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Accounting Education in a Free Enterprise System

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MY TOPIC for today combines two large areas: free enterprise and accounting education. The literature of accounting is replete with analyses of our educational system, so I will not attempt to assess our successes and failures nor will I evaluate the nature of the prescriptions for perfecting it. I believe it will be helpful, however, to consider some of the history of the development of the free enterprise system, particularly as we find it evolving in the United States, and the implications therein for accountants and for our program of accounting education.

THREE STAGES OF ECONOMIC DEVELOPMENT

Free enterprise may be considered as having progressed through three broad stages: pre-business, private business, and public business. In the first stage the status of the individual was dominant in that he was not able to move freely from one stratum of society or occupation to another. The second marked the emancipation of the individual; his economic activities became mobile and his social status became fluid. This stage extended from the petty capitalism of the 13th century through the flourishing trade under mercantile capitalism to the industrial revolution of the 18th and 19th centuries. It culminated in the financial capitalism of the 19th and 20th centuries, characterized by emphasis on control—internal operating control within the business enterprise and external financial control of the enterprise as a unit. The third stage—public business—may be divided into two phases: national capitalism, characterized by political instead of financial control of private capital, and (a term I think has merit) international capitalism, only now appearing on the horizon and characterized by international political control.

International capitalism is a phenomenon we are watching unfold before our eyes. The economies of Western European nations are being linked through the Common Market. The ultimate effect of that system on our economic environment is difficult to predict, but it

seems clear that it will create severe competition in the immediate future with the resultant need for even greater cost control and managerial ingenuity.

The point we should appreciate is that each stage of capitalism has slowly merged into a succeeding stage, each except the first remaining on the scene in a minor rôle, but pushed from its central position as its successor offered refinements that in some way were of greater benefit to society.

We are presently concerned with the third stage. While in the United States there has developed an increasing political or governmental involvement with business, we have not embarked on the European concept where competition has at times been stifled by state ownership and by cartels, price agreements, and other monopolistic practices.

Our free enterprise system is a social philosophy permeating our entire life. The concepts of individual freedom, self-reliance, profit incentive, and human dignity have moved our country to the forefront in world leadership. Human freedom and opportunity flourish under the operation of the free-market mechanism of our society.

THE PROMINENT RÔLE OF ACCOUNTING

Accounting has played a prominent part in the gradual development of our present economic system because of its unique faculty for providing a means to control through measurement and communication of economic data. The European development of double-entry bookkeeping enabled the American entrepreneur to calculate his gains and losses and to formulate management policy. Increasingly severe competition and the constant drive to lower costs of production, distribution, and administration, fostered the development of cost accounting, intensified effort to control costs, and promoted the coördination of production and distribution leading to the development of scientific management.

New concepts, new principles, and new techniques are being developed rapidly to facilitate the solution of management problems. In most cases these new techniques relate to business as a whole and cut across traditional classifications of activity and knowledge. We have a society based on continually changing bodies of knowledge which must be assimilated and integrated. We cannot expect major periods of equilibrium where the body of knowledge might remain undisturbed by new developments.

The past quarter century has seen the emergence of accounting and of the public accounting profession as major forces in our economy. Accountants have assumed important positions in the management of industry transcending the purely accounting functions and extending into the operational and policy functions.

The attest function of the professional accountant has been extended greatly and will be extended further to portions of the economy that do not now have opinion audits. There has been some talk of opinion audits of managerial efficiency. To some degree we do this now as we evaluate an accounting system or render management advisory services. Whether or not we shall one day give an opinion on the appropriateness of the decisions made by management or of the methods used in reaching those decisions, the fact remains that if we are to discharge our traditional audit function properly, we must understand the operations of a business in all their ramifications.

More and more, business is turning to CPAs for advice when management is making decisions concerning the application of accounting data and the application of planning and control techniques to its operations. The profession must be prepared to meet these demands. This does not represent any revolution in the field of accounting. Rather it is a natural evolution of an alert profession in a dynamic society, and represents an expansion into areas in which we are, and should be, well qualified to serve.

I see no reason to believe that our important functions with respect to the determination of income tax liability and planning for tax purposes will decrease.

The public accounting profession has expanded its scope of service to meet the needs of business. Much of this response has come from sheer necessity; unless public accountants understand the implications of new developments, these new areas will become the domain of others who do understand.

ACCOUNTING EDUCATION

To meet these new demands, the CPA of the future will require an educational program far broader than that in which you and I participated.

The word *enterprise* connotes effort—an endeavor to attain new goals through initiative, ingenuity, and imagination. An education serving these ends is difficult to define, yet its meaning is there. It

is broadly termed *liberal education*—education that tugs at, stretches, and enlarges the mind. Fields of knowledge possessing this faculty are varied. History does so in setting before the mind the record of human affairs; literature and the social sciences do so in translating and explaining that record; physical science does so in extending the boundaries of man's knowledge, and technology does so in applying it; language does so in providing the means to expression.

I think it is a fair statement to say that most persons concerned with accounting education have about reached a consensus on the objective of basic education. A person training to enter the accounting profession must be prepared *to become* a practicing professional and not *to be* a practicing professional at the start of his career. Plainly, his training must be concerned first and foremost with intellectual growth over the course of his career.

To come right down to the crux of the matter, the accountant must be able to think independently. He must be able to see the problems ahead of him and equip himself to solve them. Reliance upon his own resources will be important in high degree.

In the second place, the accountant's education must be technical and in some areas this must be greatly advanced over standards hitherto considered adequate. The problems he will meet at advanced levels will be of tremendous intricacy. His education must therefore be oriented to cope with the pressure of dynamic change in a sophisticated age.

Today, financial capitalism and national capitalism are competing for dominance, with international capitalism on the horizon boding we know not what. Decisions affecting the economic direction we will pursue are being made within the national government. These decisions are of vast importance to each of us. The significance for the accountant is that he cannot safely leave the solution to economic and political theorists alone, or to untutored minds sometimes wielding great influence. Knowledge of the fundamentals of economics and of economic theory is therefore an essential part of the accountant's equipment.

EDUCATIONAL IDEALS

It is apparent in the thinking of those who have examined closely the subject of accounting education—with whose thinking I personally agree—that in formulating an adequate program for accounting education of the future, a new departure must be taken. The direction

is clear and is marked by several basic premises. Accounting education must be reoriented so as to—

- place needed emphasis on the liberal arts ;
- bring the courses of study into line with those pursued in the business education of other groups, differentiated only by emphasizing the basic principles of the accounting discipline ;
- provide for basic training that will equip a man to handle quantitative methods ;
- make clear that for a man who will enter the profession the basic objective of training is to prepare him for *becoming* a practicing professional, and that he is not expecting *to be* one at the start of his career in accounting.

In listing these ideals I make no distinction between the certified public accountant and the top-flight industrial accountant. There may be differences in the optimum curriculum for the two as they approach the culmination of their accounting education, but certainly most of their accounting education should be identical. The certified public accountant is distinguished from other types of accountants by reason of the Uniform CPA Examination and the formalization of ideals of independence, professional judgment, and ethical standards. The potential CPA should be prepared in the University for his profession through study of logic, auditing evidence, and professional ethics.

TYPES OF PROGRAMS

A key factor in such a program is time. An ideal arrangement would be to devote four years' study to the arts and sciences leading to a baccalaureate degree, followed by two years' study of accounting and business subjects. A second choice, which might prove to be the more practical economically from the students' standpoint, would be to compress the general education program into three years and to follow it with two years' graduate work, perhaps at the same time eliminating some of the long vacation period we have inherited from the earlier stages of the free enterprise system.

I am fully aware and pleased that many universities have reappraised or are now reappraising their four-year accounting curricula to get the best allocation of scarce student time. This is important as a basis for moving eventually to a longer and more comprehensive program. Moreover, the present shortage of accounting graduates,

the financial pressures on students, and the lack of well-developed graduate programs will undoubtedly result in a continued strong demand for a four-year program, but this demand must not blind us to the need for the comprehensive educational background our economic system will require in the very near future. Improvements in the quality of graduate students and in teaching methods, and the elimination of emphasis on procedures and techniques will, I am sure, permit a broad coverage of accounting in a reduced number of semester hours in the future.

The short supply of university-educated accountants of appropriate intellectual ability has resulted in some firms, including our own, employing non-business school graduates of high intellectual capacity. These people have responded well to accelerated study in business and accounting subjects. This does not mean that much accounting knowledge is not required as a practitioner, but rather that we cannot afford to overlook highly intelligent people and that in order to avoid doing so we are willing to take the responsibility for their accounting education.

CURRICULUM AND PATTERN

This brings us to the question of curriculum. I think you will be interested in a study that is being initiated by the Institute. The Institute has for a long time been concerned about the idea of *what a CPA ought to know*. This concern permeates decisions on such matters as what should be included in the accounting curriculum, what kind of experience should be required to qualify for the CPA certificate, what subjects may properly be included in the CPA examination, and to what depth they should be included. We are now in the process of selecting a study director and members of a commission to assist him. We believe that a definition will assist professors as they make curriculum decisions, the Board of Examiners and the staff as they make selections for the CPA examination, and the Institute as it develops further its policies in the areas of education and experience and legislation related thereto.

Although we must await the results of the study of *the common body of knowledge* certain things seem clear. To provide the foundation for future study and effectiveness in practice, the undergraduate curriculum should provide a thorough grounding in mathematics, including statistics; training in English literature and composition and in public speaking; and training in history, foreign language, psychology,

social sciences and economics, and the arts, to provide genuine perception of laws, customs, and standards of social values.

Graduate study should relate chiefly to general business subjects but should stress advanced economics, human behavior, quantitative methods, and accounting.

Subject to the proviso that the content of courses dealing with accounting matters shall treat of postulates and principles with only so much of techniques and procedures as is necessary to give understanding, we can confidently leave to the wise judgment of professional educators the determination of the curriculum that will achieve the results sought. The profession, however, must coöperate where their counsel is needed.

THE WIDER VIEW—INTEGRATION AND BREADTH OF KNOWLEDGE

Much thought is still required concerning what background of knowledge should be acquired in the University, and what should be learned on the job. It seems clear that techniques and procedures should be learned on the job. On the other hand, certain judgmental abilities now learned on the job may in the future require development at the University level. In public accounting, as a result of placing greater reliance on internal control, there continues to be much less emphasis on individual transactions and more and more on application of high-level judgment to the audit of whole systems. This poses a problem in the development of senior accountants capable of exercising such judgment. The volume of auditing activity susceptible to performance by juniors and semi-seniors may not be sufficient to provide a training ground for the development of the type of auditor most in demand.

The increasing emphasis on management of the business as a whole demands that the student, the professor, and the practitioner be able to move back and forth among disciplines in order to take advantage of developments that promise solutions to problems. The result will be greater breadth of background though not necessarily a decrease in specialization. This integration probably will be most effective through an integrated faculty, which will permit discussion of related subjects in the course of studying the principal subject. For instance, in studying accounting it would be productive of the ideal professional accountant if at the same time consideration were given to literary expression and to statistics or economics.

It has been my observation over the years that assuming one has

an acceptable degree of technical competence, the things that make for success or failure in the profession are more apt to be in the personal area. These personal qualities include the ability to get along with people, the ability to lead, the ability to exercise sound judgment, and the ability to communicate both in an oral and in a written fashion. Personally I would rather see within the framework of a four-year curriculum less emphasis on the technical accounting aspects and more emphasis in these other areas.

CONCLUSION

The outcome of the educational program we decide upon in these days will not be fully apparent until a number of years have passed—perhaps as much as a quarter century. It will be apparent in the answers to some other questions certain to be posed again in that day: Does the economic system in which we play so prominent a part today offer more to society than any alternative system available? Do the proponents of the system believe in it deeply enough to make it work?

In our day I believe we do.

