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August 4, 2010

AEC Agenda Item VIII.
September 3, 2010

Mr. Ruben A. Davila, AEC Chair
C/o California Board of Accountancy
2000 Evergreen Street, Suite 250
Sacramento, CA 95815

Dear Mr. Davila and Accounting Education Committee members:

The Accounting Education Committee of the California Society of CPAs (AEC) would like to provide our recommendations on the matters your committee will be addressing. The mission of our committee is "to improve accounting education in California through the collaboration of educators and practitioners." The committee is currently comprised of approximately 32 members – evenly split with 16 accounting educators and 16 CPA practitioners. The accounting educators on the committee represent seven California State Universities, two University of California campuses, six private universities and one two-year community college. The practitioners represent three Big Four firms, one national, two large multi-office firms, five large local, three small firms and one sole practitioner.

The AEC meets twice a year in different locations around the state. In conjunction with each meeting we hold a three-hour roundtable discussion where we invite educators and practitioners from around that local geographic area. The roundtable discussions are an ongoing discussion that began at the AEC's November 2008 Educator Practitioner Forum on the challenges facing the public accounting profession over the next decade. We continue to examine what accounting students should know, what educators should teach, and whether accounting graduates are adequately prepared for the business world. The information we have gathered from our Forum and roundtable discussions will be the basis for some of our recommendations. A forthcoming paper in the *Journal of Accounting Education* entitled "A Professorial and CPA Alliance to Improve Undergraduate Accounting Education" details the survey results obtained from seasoned CPA practitioners on which undergraduate academic areas merit the most attention when preparing students to succeed in public accounting.

As stated previously, over the course of the past 18 months, our committee has hosted several roundtable discussions with California CPAs, practitioners and educators, to discuss what level of accounting education is needed to be a successful CPA. The CPAs polled favored the 150-hour requirement and supported a balanced academic program with emphasis on developing written communications skills and analytical thinking. Most practitioners felt that students did not need to take additional accounting specific courses, but rather what they were lacking was more broad based skills. The key skills that they felt should be included in an academic program in addition to technical accounting knowledge included: written and oral communication skills, analytical thinking, high ethical standards, quantitative problem solving skills, research skills, general business knowledge, ability to work in teams and information technology skills. In the spring of 2010 California State University at Northridge (CSUN) conducted a "Written Communication Skills – Employer Expectations Survey." The results of the survey can be found in a forthcoming paper entitled "Written and Computer-mediated Communication Skills: An Employer Perspective" in *Issues in Information Systems.* The survey results indicated that written communication skills of entry-level accounting professionals are getting better but more work is needed. The survey also detailed specific areas that needed more work and emphasized the need for communication courses. CSUN is doing a follow up survey regarding oral communication skills during the fall of 2010.

Given the input from the aforementioned sources, our committee believes that the additional 20 units of "accounting study" required by California State Bill 819 should include a wide range of academic courses that would provide a broad base of knowledge to a CPA candidate. The courses should be those that teach the skills our roundtable and forum participants emphasized are critical to the CPA professional. The menu of allowable courses should include business courses, especially ones that emphasize business strategy, tax and business law, corporate governance, organizational behavior and valuation skills. It should also include communications classes, math, information technology, logic, psychology and speech.

Today's CPA works in a global environment with clients operating all over the world in a variety of industries. "Rapid change has been the main characteristic of the environment in which professional accountants work. Pressures for change are

coming from many sources including: globalization, digitization, and the expansion of stakeholder groups including regulators and oversight boards. Professional accountants are now expected to serve the needs not only of investors and creditors but also the information needs of many other users of financial and non-financial information. Businesses and other organizations are engaging in ever more complex arrangements and transactions; risk management has become more important. Information technology continues to advance at a rapid pace and the Internet has revolutionized global communications. Trade and commerce have become more transnational. Privatization has become an increasingly important trend in many countries. Legal action has become more usual in many societies, while in others it is the legal framework that defines the profession's responsibilities. Concern for the environment and sustainable development has grown. These trends lead to the need for greater accountability and, as a result, in all cultures demands on the profession are high and continue to rise. It is the profession's capacity to satisfy these demands that determines its value to society." (IFAC, Introduction to International Education Standards, 39).

These trends indicate the need for more well-rounded business oriented CPA professionals. Coursework that teaches the fundamentals and technical aspects of various industries such as science, engineering and real estate would be beneficial to help ensure the CPA professional has an understanding of the businesses in which their clients operate. We recommend that your committee define the 20 units of other courses relevant to accounting and business to include a broad menu of acceptable courses including the ones discussed above.

Based on the aforementioned information, we do not believe that more accounting coursework is what is needed to be a successful CPA. According to Senate Bill 819 there is no requirement that the additional 20 units of accounting study include any additional accounting units. As such, we would not recommend that the 20 additional units require a minimum number of accounting units. Instead the 20 units of Accounting Study should be in either accounting and/or business related topics as defined by Section 9.2 of the California Board of Accountancy Regulations or in other academic areas relevant to the practice of accounting all at the upper division level. We agree with your recommendations to the committee on what other academic areas relevant to the practice of accounting might include as presented at your last committee meeting as follows:

- important skills that enhance the ability to practice accounting or business such as communications, speech, writing, journalism, negotiations, critical thinking, logic, psychology, research, English, thesis, etc.
- established fields of study or science that are practiced in business or industry such as biology, medicine, real estate, engineering, chemistry, architecture, business related law courses such as corporations, mergers & acquisitions, SEC regulation, property, contracts, real property, bankruptcy, estate planning, etc.

We agree that the classes listed above are intended to be representative and not all inclusive. Additionally, we would support a recommendation that no more than three units of internship and/or directed study could be applied to the 20 units of Accounting Study.

We also recommend accepting a graduate degree in accounting or tax from a program that is accredited in accounting and or business by the American Assembly of Collegiate Schools of Business (AACSB), or comparable accrediting organization recognized by the Board in lieu of completing the specific accounting and business courses required for applicants with a baccalaureate degree. Eight states (Alabama, Idaho, Illinois, Iowa, New Jersey, Rhode Island, Wisconsin, and Wyoming) currently allow this. The graduate degree must include 24 hours of business and 24 hours of accounting coursework as currently required by the California Board of Accountancy if the student did not obtain those hours at the undergraduate level.

We believe that our recommendations will not impose significant costs on educational institutions in the state of California. This is important since there have been significant reductions in state funding for all state universities which are likely to be permanent. With tuition and fees rising rather sharply for students for the past few years, additional financial burdens will make it likely for many students to choose other courses of study. Staffing of additional courses of accounting is an additional concern. Using full or part-time lecturers to staff these classes is not the solution. Accreditation requirements under AACSB severely limit the amount of teaching that can be done by part-time or even full-time lecturers. As such any new accounting classes would need to be taught by new tenure track faculty. Most state universities are shrinking not growing their faculty and there is a shortage of qualified accounting doctorates.

Summary and Recommendations:

Based on our forum, roundtable discussions, CSUN survey and the changing environment CPA professionals will be working in as outlined by IFAC, we believe that the current requirement of 24 semester hours of accounting is sufficient to produce high quality CPAs. Students don't need more accounting**;** they need skills that enable them to be business advisors; financial analysts; excellent communicators and capable negotiators. "As the world moves toward global market economies, and with investments and operations crossing borders to an ever greater extent students need a broad global outlook to understand the context in which businesses and other organizations operate."(IFAC, Introduction to International Education Standards, 38). More business and other academic education related to the practice of accounting is more desirable. Additional accounting will only raise the costs and may make it impossible for those who come from educationally and economically disadvantaged backgrounds.

We recommend that the 20 units of Accounting Study should be in either accounting and/or business related topics as defined by Section 9.2 of the California Board of Accountancy Regulations or in other academic areas relevant to the practice of accounting all at the upper division or graduate level. We also recommend accepting a graduate degree in accounting from a program that is accredited in accounting by the American Assembly of Collegiate Schools of Business (AACSB), or comparable accrediting organization recognized by the Board in lieu of completing the specific accounting and business courses required for applicants with a baccalaureate degree.

Our recommendations will provide the necessary flexibility to deal with the cost and accessibility issues which were the reasons for adopting SB 819 in the first place. It is imperative that new California CPAs are adequately prepared to provide accounting, attestation, tax and other services in this complex business environment. Our committee will also be addressing under separate cover to the Ethics Committee our comments on the required 10 units of ethics education and the feasibility and costs to implement a requirement of that magnitude.

We want to thank you and your committee in considering our recommendations when formulating your final recommendations to the California Board of Accountancy.

Yours truly,

Chrislynn Freed
Co-chair AEC committee

Charles Osaki
Co-chair AEC Committee

cc: Bruce Allen
Patti Bowers
Harold Schultz
Jeannie Tindel
Michael Ueltzen