledge, admission requirements and examinations, recognition of the profession within society and professional standards. During the last couple of years extensive explorations have been carried out to develop China's own framework of accounting concepts and standards.

Accounting and auditing research in China seems to be subject to considerable constraints due to financial resources, enough qualified academicians, materials and time. Extensive international and bilateral assistance and cooperation in this regard would be extremely beneficial for China, and would be welcomed by China.

Research methodology of both an inductive and deductive nature, and its linkage with other disciplines (such as behavioral science, quantitative methods, information systems, etc.) might need to be further stimulated, preferably also with extensive outside cooperative assistance.

The areas where particular academic/institutional cooperation would be desirable appear to be:

1. Education and training, including cooperation in supporting updating centers, text materials, research funding, foreign scholarships, exchange of academicians, library enhancements, teaching aids (e.g. computers), supply and exchange of study materials, etc. Included should be extensive scholarships for potential accounting educators (PhD students in particular), and grants for existing faculty for six to nine month foreign studies in specialized areas. Cooperation in course development and institutional aspects would be another area. Hopefully, foreign academic institutions, with the support of their respective governments, will adopt various academic institutions in the PRC, send materials to these Chinese institutions, and encourage visits for Chinese academics to their universities and colleges.
2. Active exchange with foreign (international) accounting bodies and exchange of materials in this regard.
3. At the government level, visits to foreign governmental accounting bodies, active exchange of materials and information regarding comprehensive governmental audits, performance budgeting, etc.
4. Extensive international exchange regarding accounting and auditing standards.

The People's Republic of China has made great strides under very difficult circumstances, and it is very impressive to observe the commitment, dedication and effort taking place to enhance accounting and auditing and related aspects. However, considerable further advances are needed. The efforts by the Chinese to enhance their accounting systems together with their strides to update and upgrade themselves are extremely laudable. China may well become a major force in accounting

in the decades to come, but cooperation and assistance in a variety of fields seem needed to attain the goals of self-sustained accounting development, and to become a valuable member of our international accounting community once again.



## The Reshaping of the Accounting Function in Poland

MAUREEN BERRY AND GERTRUDA KRZYSTYNA ŚWIDERSKA

The recent massive political changes that have occurred across Eastern Europe, and the privatization programs spawned by the shifts to a free-market orientation, have generated an awareness in several countries of the important role that accounting can play in the restructuring of their national economies. The reshaping of the accounting function that is taking place: particularly in Hungary, Poland, and the Czech and Slovak Republic, has benefitted from the experiences of the European Community with the harmonization of accounting and reporting over the past decade. So, some similarities are evident in the approaches these three countries have taken so far towards lifting accounting out of its long period of stagnation. This article focuses on Poland, however, because it is the first member of the former socialist community to have enacted and brought into force a new accounting law as well as to announce its plans for establishing an independent accounting profession.

### **The History of the Accounting Profession<sup>1</sup>**

As with all other institutions which are culturally embedded, the accounting function is best understood when looked at in historical perspective. Poland did not emerge as an independent modern state, from its partition in 1815 between Russia, Prussia, and Austria, until the signing of the peace settlement in 1919.

The accounting profession in Poland dates back, as an institution, to June 9, 1907, when the Tsarist authorities approved a statute creating the Union of Accountants in Warsaw (*Związek Buchalterów w Warszawie*). The main objectives of this new association were to represent the profession in its relationships with the authorities; develop finance and accounting knowledge, as well as the professional literature; improve professional practice

<sup>1</sup> This section is mainly drawn from Bień (1967).

through courses and evening discussion meetings; and provide contacts for those seeking employment opportunities. Very soon after its formation, the association started publishing a bi-weekly: "Kronika Buchaltera" (The Accountant's Chronicle) which also circulated outside of the membership to those accountants living in the Prussian and Austrian territories. Within a year, over 280 members had joined and in 1909 delegates took part in the first All-Russian Congress of Accountants held in Moscow. Further activities were drastically reduced by the First World War and its aftermath and most concern was directed towards helping members make ends meet.

In 1926 a new organizational statute was created which changed the organizational name to "Związek Księgowych w Polsce" (the Union of Accountants in Poland): a title which both acknowledged the group's nationwide identity and affiliation and substituted a more Polish-rooted professional title. During the interwar years, four national conventions were held: each in a different major city. At the second of these conventions, held in Poznań in 1929, a new council was created: the Chief Council of the Association of Accountants and Accounting Experts in Poland. The creation of this council gave de facto recognition to other existing professional organizations, such as the Union of Jewish Accountants in Warsaw, and provided for the integration of professional activities as well as representation of the interests of the profession as a whole.

Enrollments grew in the various accounting courses which the Association conducted for all levels of accounting employees, supplemented by classes held at the Free Universities in Łódź and Warsaw. In the meantime, the professional literature was also expanding. The "Accountant's Chronicle" changed its name after 1921 and became the official organ of the Association under the title of "Czasopismo Księgowych w Polsce" (the Accountants' Journal in Poland). In 1930, a second publication, "Przegląd Związkowy Związku Księgowych w Polsce", (the Union of Accountants in Poland's Review), containing organizational and social matters of interest, was activated so that the official journal could be devoted entirely to professional topics. Another professional group: the Polish Union of Bookkeepers, Accountants, and their Assistants in Warsaw (Polski Związek Buchalterów, Bilansistów, i ich Pomocników), started up their own professional periodical: "Dzień Księgowego" (the Accountant's Day).

During the decade before the outbreak of the Second World War, the various social and professional accounting societies put forward a number of proposals to the authorities aimed at improving and advancing the accounting function. They included: standardizing trade and industrial accounting principles, reforming tax legislation, defining calculation principles, permitting depreciation write-offs which would allow for asset replacement, providing legal protection for the title of accountant, instituting accounting as an independent profession, and requiring that limited liability companies be audited by professional accountants. This latter proposal was incorporated into the Commercial Code in 1934.

In addition to building up official support, the profession was also

occupied with defining the theoretical bases of accounting, its main activities, and its development. To this end, the authorities were approached with the proposal that independent departments of accounting be created in the various schools of economics. These suggestions did not, however, come to fruition until after the 1939–1945 conflict. During the war, the professional community held accounting classes secretly for both men and women with the aim of preparing highly qualified professionals for the post-war period. Such classes were also conducted clandestinely in prison camps.

When Eastern Poland was liberated in 1944, the Association reformed in Lublin. By the following year there were already 200 members in the Lublin branch conducting accounting classes and organizing the accounting function for the agricultural sector. On July 30, 1946 the Association of Accountants in Poland (AAP) was registered as a social organization: headed by Professor Stanislaw Skrzywan of the Chief Business School (Szkola Glówna Handlowa) which had been renamed the Central School of Planning and Statistics.<sup>2</sup> In less than three years, however, the AAP was disbanded by the State on the grounds that its activities could be better carried out by state administrative organizations and professional unions. After the political skirmishes of 1956, the Association was once again registered in Warsaw, on March 4, 1957, as the only national social organization bringing together members of the accounting and finance service. By the time the Association held its 80th birthday in 1987 it had grown to about 134,000 members with some 160 branches nationwide and 2,160 local groups known as *kola* (circles).

As shown below,<sup>3</sup> a considerable effort was devoted during the period 1958–1986 to providing training in accounting and data processing:

<i>Courses</i>	<i>Enrolment</i>
Enterprise accounting	67,905
Data processing	80,154
Training for professional diploma	63,857
Various speciality courses	335,082
Conference courses	88,780
Advanced classes	<u>38,482</u>
Total number of those enrolled:	<u>674,260</u>

A considerable number of professional publications, including handbooks, were also distributed. The Association's monthly journal, "Rachunkowość", (Accounting), which has a circulation of about 50,000, also acts as an educational conduit with technical articles, up to date information, reviews of the foreign literature, and replies to technical questions submitted by readers. Following the economic reforms of 1982, a consulting service in

<sup>2</sup> In 1991 the Central School of Planning and Statistics in Warsaw reverted to its prewar name.

<sup>3</sup> Data compiled from *Rachunkowość*, 8, 1987, p. 189.

finance and accounting was established in Poznań and rapidly gained popularity: carrying out over 3,000 engagements in its first year.

### **Academic Training in Accounting**

Formal academic training in accounting and finance had been gradually introduced over the years throughout the country in the high schools, colleges, and universities. An example of the curriculum for a student majoring in accounting and data processing at the Cracow Academy of Economics is presented in Table 32.1. An academic year has two semesters and a course of studies typically runs for five years, culminating in a master's degree. This time period would be extended, usually for six months, to include practical training which takes place during the day while formal course work is still continuing.

As detailed in Table 32.1, the formal program of studies at the Cracow Academy of Economics in the mid 1980s was divided into six groups, known as blocks. Blocks A through C constituted the core requirements of 1,800 hours: all to be completed during the first three years, with the exception of military training for the men in the fourth year (women do not serve in Poland's armed forces). The core included 75 hours of accounting. Specialized studies were organized in Blocks D through F for an additional 1,380 hours of which 240 hours were electives to be taken in the fourth year. While a considerable number of hours were devoted to programming, and information system design and management, students were handicapped by the lack of hardware both in Cracow and across the country.

A much more serious problem for the academic community was the general lack of interest in accounting education on the part of the students and specialized courses were hard to organize because of low enrollments. In the early 1980s the University of Gdansk had 50 places available for accounting and finance majors but only 12 applicants. The Technical School of Economics in nearby Sopot only had enough students for one class in accounting. The situation was even worse in the high schools. Warsaw and Szczecin each had only one secondary school of economics offering classes for an accounting specialization and only two hours per week in accounting were offered in the general economics courses. Those students completing an accounting or finance major showed an increasing tendency to take up employment in other fields: considering accounting as a last resort. At the Central School of Planning and Statistics in Warsaw, for example, not one student majoring in accounting and data processing accepted employment in that field over a three-year period (Berry, 1985, p. 93).

The reasons underlying this situation can be attributed to the very low prestige generally accorded the accounting function, having to do with lack of perceived social value, social status, as well as poor pay and working conditions. This was, and still is, a matter of considerable concern to the accounting profession facing staff shortages and an aging work force quick to take advantage of any early retirement benefits. In 1984 the Association

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TABLE 32.1 *Plan of Studies for the EDP and Accounting Specialty, Cracow Academy of Economics, mid 1980s*

<i>Core Requirements: 1984</i>	<i>Total Hours</i>	<i>Including</i>		<i>Semester</i>
		<i>Lecture</i>	<i>Practice</i>	
<i>Block A: Humanities</i>				
Philosophy	90	60	30	3, 4
Sociology	90	60	30	3, 4
Political Science	60	30	30	5
	<u>150</u>			
<i>Block B: Theoretical-Methodological Studies</i>				
Political Economy	240	120	120	1-4
History of Political Thought	60	60		5, 6
Economic History	45	45		1
Geography	30	30		1
Elements of Law	60	60		2, 3
Economic Policy and Planning	60	30	30	5
Finance	45	30	15	5
Mathematics	90	30	60	1, 2
Statistics	90	30	60	3, 4
Accounting	75	30	45	2
Principles of Informatics	75	30	45	1
Organization and Management	60	30	30	2
	<u>930</u>			
<i>Block C: Supplementary Studies</i>				
Foreign Language — Continued	180		180	1-4
Foreign Language II	240		240	1-6
Physical Education	120		120	1-4
Military Training	180		180	7, 8
	<u>720</u>			
 <i>Block D</i>				
		<i>Total Hours</i>		<i>Semester</i>
1 — Mathematics and Statistics				
Advanced Algebra		60		3
Numerical Methods		30		4
Mathematical Programming		45		4
Econometrics		60		5
Cybernetics		60		7
2 — Informatics and Data Processing				
Computer Programming		120		5, 6
Data Processing		60		2
Information System Design		120		6, 7
Information System Organization		75		7
3 — Accounting				
Accounting for Enterprises and Institutions		120		3, 4
Cost Accounting		60		5
Analysis of Enterprise Activities		60		6
Control of Enterprise Activities		30		7
		<u>900</u>		

TABLE 32.1 (Continued)

<i>Block E</i>		
Course Seminars	90	3, 4, 5
Diploma Seminars	<u>150</u>	6-9
	<u>240</u>	
<i>Block F</i> — Electives	<u>240</u>	7, 8

Source: Rajzer, K. (1984), pp. 67-8.

of Accountants in Poland (AAP) took the matter of pay and working conditions for accounting and finance personnel to the government and eventually achieved certain concessions.

Lack of modern technical resources remains a constant problem. Many small entities, particularly the not-for-profits, have to use the manual methods of half a century ago. Not even small adding machines, let alone electronic calculators, are provided to replace the ubiquitous abacus: particularly in the countryside.

Other frustrations resulted from the State's habit of handing down decrees affecting the accounting function without consulting the profession beforehand. For example, changes would be announced in the way that costs should be calculated, or prices determined, without prior assurance of feasibility from an accounting standpoint. Worse yet was the sheer number of legislative requirements allowing for free, and therefore hazardous, interpretation. Towards the end of 1983, for example, about half of the 50 regulations governing the turnover tax were unpublished, and about 60 per cent of the 35 compulsory income tax regulations unpublished, but known to the fiscal auditors. An even higher risk pervaded the accounting environment from the material responsibility with which the chief accountant was charged. Fines for late submission of reports, for example, could be stopped from the accountant's pay.

### **The Function of Diploma'd Expert Accountant**

Poland does not yet have an independent accounting and auditing profession but a project to create one has been drawn up, as described later, and related legislation is anticipated for 1992.

State enterprises are required to be audited annually by qualified personnel who possess the expert accountant diploma. To obtain the diploma, a candidate must be a Polish citizen, with legal status (that is, be of age and able to contract, for example), and with civil rights (that is: not convicted of illegal activities), successfully complete the professional examinations, and satisfy certain educational and experience requirements (Dziennik Ustaw, No. 26, p. 152, Art. 22). These requirements are as follows: either (a) a university degree in law or economics with at least three years' experience in accounting, including at least one year in a management position, or independent status, in the finance-accounting service, or

university researcher in accounting, or high-school accounting instructor; or (b) a high-school education, or equivalent, with at least six years' accounting experience, including at least three years in a management position, or independent status, in the finance-accounting service. The Minister of Finance may exempt from the examination requirement those individuals who have a university education, high professional qualifications, and documented accomplishments in the field of accountancy.

Professional examinations are administered, usually twice per year, by the State Examination Commission for Expert Accountants. They are divided into two parts, each lasting three to four days, with five general topics in the first part and six specialized topics in the second, as detailed in Table 32.2. The first-time failure rate is quite high, at about 50 per cent, so special corrective examinations are available under certain conditions. Otherwise, certain sections of the examinations have to be taken over again. It will be noted that auditing is neither taught, nor tested, as a separate discipline or function.

TABLE 32.2 Polish Professional Examinations for the Expert Accountant Diploma

	Format
<i>Part I: General Topics</i>	
General Principles of Accounting	Written
Analysis of Financial Operations and Statistics	Written
Business Policy and Organization of the National Economy	Oral
Legal Foundations of Accounting and Finance	Oral
Selected Law Problems	Oral
<i>Part II: Specialized Topics</i>	
– Includes Manufacturing, Construction, Agriculture, Not-for-Profits, and Hospitals	
Accounting — Specialized Field	Written
Organization of Accounting and Data Processing	Oral
Selected Problems in Planning, Analysis, and Economics	Oral
Selected Problems in Finance	Oral
Methods and Techniques of Control	Oral

Source: "Zasady Zdawania Egzaminów na Dyplomowanych Biegłych Księgowych" (Principles for Passing the Examinations for Diploma'd Expert Accountants), *Rachunkowość*, 10, 1986, p. 292.

Successful candidates are entered on the register of experts maintained at the Ministry of Finance, on the recommendation of the State Examination Commission. Before registration, however, a candidate has to take the following oath:

I promise that, as a diploma'd expert accountant, I will carry out the tasks entrusted to me with full awareness of the responsibility I bear for a professional and impartial opinion as well as for integrity in carrying

out examinations and issuing statements. I will observe the principles of professional ethics and, in my work, protect the public interest. I will not reveal to unqualified persons information obtained through my activities.

Those who violate this oath of office are subject to loss of registration for a period of from one to three years. The Minister also has the right to remove DEAs from the register for the following reasons, other than at the request of the individual involved: loss of Polish citizenship, full or partial incapacitation, or because of a legal verdict for carrying out intentional criminal activities or a judgment that registration is to be revoked. The names of those removed from the register are published in the Ministry of Finance's Official Daily (*Dziennik Urzędowy*).

As of January 1, 1991, the Ministry of Finance has issued a new decree governing audits of the annual financial reports of state enterprises, the amount of the audit fees, and the rights and obligations of the expert accountants (*Dziennik Ustaw*, No. 62, 1990). In the current absence of a separate auditing profession, state enterprise audits are generally performed by diploma'd expert accountants (DEAs) under contracts with the fiscal authorities, that is: The Treasury Chamber (*Izba Skarbowa*). Before awarding the contract, the authorities have to be assured that the DEA has the right to function as an auditor, that is: he or she is on the register of DEAs maintained by the Ministry of Finance, has the appropriate specialization required, and could carry out an impartial examination. The auditor's impartiality would be impaired by any of the following circumstances:

- management personnel of the client enterprise (that is, the director, deputy director, or chief accountant) are blood relatives or family relations;
- the DEA is permanently employed by the client enterprise: either in the head office, or in one of its branches, in the case of a multi-branch enterprise;
- the state enterprise in which the DEA is permanently employed is to be audited, for the same financial year, by the chief accountant, or other employees of the client enterprise, who are expert accountants;
- the audit will include an examination of work previously carried out for the client enterprise by the DEA and this work has not, in the interim, been examined by another DEA;
- any other reason which might limit the DEA's impartiality.

The authorities also have to determine whether there would be sufficient time to carry out the audit during the audit client's normal working hours. The DEA is, most usually, a state enterprise chief accountant who would be performing the audit during a paid leave of absence, at vacation pay rates. The decree does not specify the number of hours which constitute a working day but it may be assumed to be eight hours: not all of them necessarily at the client's place of business. The contract provides for a standard number of



audit hours, although this may be adjusted should the DEA run into unexpected difficulties after commencing the engagement, multiplied by an hourly rate for the honorarium. The total contract amount negotiated with the DEA should not exceed two-thirds of the amount to be charged by the authorities to the client enterprise for the audit fee. This fee is computed as the product of the standard audit hours times a variable hourly rate which attempts to adjust for inflation. The rate represents three per cent of the average monthly compensation paid in the material (productive) sector of the economy for the first nine months of the financial year involved, as published by the Central Statistics Office. The client enterprise is, however, reimbursed for the DEA's vacation pay plus the related social security payments of about 45 per cent of base pay.

The DEA is also reimbursed under the contract, at official rates for state enterprise employees, for audit-related travel and per diem expenses which include the costs of overnight lodgings and meals.

The nature and scope of the audit will depend on the contract specifications, but the main types of audit engagements performed by DEAs are either preliminary audits or complete audits. (A so-called simplified audit involves the examination of certain transactions of particular interest or concern and is usually performed directly by representatives of the national or local fiscal authorities.) As a rule, a preliminary audit would cover, at the minimum, determining whether enterprise accounting records are properly maintained and kept in accordance with required accounting principles, as well as verifying the data supporting the physical inventory taking.

A complete audit of an annual financial report would include making the following determinations:

1. That the report is complete and correct; the data results from accounting records that have been correctly maintained and closed; and that the beginning balances of the general ledger accounts agree with the ending balances in the financial report of the prior year which is officially confirmed as having been verified.
2. Correctness of the status of individual general ledger accounts, the amount of the financial result (profit or loss), and its required distribution. Other particular topics would include verifying that:
  - (a) the physical inventory taking was carried out as frequently as required and during the proper time periods, and that quantity differences were investigated and resolved;
  - (b) the values of the general ledger accounts were correctly established;
  - (c) the various elements comprising the financial result, such as sales revenue and enterprise costs of revenue realization were determined in accordance with the regulations; and
  - (d) the balance of the State's equity account (known as the founder's fund) is properly determined as well as the balances due or paid to the various fiscal authorities, and that there has been a proper

accounting for subsidies received as well as any required write-offs to enterprise funds.

The authorities may also request the auditor to carry out certain analyses, or other activities, to test for economic efficiency. In general, however, the complete audit engagement is focused mainly on testing for compliance with rules and regulations. Certain audit techniques used in market economies for evaluation of fairness of presentation, such as analytical review and statistical sampling, are largely unknown or underdeveloped.

There is no set form of audit report laid down in the decree. The form and coverage of the auditor's statement or protocol is specified by the authorities contracting for the services.

### **The Professionalization of Public Accounting and Auditing**

Poland's interest in linking up with the European Community as an associate member provided the stimulus for efforts, primarily by the Association of Accountants in Poland, to bring about congruence between Poland's regulatory arrangements for accountants and auditors and the Community's eighth directive. This directive is particularly concerned with auditor independence, professional qualifications, and government supervision. Accordingly, Poland has to tighten up professional education and training arrangements, and establish independence. These are provided for in an AAP-authored project, dated November 7, 1990, for an Act to establish a Chamber of Chartered Accountants (*Izba Dyplomowanych Biegłych Księgowych*).<sup>4</sup>

This Chamber is designed to be an independent, legal body governed by a national conference of chartered accountants, consisting of members drawn from regional groups of chartered accountants and selected at the annual meeting for four-year terms. It would convene a National Council, a Disciplinary Commission, and an Audit Commission, to carry out its main assignments.

The National Council is to consist of nine members, chosen by the national conference, as well as a chairperson from a regional group. It is to meet at least three times per year and it would have a considerable number of duties, including:

- Carrying out the wishes of the national conference.
- Representing the Chamber before various entities, such as: the State, educational institutions, economic and social organizations, and international organizations.
- Establishing regional groups and supervising their activities.

<sup>4</sup> This section is drawn from a copy of the project.

- Establishing the regulations defining qualification requirements as well as the principles for chartered accountant examinations.
- Setting the principles for practical experience requirements of chartered accountants.
- Setting the principles for carrying out post-diploma work by chartered accountants.
- Convening qualification and examination commissions;
- Setting its own financial plan and reporting on how it was carried out.

The entity responsible for carrying out the National Council's activities is to be known as the Presidium. This is to have various duties connected with registering Chamber members, as well as following up and supervising those undergoing practical training before being diploma'd.

The Disciplinary Commission is to consist of nine members selected by the national conference. Three-member groups of this Commission are to look into accusations made against Chamber members for legal or ethical violations and to hand down a verdict after carrying out a hearing. A period of 14 days is permitted for taking the matter to the entire Commission.

The Audit Commission is to consist of seven members selected by the national conference. They are to control the financial-economic activities of the Chamber's units and report back to the National Council.

The National Council is to convene a Qualifications Commission consisting of 15 members. Included in their duties is oversight of the pre-diploma practical training requirements and post-diploma work activities and referring current and periodic reports to the National Council. The National Council is also to convene an Examination Commission, for a four-year tenure, to test the qualifications of candidates to become chartered accountants. This Commission is to consist of 15 members, as follows:

- Three members each from the Ministry of Finance, the Ministry of National Education, the Polish Accountants' Association, and the Chamber's National Council.
- One member each from the Banking Council and the Securities Commission.
- Plus the President of the National Council who will act as chairperson of the Commission.

Chartered accountant candidates must be Polish citizens with a university education who, as under the existing regulation, have legal status, and who have not lost their civil rights. To qualify, they must pass the professional examinations and have three years' practical experience. At least two of these years must be spent under the supervision of a chartered accountant. Professors, or those who have otherwise completed their second doctorate, in accounting are to be exempt from the experience and examination requirements.

The National Council, in agreement with the Minister of Finance and the Polish Accountants' Association will define, and make publicly known:

- The professional knowledge that chartered accountants must possess in accordance with international requirements.
- The principles, area, and conditions for carrying out examinations for chartered accountants as well as obtaining this title.
- The principles for becoming registered as a chartered accountant.

Those who qualify as chartered accountants will be able to audit financial statements, verify the capability of companies to issue securities, carry out accounting duties, act as advisors in the areas of finance, the organization of accounting, and tax calculations, as well as other such professional duties. However, Chamber members can only carry out these professional assignments if they are solely employed as chartered accountants. Consequently, the Chamber will keep two registers: one for active chartered accountants and the other for those who are diploma'd but working in some other activity. Members are required to notify the Chamber promptly if they change their type of work. A sunset period of six months is allowed for chartered accountants to qualify under the old rules before the new Act takes effect.

### **The Accounting Function in Transition**

For most of the postwar period, accounting in Poland was based on a fund approach and its double-entry bookkeeping practices were very similar to those used in American colleges and universities. That is: groups of assets were matched against their funding sources (funds) and a single transaction might require several sets of bookkeeping entries to reflect the effects of that transaction on different funds. The structure of the balance sheet for an industrial state enterprise, illustrated below, shows the major funds involved.

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ACTIVE	PASSIVE
Fixed Assets and Investments in Process	Fixed Assets Fund
Circulating Assets	Circulating Assets Fund
Special Purpose Assets	Special Purpose Funds
Loss for Period	Profit for Period
or	or
Distribution of Profit	Coverage of Loss

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Poland's shift from fund-oriented to commercially-oriented financial statements commenced with the law of January 31, 1989 (Dziennik Ustaw No. 26, p. 152). Some radical modifications were introduced to enterprise financial accounting and reporting: modifying the complicated bookkeeping

system and increasing the range and independence of enterprise financial management. Three of the law's major provisions were: changing the revenue realization principle, eliminating the main connections between the sources and uses of funds, and establishing a new tax in the form of a dividend payable to the State Treasury, based on the amount of the newly-created charter fund (*fundusz założycielski*).

The change in the revenue realization principle put income on a full accrual basis by eliminating the requirement that sales not paid for by January 25th of the following year would be recognized as revenue when paid. The earlier rule had been instituted to control for possible year-end abuses of the accrual system such as recording fictitious credit sales in order to meet planned quotas for the year and rescinding them in the following accounting period.

Most of the various funds on the right-hand side of the balance sheet were eliminated by putting them into two main groups: the charter fund and the enterprise fund. The charter fund beginning balance was calculated as follows: (a) the balance of the fixed assets fund as of December 31, 1983 (some five years earlier), decreased by the net value of housing, children's nurseries, and kindergartens owned by the enterprise, as well as fixed assets used for social purposes, and increased by subsidies obtained from the State Treasury and used for investment purposes at their balance as of January 1, 1989; and (b) the balance of the circulating assets fund as of December 31, 1983, limited to 25 per cent of the value of the inventories and prepaid expenses on that same date. Other arrangements were spelled out for enterprises which came into being after the end of 1983. All the other available funds, such as: the balance remaining, if any, in the fixed assets fund, the balances of the funds for development, reserves, and technical-economic progress, as well as other funds created by charges to operating costs, went to form the enterprise fund.

In the event of revaluation of assets, the charter and enterprise funds share in the related increase, or less likely decrease, in equity in proportion to their respective balances just before the revaluation. Profits or losses were to be entered in the enterprise fund.

The provisions for a State dividend echo the British arrangements for dividends on public capital invested in the nationalized industries. The dividend percentage is based on the balance of the charter fund and is set each year, in the State budget law. In establishing the percentage, two main elements are taken into account: the percentage of net profit anticipated for the national economy as a whole, and the interest rate charged by the Polish National Bank. The dividend is a deduction from net profit after taxes and can, therefore, put an enterprise into a loss position. In such an event, payment of the dividend will be charged against the enterprise fund.

### **Polish Accounting Returns to its Western Roots**

As government policies began to open up the economy to market forces and Poland started on the long path towards seeking associate membership in

TABLE 32.3 Polish Balance Sheet Format  
Effective January 1, 1991

Active	Passive
A. Items Decreasing own Capital	A. Own Capital (Funds)
I. Share subscriptions receivable	I. <i>Capital</i> :
	1. ....
	2. .... etc.
B. Fixed Assets	II. Additional Paid-In Capital
I. <i>Tangible Fixed Assets</i> :	III. <i>Funds</i> :
1. Land	1. ....
2. Buildings	2. .... etc.
3. Technical plant, machines, production and trade equipment.	IV. Changes in Capital (Funds) from Revaluation of Assets or Liabilities.
4. Transportation equipment	V. <i>Undistributed Financial Result from Prior Years</i> :
5. Other fixed assets	1. Profit (positive amount)
6. Equipment	2. Loss (negative amount)
7. Construction in process (incomplete investments)	VI. Multi-year Special Purpose Reserves
8. Partial payments on investments	
II. <i>Intangibles</i>	B. Credits and Loans Payable
1. Purchased concessions, patents, licenses, trademarks, and similar items	I. <i>Long-Term Credits and Bank Loans</i> :
2. Goodwill	1. Bank credits
3. Partial payments on intangibles	2. Loans
III. <i>Long-Term Financial Assets</i>	II. <i>Other Credits and Loans</i> :
1. Shares in other companies	1. Bank credits
2. Long-term securities	2. Loans
3. Long-term loans receivable	III. Overdue Bank Credits and Loans
4. Other	
C. Current Assets	C. Payables, Special Funds, and Deferred Items
I. <i>Inventories</i> :	I. <i>Payables</i> :
1. Materials	1. Accounts payable
2. Work in process	2. Notes payable
3. Finished goods	3. Payables to the State
4. Merchandise	4. Salaries and wages payable
5. Partial payments for supplies and services	5. Interbranch payables
II. <i>Receivables and Claims</i> :	6. Other payables
1. Trade accounts receivable	II. <i>Special Funds</i> :
2. Receivables from the State	1. Plant social fund
3. Interbranch receivables	2. Plant housing fund
4. Other receivables	3. Other special funds
5. Disputed claims	

III. <i>Pecuniary Assets:</i>	III. <i>Deferred Income:</i>
1. Cash on hand	1. Deferred income
2. Cash in bank	2. Deferred items
3. Other pecuniary assets	
IV. Short-term Securities	D. Reserves
V. Deferred Items	I. <i>Reserves:</i>
	1. ....
D. Other Assets	2. .... etc.
I. ....	II. <i>Other Reserves:</i>
II. ....	1. ....
E. Financial Result	2. .... etc.
I. Net loss	E. Financial Result
	I. Net profit

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Source: Dziennik Ustaw (Daily Gazette), No. 10, 5 February 1991, p. 35.

the European Community, it very soon became evident that more, as well as major, changes were needed in the accounting law so that the accounting function could be harnessed to serve in this widespread restructuring process. Four projects were successively drawn up and subjected to very wide distribution, discussion, and critique before a final version was arrived at in the fall of 1990 and put into effect as of January 1, 1991 (Dziennik Ustaw No. 10, p. 35).

The basic challenge was to redesign the system so that it would both fit Poland's needs and be congruent with EC directives while at the same time avoid some of the difficulties of immediately setting up large-scale retraining programs for the some 130,000 accounting and finance personnel who would have to operate it. There was also the problem of reformatting the balance sheet and the statement of results to meet the requirements of the EC's fourth directive, as illustrated in Tables 32.3 and 32.4, while still accumulating economic data in a consistent fashion, across all enterprises, for national statistical purposes. The solution was to require enterprises to file accounting information with the National Statistics Office (GUS) on official forms. In effect then, the new flexibility permitted in accounting system design: including free choice with respect to the design and use of charts of accounts, and the possibility of keeping accounting records in foreign languages: with Ministry of Finance approval, is somewhat bounded by the national statistics reporting requirement. Furthermore, for over 40 years Polish accounting and finance personnel have worked in an environment in which the rules, and penalties for transgression, are very detailed. One might anticipate, therefore, considerable hesitancy with respect to making decisions about accounting principles and practices which could later be called into question by the authorities.

A major emphasis in the new accounting law is placed on measuring profitability and efficiency: elements which, it will be recalled, are built into the annual audit objectives. Certain generally accepted international

TABLE 32.4 *Polish Statement of Results*  
Effective January 1, 1991

Costs and Losses	Revenue and Gains
A. <i>Cost of Earned Income</i> :*	A. <i>Revenues from Sales</i> :
I. <i>Costs by Type</i> :	I. <i>Of Products</i> :
1. Depreciation	1. ....
2. Material and power used	2. ....
3. Outside services	3. ....
4. Salaries and wages	4. ....
5. Fringe benefits	5. ....
6. ....	II. Of Merchandise
7. ....	III. Other Revenues from Sales
8. ....	IV. Increase in inventory levels*
9. Other	V. <i>Financial Income</i> :
(Or Alternative Version of A)	1. From shares in other companies
A. <i>Cost of Earned Income</i> **	2. Interest from credits and loans
I. <i>Manufacturing (Technical)</i>	3. Other
<i>Costs of Products Sold</i> :	VI. Subsidies and Other Increases in Revenues from Sales
1. ....	B. Losses from Economic Activities
2. ....	C. <i>Extraordinary Gains</i> :
3. ....	I. Gains by chance
4. ....	II. <i>Other Gains</i> :
5. ....	1. ....
II. Decrease in inventory levels*	2. ....
III. Value of products sold	3. ....
IV. Financial costs:	4. ....
1. Interest on credits and loans	D. Gross Loss
2. Other	E. Required Increases in Losses:
V. General administrative and sales costs**	I. ....
VI. <i>Turnover tax and Other Charges Against Income from Sales</i> :	II. ....
1. Turnover tax	F. Net Loss
2. Other charges against income	

Source: Dziennik Ustaw (Daily Gazette), No. 10, 5 February 1991, p. 35.

accounting concepts and practices have also been incorporated. Poland's accounting function, is, therefore, at long last returning to its roots in the Western world.

## CODA

Those who have witnessed the long struggle of Polish accountants for professional recognition share the present sense of achievement and high



hopes for the further development of the accounting and auditing functions. Recruits are now seeking work in traditionally understaffed enterprise accounting departments, and universities, colleges, and other institutions teaching accounting are reporting increased enrollments. This is influenced by the fact that there is heavy unemployment in other fields and accounting is now being perceived as a preferred occupation: particularly in view of its high remuneration.

Accountants are now being mobilized to participate in the relearning process through various on-the-job training activities sponsored by the Association of Accountants in Poland. Also, intensive classes, to be conducted by one of the major international accounting firms, are being organized for accounting teachers so that they can commence introducing changes into the accounting curricula. For the non-academics, special one-day meetings are being arranged for accounting and finance personnel in enterprises and companies, particularly, but also for public sector administrative entities. These meetings will be devoted to one or a very limited number of topics dealing with the introduction of the new accounting law.

Assistance is also being offered, and provided, by a very large number of academic institutions and programs from around the world. This is very much appreciated by the host country and particular topics, such as financial accounting, financial statement analysis, and cash and funds flow statement preparation are among the first suggested by many Polish academics. Textbooks are needed — preferably those which can be freely chosen by the intended recipients and more time should be spent, according to some Polish observers, on explaining the differences between accounting in Poland and in the Western world because many Western advisors underestimate the beginning competence of the students. Joint planning of this process of opening up Polish accounting to the world (Skowronski, 1990) is surely the key to maximizing its benefits.

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# Accounting and the Environment: the Experience of the Commonwealth of the Independent States<sup>1</sup>

FOUAD K. ALNAJJAR

## Introduction

After the Bolshevik Revolution of 1917, Marxist economic theory was put into practice and a change in the function of accounting was sought. Instead of serving narrow and private business interests, accounting should serve in the development of the new communist state. During that period, native accountants made the determination to learn from Western accounting. This was basically in compliance with Lenin's ideology of borrowing from the latest achievements of capitalism. During the 1920s and 1930s, the Soviet's accounting delegation visited Western countries. They looked around and selected the best available accounting systems in the United States, France and Germany.

The delegation modified the Western accounting systems to suit Marxian theory and their needs. The economy was centralized, and accounting rules became rigid and compulsory. Profit was abandoned as a measure of efficiency and performance evaluation and accountants lost their pride and became bookkeepers and government employees. These circumstances existed for decades.

At the beginning of the 1960s, however, Nikita Khrushchev introduced certain economic decentralization measures. Accounting rules reacted to the changes and the accounting plan was slightly modified, but Khrushchev

<sup>1</sup> Due to the dramatic and accelerated changes in the former Soviet Union, it was not easy to keep up with the changes and updating this article. However, every effort was made to make this paper as current as possible. It is worthwhile to mention also that since many changes took place in the last year or two (as well as yesterday!), this paper looked at the experience of the former Soviet Union to provide a solid background on the development stages of the accounting system and the accounting profession.

was harshly criticized and then kicked out. More importantly, during the eighties, Mikhail Gorbachev began to shake the Soviet economy from decades of lethargy, open the machinery of government to public scrutiny, and inject a new flexibility into Soviet behaviour abroad. In his book, *Perestroika* (restructuring), Gorbachev's first step in restructuring was to *glasnost* (speak out) on the faults in the current system. He argued that you cannot fix it if you do not admit it is broken". He openly confessed that Soviet social, economic and political life is stagnant. Gorbachev acknowledged that the archaic central planning techniques, instituted by Stalin in the 1930s, resulted in an artificial shortage of man power, low production, inefficiencies, shoddy goods and almost non-existent services (Gorbachev, 1987).

Gorbachev's action raised many questions: would it be possible to introduce new economic reform laws; would the promised changes modernize rigidity in accounting rules; and would this initiative help accountants regain power and respect and play a better role in the society as a competent profession.

Today, accounting in the Commonwealth of the Independent States (CIS), the former Soviet Union, differs from the Western practices. An understanding of the CIS environment and accounting practices could be of interest to many parties including accountants, joint in the West.

The purpose of this paper is to highlight some of the distinctive features of accounting under Communism and its changes under privatization. Due to its economic importance as the world's second largest industrial power, the CIS provides an example. The following topics are examined in the CIS: political and economic background, type of business enterprises, banking system, taxation laws, economic reform law of 1965, accounting profession, historical development of accounting, the need and role of uniformity, the uniform accounting plan of 1960 and its main elements: code of accounts, bookkeeping procedures, valuation and measurement rules, and financial reporting models.

### **Political and Economic Background**

In the former USSR, the government planned and controlled the economy at all levels. The State owned all means of production, as well as banking systems and foreign trade. The State allocated resources, coordinated the activities of enterprises and determined prices. Furthermore, production of most goods and services and distribution of income are generally achieved by means of political commands issued by superior agencies of the state.

The former Soviet economic system was characterized as a "command" economy operating through a giant "monocorporation", the Soviet State. The national allocation of resources, pattern of production and distribution of income were subject to an explicit planning mechanism responsible to the highest levels of political authority. The overall State plan was both an

authorization and command instrument administered by the *Gosplan* (State Planning Committee) and handed down through a series of hierarchical levels (ministries) to the production units. The recent developments in the CIS have led to the introduction of some changes in the political and economic structure of these states. However, these changes are still premature and it will take some time before the economic structure which was developed over seventy years can be changed.

### Types of Business Organizations

In the CIS, business enterprises are still of two types: governmental administrative units which are budget-financed, and business enterprises known as "*Khozraschet*". The latter type is self-financing and generates income from the sale of goods and services (profit oriented). This research focuses on profit oriented enterprises.

These enterprises have many of the features of capitalist companies. *Khozraschet* is an independent economic entity. A decree issued in 1965 defines the role of this enterprise as: using the State property legalized for its administration and disposal, and relying on hired manpower under the guidance of its management to execute the economic activity in accordance with the national plan targeted on the basis of the self-accounting principles. The enterprise carries out of all its obligations, enjoys certain rights, and makes up its own balance sheet (Allachverdjan, 1969, p. 161). This type of enterprise is also found in other Eastern European countries, e.g. Poland.

One of the main objectives of the *Khozraschet* is to meet its output plan. The individual enterprise, however, is expected to achieve, or exceed its production targets while keeping within planned costs. The main indicator of operational success would, of course, be the financial results that is the achieved profit, or cost saving. In the former Soviet Union, there was no form of joint venture legislation. There were, however, numerous foreign trade representation offices which are permitted through a legislation issued in 1931 (Deloitte Haskins & Sells, 1980, p. 216). Since the introduction of *Perestroika*, however, many laws have been passed to facilitate and encourage joint venture in the CIS.

### Banking System

The term, control by the rouble, used to refer to the strategic external control position undertaken by the State banks which have the power of the purse in overseeing an enterprise's financial transactions. The main two banks involved were: *Gosbank* (the State Bank), and *Stroybank* (the investment bank). *Gosbank* controlled the amount of cash in circulation, the only source of short-term loans for much of the economy, and was the main mechanism for settling financial transactions. It was the major source of working capital for production. It handled almost all cash transactions, and

released payrolls to enterprises when payroll amounts matched their economic plans (Gallik, 1968, p. 36).

The major function of *Stroybank* was to finance capital outlays, referred to as an "investment".<sup>2</sup> *Stroybank* generally financed these capital outlays with long-term credit, although, some types of loans were extended for short-terms and other investment funds were made available on a non-repayable basis (Kuschpeta, 1978, pp. 36–64). *Stroybank's* own financing came from two main sources: directly from the State, and from State enterprises through their amortization funds and allocations of profits.

Both *Gosbank* and *Stroybank* performed two types of supervisory functions: control and audit. Their control functions were simplified by the fact that all of the enterprises' financial transactions flow through either one or both of them. In their respective areas of specialization, both banks received copies of financial plans, documents, payments to the budget, authorized grants received from the budget or other bodies, specified time schedules, and other similar information (Gallik, 1968, p. 290).

Taking into account this amount of documentation, the banks seemed to be able to verify almost every financial transaction, should they so choose, before deciding whether or not to permit carrying-out the transaction. Continuous detailed audit is unlikely. However, if an enterprise faced financial difficulty, *Gosbank's* major focus was on the financial transactions occurring at the two most critical phases of the production cycle: the beginning, when inventories are acquired, and the end, when results can be evaluated, as well as checking whether the enterprise is meeting its obligations to its customers (Kuschpeta, 1978, p. 180). As far as the Rouble is concerned, the States of the CIS are in the process of introducing new currency. The purpose is to replace the Rouble whose value is under continuous decline and has very little international value.

### **Taxation Laws**

In the CIS, the importance of the government as controllers of the economy, collectors of taxation, and the main users of accounting information led to a strong influence of measurement rules and taxation laws on accounting. Everything is regulated by the government either via finance acts, valuation rules or taxation laws. There are many taxation laws which are still in operation in the CIS. One was put into effect in February 1936, and another in April 1943. Valuation decree was proclaimed in 1960 and the most recent income taxation decree was issued on May 12, 1978. These laws are rigid and are followed by all enterprises.

Enterprises in the CIS have no choice in following tax regulations and

<sup>2</sup> The term investments was not to be confused with the Western acquisition of securities. There was no official securities market in the USSR, and consequently, any dealing in securities, such as transactions in the international money market, were restricted to the official banks.

finance decrees as all rules are compulsory. The Revaluation Decree of 1960, for example, was obligatory, extensive in scope, and covered all categories of fixed assets of all enterprises in the socialist sector of the economy. Furthermore, revaluation was not the only objective of this decree. Fixed assets were also inventoried to ascertain whether book values were accurate in physical coverage. With this kind of approach, it was possible to revalue the assets item by item rather than an aggregate use of price indices. The revaluation was carried out using centrally issued uniform regulations and price books. Buildings and structures, for instance, were revalued by the application of gross planning cost norms in current prices (cost per cubic meter of space) to existing assets. Moreover, these norms were by type of construction, and by regions to allow for variations in the cost of construction. In addition, even for unusual buildings, there were special regulations to adjust their values. Machinery and equipment were revalued using other uniform handbooks which were prepared specifically for these types of assets. These books gave the actual prices for every type of machine currently produced, as well as prescribed values for the other types including foreign equipment. Again, for items not covered by the handbook, local decisions were to be made on the basis of analogy (Campbell, 1963, pp. 63–64).

According to the 1978 Decree, income from sources in the CIS derived by foreign legal entities, whether through a representative office or directly, was subject to income tax law. The rate of tax on foreign entities was 40 per cent. Tax returns must be filed before February 1st of the year following that in which the income was earned and the tax payable was due by March 15. A fine of 0.05 per cent per day for any delay was assessed for any unpaid taxes (Deloitte Haskins & Sells, 1980, pp. 216–217).

### **Accounting Profession**

As far as the accounting profession is concerned, there is no professional accounting body in the CIS. There are no regulations, rules, standards, or any form of recommendations issued or introduced by the profession. The profession plays no role in accounting development as there are no public accountants. Accountants did not and still do not practice judgement in carrying out their daily work. The regulations are still rigid and they have to be followed strictly. In May 1924, the first accounting workers association (ORU) was formed in Moscow by the local members and the commercial employees union. It embraced all levels of accounting workers, but as political reliability was considered an important qualification, membership was first restricted to union members of at least five years' standing. Similar ORU associates were established in other cities and charged with helping the party and government in the organization of accounting and reporting. But the role of these associations was gradually diminished.

Instead of an accounting profession, there is a trade union for each industry or ministry, to which employees of the different professions (e.g.,

accountants, engineers, workers, etc.) belong. Another influential group was the Scientific and Technical Society (NTO) which had some six million members from various professions. Its main objective was to ensure the merging of science with technology (Raznov, 1973, p. 55). The all-union council of NTO had several branches, guides the professional activities and organizes conferences that discuss accounting problems. In 1957, the NTO established an inter-branch accounting organization and mechanization committee with highly qualified bookkeepers participating in the work force. These organizations have enhanced the accountant's knowledge of the latest methods. Seminars were held for workers and teachers of accounting and finance (Dimant, 1975, p. 88).

For a long time, there was no change in the status of the accounting profession in the former USSR. However, in the mid-1970s, it was decided by some authorities to hold an all-union conference of accounting specialists. The NTO together with ministries of finance, trade and agriculture held a conference on accounting in Moscow. Some 700 leading figures in the practical and academic fields as well as senior officials from several ministries attended. At this conference, the need was stressed for improving accounting so as to raise the efficiency of economic management and planning. In addition, research was encouraged on several topics including: training the accounting cadre, integration of information, balance sheet, and basic questions on accounting theory (Soviet Accounting Bulletin, 1973, p. 48). This conference was described as a great step on the road to improving the role of the accounting profession. No major changes have occurred so far. However, some of the big six international accounting firms are establishing offices in the CIS and are helping in developing the profession.

### **Economic Reform Law of 1965**

It has been argued that: "The Soviets, who have apparently searched for almost a half century for alternative success indicators of enterprise activity, had to settle finally for the old capitalistic concepts of profit and profitability" (Gorelik, 1971, p. 14).

The relative importance of accounting was increasing steadily in the former USSR. In accordance with the decision of the Central Committee of the Communist Party (CPSU) in the early 1960s, the country began to establish economic reforms in industry. The main direction of economic reforms was to combine centralized planned management with economic initiative of individual enterprises. This included the increased application of economic principles and provided economic stimuli for developing production. The economic reform changed the most significant indicators of efficiency from gross output and cost of production to sales volume, profit and profitability measures (Chumachenko and Bedford, 1968, p. 30). That use increased the role of accounting in the economic affairs.

Prior to 1965, the industrial sector was encouraged to produce as much of



everything as possible with the resources provided. Incentives and evaluations of enterprise performance were related almost entirely to the “gross output index” and cost reduction. The use of this partial success indicator in evaluating enterprise performance had resulted over the years in considerable losses to the former Soviet economy in build-ups of unwanted inventories and goods of low quality and in disincentive to product development. In order to avoid the above problems, the Economic Reform Law of 1965 was introduced. This law reintroduced the concept of profit and profitability in measuring and valuing enterprise performance. It was also considered as an attempt to combat the “partial success indicator myopia” which afflicted the industry for almost half a century (Maunder, 1972, p. 300).

The volume of sales is defined as the amount of production for which the purchaser pays. It places revenue on the cash basis, rather than on an accrual accounting, and is equivalent to the sum of the credits in the *realizatsiia* (realization or gross income account). As far as profit is concerned, there are two profit indicators: *balansovaya pribyl* (balance profit), and *raschetnaya pribyl* (accounting profit). The calculation of the balance profit as used in the reforms is similar to the concept of operating profit in US terminology, for example. Expenses and losses of operations connected with housing, communal, and cultural activities of employees are excluded. The second profit index, accounting profit, is a net profit figure which arises after certain deductions from the balance profit. Such deductions are: charges for the use of fixed assets and working capital, fixed (rent) payments, and interest on bank credit (Horwitz, 1970, pp. 79–80).

The accounting return statement known as form No. 12 shows the result of plan implementation in terms of the new basic indicators of realization and profits and is the principal source of data for analyzing the enterprise’s performance.

### Historical Development of Accounting

Like all other nations, the former Soviet Union’s hope and main objective was to achieve rapid and steady economic growth. State ownership of almost all non-human factors of production, price determination, and comprehensive central planning and control, were the means chosen to achieve this objective. The function of accounting was to provide information for economic decision making to various managers within the administrative pyramid. For this information to be useful, it must be prepared on the basis of uniform standards and measurement rules.

After the October Revolution, the *Petrograd* Stock Exchange was demolished, and a change in the function of accounting was sought. Accounting methodology, however, remained largely the same. Instead of serving narrow, private business interests, the capitalist accountants of the pre-revolutionary days were called upon to help the new leaders in the development of the communist State. The conventional accounting

concepts and terminology of the pre-revolution capitalism, for instance, are still in use. The terms *balans* for balance, *debt* for debit, *kredit* for credit, *aktiv* for assets, and *passive* for liabilities have the same meaning in the CIS as they have, for example, in other Western countries.

After the Revolution, marxist economic theory was put into practice, but this seems to have little influence on accounting at that time for two reasons: 1) the essential structure of the former Soviet accounting was developed in the 1920s by accountants with pre-revolutionary education. An economist, Strumilin, described these men as “accountants of the old school, excellent practical men, but for the most part, far removed from any kind of influence of the theory of Marx in the field of their special activities” (Gorelik, 1973, p. 138); and 2) the central planning and control model which, determines the nature of accounting measurements, had only slightly been influenced by Marxian economics (Campbell, 1963, pp. 255–256).

### **The Need For and Role of Uniform Accounting**

In the former USSR, the quest for *edinaya sistema ucheta* (uniform accounting system), standards, classification, and measurement started in 1919. The Council of Recordkeeping was formed to develop a uniform accounting system for documentation and standards for accounting in the State owned enterprises. During the 1920s, successive congresses of the Communist Party underlined the urgent need for an adequate and dependable system of accounting. For this reason, a comprehensive standardized accounting was developed gradually and applied throughout industry and commerce. The initial step was the establishment of a national chart of accounts.

Accounting uniformity in this country was greatly influenced by the European practices. After the Revolution, Soviet accounting specialists were concerned with imitating the best accounting practice of the West. It has been suggested that the origin of certain accounting developments can be found in German accounting (Gambling, 1965, p. 40). Many books including Schmalenbach's *Die Kontenrahmen* (Charts of Accounts), were translated into Russian and published in the late 1920s (Singer, 1943, p. 66). A Soviet delegation attended the International Congress of Accountants in Amsterdam in 1926, and another in New York for the period September 9–14, 1929. The delegation also visited a number of large US companies and, on their return journey, visited France and Germany and had a lengthy discussion with accounting experts in these countries. The main purpose was to acquire understanding of standardized accounting in these countries. The leader of the delegation explained that they were trying to grasp the essential features of accounting in the US and Germany. They also collected materials on the accounting practice of these countries. Furthermore, the delegation visited the German inventor of the chart of account Schmalenbach twice, in 1926 and 1934 (Forrester, 1977, p. 60).

In April, 1929, the 16th Communist Party Conference adopted the first five year economic plan, and took a decision to develop a uniform system of accounting for providing the necessities of national economic planning. It was stated in the conference's resolutions that "Socialist accounting must be organically linked with the national economic plan, have a unified system and contain such indicators as will ensure operational analysis and control over the implementation of the national economic plan" (Bailey, 1983, p. 1).

During the period of the 1940 and 1950s, schemes of uniform accounting were extended to various branches of the national economy. On the basis of this experience, considerable efforts were made to develop a uniform plan for the main branches of the economy. The plan was then made compulsory in 1947. A more important uniform accounting plan was worked out during the years 1957–1959. National Uniform Accounting Plan applicable to all levels of the economy was introduced and put into force from January 1st, 1960.

The continuation of a standardized policy was emphasized by Kosygin in connection with the economic reforms introduced in 1965. This led to some decentralization of decision making but not of accounting information systems (Joint Economic Committee, 1966, p. 1044).

The development of the uniform accounting plan may also be seen as a necessary prerequisite to the realization of the ambition announced at the 24th Congress of the Communist Party held in 1971: "To build up a nationwide automated system for gathering and processing information for accounting, planning and economic guidance on the basis of a State system of computer centers and a single country-wide automated communications network" (Bailey, 1973, p. 45), and thereby provide the country's planners with a more sensitive instrument by which to guide economic and social development.

As far as the role of uniform accounting is concerned, performance measurement is based on accounting information. Prices are determined on the basis of costs provided by the accounting system, and resources are allocated and controlled, in part, using accounting data. Without a uniform accounting system, planning and control of the former Soviet command economy from the center would have been very difficult. In fact, uniform accounting provided the Council of Ministers with a constant monitoring of the performance of economic and social activities and for decision making.

The importance of accounting in the former Soviet environment as an instrument of change and an indispensable tool for management of the national economy was understood and appreciated by Lenin. He emphasized that "accounting and control — these are the main requirements for the communist society" (Gorelik, 1974, p. 17). Accounting is virtually the sole formal economic information system and is centrally directed. It is a system of representation, generalization and control in numerical form of significant industrial activities and the process of distribution and consumption of goods and services.

One of the main features of uniform accounting is the complete centralization of accounting procedures. A state organ, the MF, prescribes the accounting and reporting principles and procedures for the enterprises, and another, the CSA supervises the application of these rules. All economic transactions are reflected in the enterprises' accounts as prescribed in the uniform chart of accounts. Furthermore, these two institutions bear the primary responsibility for the collection, classification and transmission of accounting data, and for the direction of the whole accounting system. The MF periodically discusses different questions for developing the uniform accounting system (debate on accounting matters, at certain stages, was allowed), however, once accounting instructions and standards have been promulgated, they have the power of law. In addition, the accounting department within each ministry directs the particular accounting procedures for those enterprises within the ministry.

### **Uniform Accounting Plan of 1960**

In 1960, the authorities introduced the plan and made it obligatory. This plan is applied, or intended to be adopted throughout the former Soviet Union at all industrial and commercial enterprises. In 1969, the first minor revision to the plan was carried out to satisfy the needs of the economic reform which was introduced in 1965. This plan is still applied in all States of the CIS.

The plan stipulates procedures relevant to a complete process of accounting (e.g., the initial recording of transactions to be accounted for, the classification and summarization of transactions, and the reporting of accounting data to users of financial information). The plan embraces the uniform treatment of all accounting methods, procedures and concepts. It also organizes a time-table for the completion of the accounting work and the utilization of accounting aids. These are compulsory for all enterprises. The main elements of the accounting plan are discussed below:

#### ***Chart of Accounts***

The first plan schetov (chart of accounts) was drafted at a conference of bookkeepers of State industry and published in the official journal, *Accounting*, in 1925. The development of this chart was motivated by the desire of the State to increase control over the nationalized enterprises.

In 1932, the Commissariat of France assumed responsibility for the development and application of the chart of accounts within their respective industries. With the aim of eradicating the discrepancies between the charts of accounts for different industries, the Commissariat in 1940 prepared a uniform chart of accounts for industrial enterprises. This was intended for adoption by union, republican and local industrial enterprises irrespective

of the accounting system employed. The adoption of this chart, however, was delayed because of the war and its implementation did not become obligatory until 1946. Since then, several other charts have been introduced and used in different industries.

In 1954, in order to avoid a proliferation of charts, the MF, in conjunction with the CSA, issued a revised chart of accounts for union and republican enterprises. Nevertheless, by the end of the 1950s, different charts were still in use by industrial, commercial, construction and transportation enterprises. In 1960, however, the authorities promulgated a new chart of accounts as a part of a national uniform accounting plan for adoption by all enterprises (Bezrukikh and Granovskii, 1960, pp. 63–71). With minor modification in 1969, this chart is still in operation in the CIS.

The chart is mainly concerned with cost accounts, but does not separate financial and cost accounts. It is an integrated system of both accounts and classifies the accounts according to their functions. It comprises three orders of accounting: 1st, 2nd and 3rd order accounts which are called synthetical accounts, sub-accounts, and analytical accounts. These respectively correspond to major control accounts, and ledger accounts. Two digits within the range 01–99 are allotted to each of eighty odd major control accounts grouped into eleven divisions (see Appendix I).

The classification follows the cycle of business activity: basic means of production or fixed assets obtained, production stocks laid in, expenditures incurred, products manufactured and sold, and ultimately, financial results obtained. In grouping the accounts, no distinction is made between:

1. balance sheet accounts and income statement accounts;
2. operating and non-operating income and expenses;
3. current assets and liabilities and long-term assets and liabilities

The chart is used to aggregate accounting information at two levels: primary and secondary. At the primary level, sixty-nine summary of control accounts are prescribed for the recording of transactions according to the main classes of assets, equities, revenues, and expenditures. At the secondary level, a number of sub-accounts are presented for each summary account which explains the accumulated transactions in greater detail.

In comparison, this chart is similar to the German Schmalenbach's code and that of Poland. On the other hand, that chart is unlike those of France, Belgium and West Germany where financial accounting is the main concern.

### ***Bookkeeping Procedure***

Considerable attention is given to bookkeeping in the accounting plan. This is basically because: 1) the centralized direction of the former Soviet economy created the need for consistent and comparable data which required a *edinaya sistemaucheta* (uniform system of recordkeeping); and

2) bookkeeping is considered as one of the important initial stages in the process of uniform accounting. Indeed, the regulations affecting the day-to-day operations of the accounting system are contained in "sizeable handbooks" which often are up-dated and reproduced. The MF is responsible for issuing methodological guidance of bookkeeping regulations. The CSA is responsible for ensuring the smooth operation of the overall system and is directly answerable to the council of ministers.

According to the regulations on documents and transactions, the basis of all accounting entries must be an original document. The regulation describes the obligatory requirements for all documents, the persons who are responsible for the preparation of the documents, and the sequence of that preparation. An important part of the regulation defines the forms of accounting books (journal and ledgers) both for manual and computer systems. Furthermore, the regulation shows how errors and mistakes in the books can be corrected, and much attention is paid to the preparation of the documents and their storage in the Archives. More importantly, the CSA, together with the MF and the State Planning Committee, prepares and prints forms of statements and reports, accompanied with instructions for their completion. These bodies emphasize the need to simplify and expedite preparation of summaries for all departments, ministries, territories and branches (Chumachenko and Bedford, 1968, p. 32).

The system of recordkeeping essentially consists of: 1) standard definitions of every accounting term; 2) mutually consistent definitions for such different items that may be brought together in the course of economic analysis and planning; and 3) uniform and standardized methods of collecting, reporting, and classifying data. The bookkeeping system consists of three interrelated systems of recordkeeping which in general rely on the same primary data:

1. *Operativno-tekhnicheskii uchet* (operational-technical recordkeeping), dealing with narrow processes and operations and serving the needs of management.
2. *Statisticheskii uchet* (statistical recordkeeping), dealing with aggregate economic data used for central planning and control.
3. *Bukgalterskii uchet* (financial recordkeeping), dealing with assets, equities, revenues, and expenses in financial terms. *Bukgalterskii uchet* corresponds closely to conventional accounting in the US.

Although mechanization of the recording process has been taking place for many years, many enterprises are still using a manual journal voucher system which was approved by the MF in 1960. This system consists of 17 major journal vouchers which can accommodate the large number of synthetic accounts in the chart of accounts.

Every enterprise has a chief or senior bookkeeper who is responsible for the organization and running of the bookkeeping office and the operation

of the accounting system. In all matters relating to the exercise of technical skills, the chief bookkeeper is answerable to the chief bookkeeper of the next higher supervisory level within the ministry to which the enterprise is attached. In all other matters, the chief bookkeeper is answerable to the chief executive of the enterprise. Writers frequently refer to the chief bookkeeper as a State inspector, and indeed, he is often characterized as “the all-seeing eye of the State administration”, ensuring that the enterprise’s management does not violate the constraints imposed by the higher planning authorities within which the enterprise is required to function while simultaneously fulfilling the requirements of the State plan. Furthermore, accounting instructions and directions given by the chief accountant are obligatory for every employee of the enterprise. In addition, the chief accountant is considered as a State controller. He receives copies of all orders and directions of high administration, and all documents relating to money and material expenses must be signed by him or the person(s) whom he authorizes (Chumachenko and Bedford, 1968, pp 32–33).

The importance of the bookkeeper was emphasized by one official as follows:

“. . . the bookkeeper must be one of the most important figures of our industrial enterprises . . . the most intimate assistant of the factory director so as to signal to him daily and monthly how the business is progressing”. The chief accountant, the party secretary, the enterprise manager, and the controlling officers are all united in a common interest to fulfill the enterprise plan (Bailey, 1973, p. 44).

### ***Valuation of Assets***

All fixed assets from the moment they are put into operation until the end of their useful lives are valued at their cost of purchase or construction. To bring the fixed assets value closer to current values, there was a compulsory revaluation (reappraisal) at the beginning of 1961 in all industries as mentioned above. All fixed assets that were in operation on January 1st, 1961, were valued at replacement prices.

The CSA prepares the typical classification of fixed assets for all the enterprises. Enterprises must organize their analytical accounting of fixed assets according to this and prepare statements indicating assets flows on the basis of the prescribed classification. Assets in general, are shown at either their *pervonachal inova stoimosti* (historical cost) if acquired after the last compulsory revaluation (1961), or at their *vosstanovitel nova vedomost* (replacement value). Inventory is valued at their cost of acquisition.

Authorities establish the rules for valuation of all items of the balance sheet. The main feature of these rules are the determination of all asset items on the basis of actual costs. The calculation of these items is arrived

at on the basis of corresponding original bills and documents. The rules prescribe the terms for taking a physical inventory and presenting assets and liabilities, and emphasize that the annual balance sheet must not be prepared unless physical inventory of all items is taken. Work in progress and finished goods are valued in accordance with the actual expenditures incurred up to the date for which the balance sheet is compiled and debtors and creditor items are shown at their book value.

One of the most noticeable features of accounting in the States of the CIS is that, land is the property of the state and, thus, is neither bought nor sold. For State purposes, however, it is lent free of charge. Therefore, any land under the enterprise's jurisdiction would be neither listed in its balance sheet nor considered as part of its charter fund. In Marxist theory, land is not considered to have value. Therefore, the land and natural resources put into possession of individual enterprises do not appear on their balance sheets (Scott, 1969, p. 61). Furthermore, depletion interest expense and rent are considered as capitalistic concepts and thus are not charged to the enterprises. In addition, accountants are not familiar with the term "Goodwill" as the State owns all enterprises and thus goodwill does not appear on a balance sheet. This, of course, misrepresents the total assets employed in the business and in turn affects the measurement of profits. As the process of privatization continues in the CIS, many laws are under legislation to be introduced to allow land ownership, charging rents, depletion, and interest to operations.

### ***Depreciation***

The straight line method was and still is the most allowed and widely used method for depreciation of fixed assets in the CIS. This is basically justified on the grounds that cost stability is necessary for the prices and inter-period cost comparisons. Depreciation rates are fixed by the central authorities according to the nature of the assets and based on the quantities of work done by the assets per day. The depreciation rate is determined in accordance with the following formula:

$$\text{Rate} = \frac{(\text{Original cost} + \text{Estimated capital repairs} - \text{Salvage})}{\text{Economic life of the assets} \times \text{Original cost}} \times 100$$

% p.a.

In order to calculate the periodic depreciation charge, the rate obtained from the above is then applied to the historical cost of the fixed assets. Uniform depreciation rates, differentiated according to the type of fixed assets have been in force in the former Soviet Union since 1963. The following rates are required to be used:



Factory buildings with steel structure (applied to their balance sheet value)	2.5%
Metal cutting machines (depending on the weight of machines)	12.1% – 16.4%
Machines and equipment in the textile industry	9.4%
Wooden houses	4.3%

One of the main features of this depreciation charge is that it is set so as to cover not only the original cost of the assets but also the expected amounts to be spent on “capital repair” over the life of the assets. Actual amounts spent on capital repairs are then debited to reduce depreciation as they arise. In practice, with actual capital repair expenditures being incurred at current prices, the effect may be to increase reported income and net assets valuations as compared to the practice in the US. A further bias in this direction may result from the setting of too low rates of depreciation by the authorities.

All enterprises record depreciation every month. The depreciation amount is used by the enterprise to form two types of depreciation funds: a fund for restoration of fixed assets and a fund for capital repairs. The sum of the first fund is transferred by the enterprise to a special account in the Construction Bank. Deposits are made twice a month and this money may be used for new construction. The sum of the second fund is transferred to a special account in the State Bank. This money is used for capital repairs of fixed assets.

### ***Financial Reporting***

In the CIS, financial reporting does not take the form of published accounts, available for distribution to interested parties. The prime external users of accounting information are:

1. CSA — for further processing;
2. State Bank — for monitoring the utilization of working capital;
3. MF — for monitoring monetary flows to and from the State Budget; and
4. Ministry of Industry — for monitoring enterprise performance.

In preparing the financial reports, accountants may exercise no discretion in the valuation of assets; creation of reserves; provisions; disposition of profits; the manner of presentation of accounting information or the extent of disclosure. The balance sheet is still the most important report in the CIS. It comprises detailed official layouts which enterprises are required to follow. Information about enterprises is collected by the CSA and published in Statistical Yearbooks.

The main tools for analyzing profit and profitability are: Report No. 1, “The Final Balance Sheet for the Basic Activity of the Enterprise”; Report No. 12, “Realization of Production for the Year — Sales of Output” and

Report No. 20, "Profits and Losses for the Year" (Satubaldian, 1976, p. 92).

All financial statements in the CIS are based on the calendar year and all accounts must be closed annually on December 31. Each enterprise is required to submit a balance sheet supported by supplements (notes to the accounts) on monthly, quarterly and annual basis. The remaining reports have to be submitted annually. The monthly and quarterly balance sheets have to be submitted within 12 days of the end of the reporting period and the annual reports and balance sheet by January 20 of each year. These deadlines have been put into effect since January 1st, 1980. Enterprises that have numerous subsidiaries located in different parts of the country are allowed to extend these deadlines up to 5 days (Berry, 1984, pp. 422-423). Some of the financial statements are discussed in detail below:

### **Balance Sheet**

This is the most important financial report in the CIS. There are special regulations for the preparation of balance sheets. Regulations establish both the structure and format for each report and there are pre-printed forms. The preparation of the balance sheet is an integral and a routine part of bookkeeping procedure rather than an accounting practice similar to that in the US.

The format of the balance sheet, for example, is uniform for all enterprises. The task of its compilation is to take the appropriate figures from the accounting records and enter them into correct boxes on the pre-printed form that is the balance sheet. Provided the task is correctly fulfilled the two grand totals of the balance sheet will be in agreement. All the entries in the balance sheet are required to be accompanied by supporting documents.

The balance sheet of a typical enterprise consists of more than 200 items. All items are grouped under five headings for both sides: *active* (assets) and *passive* (liabilities). The required layout of the balance sheet is horizontal and consists of comparative figures for the previous year. This format is, of course, different from that of the Western countries. In comparison to a typical US balance sheet, for example, the CIS model obviously differs in both format and content. In the US, assets and liabilities are listed in order of liquidity, with the residual differences in their monetary values assigned to owner's equity. Another difference in format has to do with the placement of different items. For example, among the assets, losses are shown; on the liabilities side, fixed asset depreciation is included. So, this is a very mechanical double-entry approach. In the US, each of these items would appear on the other side of the balance sheet. Another distinct feature of the CIS balance sheet is the inclusion of "planning information", or "normative" together with the actual amounts. Budgetary information is not shown in a US balance sheet irrespective of the type of ownership of the enterprise.

In addition, much information is required to be submitted in the form of reference information (notes to the accounts) attached as a supplement to the balance sheet (some of which were introduced following the 1965 economic reform law). Such information must provide details of certain aggregate amounts shown in the report, such as current assets exceeding approved standards; amounts of borrowed loans from the state bank; adopted valuation rules and measurements; forms of presentation, and summarization and analyzes.

### ***Other Financial Reports***

CIS enterprises prepare a broad variety of different statements and reports. For example, the annual accounts which include a balance sheet and footnote references, consist of the following: statements about changes in the state of funds, statements concerning kindergartens and children's homes, references to assignments of incentive funds, statements of production expense, costs of production, overhead amounts, production output, numbers of workers and employees and the funds used for wages and salaries, the use of incentive funds, the movement of fixed assets, sales and distribution costs, profits and losses, and the use of buildings and municipal community property. Furthermore, every enterprise in the CIS is required to prepare many other statistical statements. More than a dozen financial statements are required to be prepared and sent by the enterprise to the corresponding industrial ministry, local financial and statistical departments and the local division of the State bank.

Given the volume of statements and reports each enterprise has to submit, the examination and confirmation of the annual submission must present a serious problem. This would be particularly difficult at the ministry level. The rules require that every ministry examine and audit the annual submissions of their respective subordinate industrial and economic enterprises. However, little is known about compliance with these rules.

### ***Conclusion***

This paper discussed accounting and its environment in the CIS. In these States, the volume and flow of goods and services are still, to some extent, regulated, not by market forces but, by a system of state planning and control over the rate and direction of economic growth. Accounting, under such circumstances has always been extremely important: as performance measurement is based on accounting information, prices are still determined to some extent by the government on the basis of costs provided by the accounting system, and resources are allocated and controlled, in part, on an accounting basis. Without uniform accounting, the above would be very difficult to achieve.

Land and goodwill are still not shown in a CIS balance sheet. Enterprises'

financial statements, therefore, misrepresent the enterprise's financial position by the standards of Western accounting practice.

The quest for uniform accounting in the former USSR started in 1919 to help in the development of the Communist State. Since then, a comprehensive and rigid uniform accounting plan was gradually developed and applied throughout the country. The current plan of 1960 which is still in operation stipulates the whole process of accounting, including recording, classification, summarization, valuation and measurement rules, preparing financial statements as well as completion time table. CIS accountants, therefore, may exercise no discretion in carrying out the daily work concerning valuation, presentation, profit distribution, and creation of reserves, as the law allows no opinion to be formed but rather the requirement to be precisely followed. Accountants in the CIS, thus, are considered to be mere bookkeepers by US standards.

Addressing the questions mentioned at the beginning of this paper, it is obvious that the former USSR no longer exists and that the Commonwealth of Independent States emerged in its place. Many new reform laws have been introduced. However, their success is not yet clear. One reason for this is that economic reforms take time to show results. Secondly, the former Soviet Union was under central control for seventy years, which made the process of change extremely difficult. Time will only tell whether these reforms are going to be successful.

It is uncertain whether accounting rules modernization will keep pace with economic reforms in the CIS. With the reforms, accountants and bookkeepers may regain some power, but this will be very limited and bookkeepers will continue to play basically the same role for years to come in the CIS.

All basic bookkeeping questions such as what is to go into accounting reports, how items are to be evaluated and how they are to be drawn, and by whom they are to be approved are going to continue to be defined by law for years to come in the CIS.

One can surely say that the changes and developments that are taking place in the CIS are numerous and overwhelming. These may have two different outcomes. First, the changes will be implemented and will show positive results, presumably in theory. In practice, however, these changes have shown some undesirable results due to the tremendous changes in one sector of the economy without a parallel modification in other sectors like the banking system, for instance, which has not been tackled by the authorities.

The second outcome may be a negative one. As some of these reforms are progressive and revolutionary ones, there are many people within the CIS who oppose changes. They prefer the old command system. There are some possibilities of a return to the old system, if the CIS does not receive help from the West.

In conclusion, the situation in the CIS is unstable and it is difficult to predict the future of these changes and their impact on accounting.

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## The CIS National Code of Accounts

**Class 1 Basic means of Production**

- 01 Basic means of production
- 02 Wear and tear of basic means of production
- 03 Major repair

**Class 2 Production of Stocks**

- 05 Raw and processed material
- 06 Fuel
- 07 Construction materials equipment
- 08 Spare parts
- 09 Animals for rearing & fattening
- 10 Procurement of agricultural output
- 11 Procurement store expenses
- 12 Low valued & Short lived objects
- 13 Wear and tear of low valued & short lived objects
- 14 Revaluation of commodity material values
- 15 Variation from current regulated wholesale

**Class 3 Production Expenses**

- 20 Basic production
- 21 Unfinished products of manufacture
- 22 Utilization of transport & communication outlays
- 23 Auxiliary production
- 24 Maintenance & utilization of equipment outlays
- 25 Shops general outlays
- 26 Work general outlays
- 27 General overheads
- 28 Damage in production
- 29 Non-industrial and business
- 30 Non-capital work
- 31 Outlays for future periods
- 32 Dispatching, loading and transportation

*Appendix 1*

- 33 Construction and acquisition of basic means
- 34 Completed construction and acquisition of means of production
- 35 Formation of basic herd
- 36 Executed work paid as completed

**Class 4 Finished Output, Commodities and Sales**

- 40 Finished output
- 41 Commodities
- 42 Trade mark-up and turnover tax
- 43 Non-production outlays
- 44 Trading expenses
- 45 Commodities dispatched, executed work & services
- 46 Realization
- 47 Internal transfer of commodities, work & services
- 49 Income from operation of transportation, loading . . . work

**Class 5 Monetary Resources**

- 50 Cash
- 51 Bank current
- 52 Bank account for income
- 53 Bank account for price differences
- 54 Bank account for capital investment resources
- 55 Other bank accounts
- 56 Other monetary resources

**Class 6 Current Accounts**

- 60 Current accounts with suppliers and contractors
- 61 Current accounts for advances and part payments
- 63 Current accounts for claims
- 64 Current accounts with contract and casual customers
- 65 Current accounts for purchases of agricultural products
- 66 Current accounts for transportation and services
- 67 Current accounts for set-offs of reciprocal claims
- 69 Current accounts for social insurance
- 70 Current accounts for manual and non-manual work
- 71 Current accounts with accountable persons
- 72 Current accounts for commodities sold on credit
- 73 Current accounts with state budget
- 74 Current accounts with co-operative organizations
- 75 Current accounts for compensation of material losses
- 76 Current accounts with various debtors and creditors
- 77 Intra-ministry current account for re-allocation of circulating capital and profit
- 78 Intra-ministry current account for current operation
- 79 Intra-business settlement



Class 7 Withdrawn Resources

- 80 Appropriated profits
- 81 Other withdrawn resources
- 82 Bank credit applied to profit and funds

Class 8 Shortages and Losses

- 84 Shortages and losses of other values

Class 9 Funds and Reserves

- 85 Statutory fund
- 86 Amortisation fund
- 87 Economic stimulation and special purpose funds
- 89 Reserves against anticipated outlays and payments

Class 10 Bank Credit and Financial sources

- 90 Short term bank loan
- 91 Special loans for commodity turnover
- 92 Long-term bank credit
- 93 Capital Investment finance
- 94 Finance for information of basic herd
- 95 Finance for geological surveying work
- 96 Special finance and special receipts

Class 11 Financial Results

- 98 Income of future accounting periods
- 99 Profits and losses

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Sources:

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## Summary

<i>Country</i>	<i>Minimum level of Education required</i>	<i>Exam required</i>	<i>Subject area tested</i>	<i>Work experience required</i>	<i>CPE required</i>	<i>Other requirements</i>	<i>certification</i>	<i>Professional body</i>
AUSTRALIA	Bachelor's degree	Yes	TAX LAW AUDITING FIN ACC ETHICS	3 years	NA	NA	CA (other certification available)	ASA ICCA MIA
BOTSWANA	University entry level equivalent	Yes	ACC ECON LAW TAXATION AUDITING MGT	Yes. Based on UK standards	NA	Certification in UK, Zimbabwe and South Africa accepted	ACCA CIMA AAT CA No local certification yet	BIA
CANADA	Bachelor's degree	Yes	ACC AUDITING TAXATION MGT Varies with prof. body	1-3 years. Varies for each province	Yes. Varies for of each Province	Articleship: 3 years in lieu public practice	CA (other certification available)	CICA CGA
CHINA	NA	Uniform exam proposed	NA	Varies from state to state	None	Registration evaluation and approval by Ministry of Finance	Registered Accountant CPA proposed	ASC Institute of RAs proposed
ETHIOPIA	Proposed	Proposed	Proposed	Proposed	Proposed	Proposed	Proposed	EPAAA
FRANCE	(Baccalaureat) Secondary school	DECS & DEC plus written report on experience	FIN ACC AUDITING MGT ACC LAW/ACC ECON/ACC	3 years	NA	Oral exam plus discussion of thesis	NA	NA

	Bachelor's degree or technical college desirable but not required	Yes	BUS ADMIN ECON AUDITING TAXATION LAW	10 years with CPAs could be used in lieu of education	Yes	10 years with CPAs could be used in lieu of education	Yes	Auditor's certificate requires at least 15 years experience	CPA	Chamber of CPAs: Auditor's Institute
GERMANY										
GHANA	GCE "A" level or secondary school equivalent for University entry level	Yes	ACC MGT LAW TAXATION ECON	3-5 years	None	Articlership	CA		CA	GICA
GUYANA	High school equivalent	Yes	Bookkeeping ACC AUDITING LAW ENG COMP	3 years	NA	Must be 21 years based on UK standards	CA		CA	ICAG
HONG KONG	GCE "A" level and GCE "O" level or high school equivalent	Yes	ACC AUDITING LAW TAX FIN MGT	3-4 years	40 hours per year	Must be 21 years. Accepts Canadian and American	CA		CA	HKSA
INDIA	Bachelor's degree	Yes	ACC AUDITING LAW TAXATION Mis	7 years audit experience	NA	7 years articlership or recognized military service in lieu of work experience	CA CWA		CA CWA	ICAI ICWAI
IRELAND	Has open policy; secondary school diploma is average	Yes	FIN ACC MGT ACC AUDITING Mis TAXATION MGT	3 years	40 hours per year recommended	Depends upon candidates educational background	CA		CA	ICAI ICPAI
JAPAN	Bachelor's degree	Yes	AUDITING FIN ANAL ACC PRACT TAX LAW	3 years	Yes	NA	CPA		CPA	JICPA Tax Advisor

Country	Minimum level of Education required	Exam required	Subject area tested	Work experience required	CPE required	Other requirements	certification	Professional body
KUWAIT	Bachelor's degree	Yes	NA	7 years	NA	Must be 25 years	CPA	NA
NEW ZEALAND	GCE "A" level or university entry level	Yes	NA	3-4 years	30 hours per year recommended	NA	CA	NZSA
PAKISTAN	Secondary education plus training by Institute	Yes	ACC AUDITING LAW TAXATION MIS MATH/STATS	Varies with level of education	Yes (hours not specified)	3 years article-ship	CA CMA	ICAP PIIA
PERU	Bachelor's degree	Yes	BUS ACC COST ACC PUB ACC AUDITING THESIS	NA	NA	One subject may be selected. A second thesis may be used in place of exam	PAC Public Accountant Certificate	NA
PHILIPPINES	Bachelor's Degree with major in accounting	Yes	ACC BUS LAW TAX AUDITING MAS	NA	90-120 hours every 3 years	NA	CPA	PICPA
SAUDI ARABIA	Bachelor's degree	No	NA	3 years	NA	Conferred by Minister of Commerce and Industry	Professional Licence for Accountants	NA
SCOTLAND	Secondary education or equivalent	Yes	ACC AUDITING TAXATION LAW ECON	Varies with level of education	NA	Must be 16 years; 5 years article-ship	CA	ICAS

POLAND	High school	Yes by State Examination	ACC MGT Fin/ECON LAW Selected ACC major	6 years for high school 3 years for university graduate	NA	Minister of Finance may exempt a candidate from exam. Must be Polish	Diploma'd Expert Accountant	Chamber of CAs proposed
SOUTH AFRICA	Bachelor's degree or certificate in theory of Accounting (CTA)	Yes	ACC MGT TAX AUDITING BUS INFO SYS	Articles of Clerkship 3-5 years	40 per year; not mandatory	Registration with PAAB. No objective questions. Exams tests reasoning abilities	CA	PAAB SAICA
SPAIN	Bachelor's degree	Yes Administered by State	AUDITING ACC TAXATION LAW MGT ECON	3 years	None	Registration with Institute of Accounting and Auditing of Accounts	NA	IAAA
(SOVIET UNION) Now Commonwealth of Independent States (CIS)	NA	NA	NA	NA	NA	NA	NA	NA
SWITZERLAND	University education not required	Yes	NA	7 years with 4 in auditing	NA	NA	Certified Public Accountant Qualified Accountant Expert	SICA and TC
UNITED KINGDOM	University entrance level; 2 GCE "A" levels and 3 "O" levels	Yes	ACC AUDITING TAXATION LAW QUANT METHODS	3-4 years	Varies with prof. body; 35 hours per year is average	Varies with chartered body	CA CMA CIS ACCA FCA	ACAEW CIPFA ACCA CIMA

Country	Minimum level of Education required	Exam required	Subject area tested	Work experience required	CPE required	Other requirements	certification	Professional body
UNITED STATES OF AMERICA — CPA	Varies for each jurisdiction; average is bachelor's degree	Yes	ACC TH ACC PR AUDITING BUS LAW	Varies for each jurisdiction; average is 2 years	30 hours year is average	NA	CPA	AICPA and NASBA (State Societies)
USA — CMA	Bachelor's degree	Yes	ECON FIN ACC DEC ANAL MGT REPORT- ING	2-3 years	90 hours/ 3 hours	NA	CMA	ICMA
USA — CIA	Bachelor's degree	Yes	INT AUDIT ACC INFO SYS MGT ECON	2 years internal audit	100 hours/ 3 years	NA	CIA	ICIA
ZIMBABWE	Bachelor's degree	Yes	ACC PROF PRACT FIN DEC INFO SYS TAX LAW SEC PRACT	Varies with level of education	NA	3-5 years articleship; 4,000-6,000 hours of client exposure	CA	ICAZ

## **Call for Papers**

Leading Accounting educators and professionals are invited to submit papers as prospective contributing authors describing the Accounting education and professional certification process in their respective countries.

A suggested guideline may include but not be limited to the following:

- A brief description of the economy and the role of Accounting within the socio-economic environment and may also include history of the Accounting profession
- Pre-college level education of Accountants
- College and University level education of Accountants
  - undergraduate Accounting education
  - graduate Accounting education
- Minimum level of education including Accounting education required for professional certification
- New and innovative methods of instructions
- Training or education for professional certification
- Professional examinations
- Years of experience required to enter the profession
- Continuing professional education requirements
- Number of courses or credit hours required at each level
- Nature and type of courses taught or offered at each level of Accounting education and the sequence of courses taught at each level
- The impact of technology on Accounting education as well as the profession
- How the present Accounting meets the country's socio-economic needs
- How Accounting education described meets the challenges of the future
- Recommendations if any
- Other

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