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SUPPLEMENTARY MATERIAL

ICYMI | Future of the CPA Profession[1]

Graduate Student Perspectives on the Value and Purpose of the Profession

By Tracey J. Niemotko, JD, CPA, CFE

News & Views, **Featured**, **September 2017 Issue** |

October 2017

As an accounting professor at Mount Saint Mary College, the author teaches a graduate accounting research course. Students in this capstone seminar are all working towards their master's in business administration and interested in becoming CPAs. As part of the course, the students shared perspectives regarding the accounting profession that reflect the views of many of their peers. They explored both academic and professional research, investigated current topics like IFRS and sustainability accounting, reviewed CPA exam questions, and focused on their writing skills. This article shares their views on the value of the CPA license and the priorities of today's millennial accounting students as they prepare to become the professionals of tomorrow.

The Value of the CPA License

According to Christopher Hecht, "Having the CPA license will give me greater flexibility; not having the CPA can make accounting a dead-end job." Derrick Moran, who also works as a staff auditor at PKF O'Connor Davies, pointed out that being a licensed public accountant comes with greater credibility and greater expectations. He further stated that the "public" in "public accounting" means that auditors have an obligation to protect the community by helping to keep the financial industry transparent and stable. Reinforcing that point, Danielle Soto noted that "CPAs need a stronger moral compass, and the greater responsibility comes at a price." That price is often dealing with the stress associated with working longer hours with greater workloads.

Another consideration for students is the cost-benefit analysis of obtaining the license. In 2008, New York State revised its licensing requirements to mandate that students fulfill 150 credit hours in order to sit for the CPA exam. Colleges and universities in New

[1] https://www.cpajournal.com/2017/10/05/icymi-future-cpa-profession/

York responded by marketing BS/MBA five-year programs whereby accounting students could complete the requirement with a graduate degree.

From the Millennial perspective, a flexible schedule would not impede the effective performance of work.

The first group of students subject to this new five-year requirement in New York State graduated with their MBAs as recently as 2014. It remains to be seen how the actual cost of an additional year of tuition for graduate studies, as well as opportunity cost of possibly postponing full-time work for another year, will impact potential accounting students. Although it may be difficult to quantify how many students opt out due to the cost of the 150-hour requirement, students currently enrolled in accounting programs remain motivated to get their license. Their perception, which research supports, is that they can expect to earn significantly more over the course of their careers with the license. At this point, the master's has become the new undergraduate degree.

Millennials and Work-Life Balance

According to studies published by the AICPA, Millennials have a different perspective on how they live and how they work, ranking the balance between work and family as their main priority. Ryan Ciancanelli made the point that "young professionals of the Millennial generation want a job that can promote a healthy work-life balance, and the accounting profession makes it very difficult to reinforce this balance."

The work-life balance in public accounting is indeed a challenge, and the subject of many studies that consider how professionals manage the workload demands of the busy season while still allowing time for family and personal responsibilities. Alternate work arrangements, such as flexible hours or working from home, seem to be a potential solution.

From the Millennial perspective, a flexible schedule would not impede the effective performance of work. Moreover, whether the computer or technology an accountant uses is located at home or in the office is not the main indictor of efficiency for Millennials, which may conflict with perceptions in the workplace. Research indicates that alternative work arrangements are not uniformly supported and are often perceived as having a lower viability, especially by larger CPA firms, which may equate worker visibility with productivity.

Interestingly, students today do not expect longevity at a single firm; Millennials tend to view their jobs as stepping stones for advancement or other employment opportunities. This places firms in the more challenging position of having to create a business environment that will both attract and retain younger professionals.

Student Perspective on Professional Support

Over the course of the semester, the graduate students reflected on the various accounting courses that they had taken at both the undergraduate and graduate levels to determine how the curriculum could be modified to better prepare them for the real world. Because many of the students already had work experience, it was surprising to hear that, instead of revising the curriculum, they recommended that employers provide effective training.

Robert Lakhman made the point that "theory is important, but it takes time to put theory into practice; there will always be a learning curve on any job." Derrick Moran, who entered the accounting profession after a stint in the military, shared compelling stories of his initial struggle to work conscientiously in an environment where the focus was on completing the accounting assignment with the least investment of oversight or support.

Overall, the students felt that they would benefit the most—and it would be more cost effective over the long run—if employers provided mentors or held training workshops for new professionals. Furthermore, accounting professors need to structure courses in ways to further develop the written and verbal communication skills that students will need in the workplace. This may include assignments involving presentations, team collaborations, and the drafting of effective business e-mail communication.

Millennials and the Future of the Profession

The Internet and social media have had a great impact on business operations and marketing. For the Millennials, however, these technologies have always been the norm. Business may have to conform to their views, instead of the other way around.

The AICPA recognizes the different expectations of millennials and the focus on corporate social responsibility in general through its support of the global initiatives to implement sustainability accounting and reporting for firms. Millennials are the future of the accounting profession, but to properly engage them, a different assessment of work productivity is needed. Quality work can be accomplished even with alternative work arrangements, and Millennials can shine while striving for the balance that they seek.

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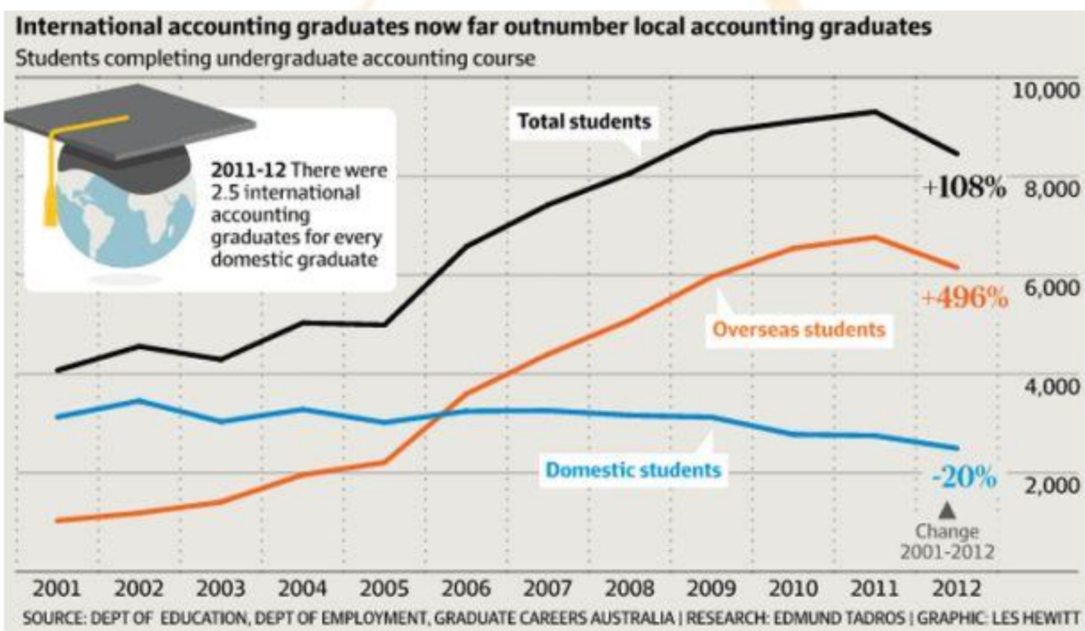
FEBRUARY 12 2014

Does Australia have too many accountants?[2]

Edmund Tadros and Agnes King

It used to be one of the safest career choices. But while Australians are deserting the accounting profession, an avalanche of foreign accounting students has hit our universities, prompting a fight between the government and big firms about how many accountants we actually need.

The number of Australians studying accounting has fallen 20 per cent since 2001, with



foreigners now vastly outnumbering local graduates.

Source: AFR

[2] http://www.smh.com.au/business/does-australia-have-too-many-accountants-20140212-32huu.html

The number of international graduates finishing undergraduate accounting degrees skyrocketed by 500 per cent between 2001 and 2012.

Indeed by 2012, there was just one local graduate for every 2.5 international graduates, *The Australian Financial Review's* analysis of university course data shows.
The lack of interest by local students in accounting comes as the federal government and the peak accounting bodies argue over how hard it is for accountants to get a job.

The Department of Employment says there is no shortage of accountants in Australia and has called for accounting to be taken off the Skilled Occupation List for migrants.

Big accounting firms report little difficulty in filling positions but also say they are selecting candidates with broader experience in psychology, engineering, technology and economics.

"A shortage of accountants is not something we have experienced," said PwC's human capital managing partner, Debra Eckersley.

"It's not hard [to recruit] in the current market," said Pitcher Partners HR director Elizabeth Nunez. "Large organisations are not putting on the volume of graduates since the financial crisis, so we can afford to be more selective."

In contrast, the peak accounting bodies say there is a shortage of accountants especially in "regional, rural and remote areas".

Being able to parlay a university course into citizenship and a career in Australia is one of the main selling points of local accounting courses.

"The DOE's submission, with a focus on the immediate term, is the sole voice calling for accountants to be removed from the Skilled Occupation List," a CPA Australia spokesman said.

In the past five years, around 40,000 migrants have entered the country through the accounting skilled stream, dwarfing the numbers entering with other types of priority skills.

During the same time, accounting graduates have found it harder to get a job. Data from Graduate Careers Australia shows 80 per cent of domestic accounting graduates were working full-time four months after finishing their course in 2012, compared to 93 per cent in 2001. This is still higher than the employment rate of all bachelor-degree graduates.

Caution advised

Accounting has already been flagged by the Australian Workforce and Productivity Agency, which develops annual advice on the skilled list for the Department of Immigration and Border Protection, as an occupation now considered a "borderline" inclusion on the list. The agency is doing a special investigation in the supply and demand for accounting skills.

University of NSW head of accounting Professor Peter Roebuck advocates caution. He said while "it is wrong to promote [accounting] to overseas students with local job prospects not particularly strong, this assumes that overseas students come here for the prime purpose of getting permanent residency".

Many Asian students study in Australia to improve their job prospects back in Asia, Prof Roebuck said.

Firms have no interest in having accounting struck off the list and prefer to hire locals as it is cheaper and lower risk.

Grant Thornton head of HR Kim Schmidt said the firm "is confident that we will be able to get our graduates from local sources".

But PwC's Ms Eckersley says "the more sources which help us attract the best talent, the better".

Ms Nunez worries supply will tighten up again if business confidence lifts and companies start putting on additional resources.

CPA Australia and the Institute of Chartered Accountants argue that international accounting students are "a critical source of future labour supply" for Australia.

The government currently lists four types of accountants – accountant (general), management accountant, taxation accountant and external auditor – as being eligible for migration to Australia.

UNSW has an almost record enrolment in first-year accounting with over 1700 enrolled at present. Its record was 1800 in 2010.

Know more? Email ed.tadros@fairfaxmedia.com.au

The Impact Of Combining The U.S. GAAP And IFRS[3]

By Nicolas Pologeorgis

Globalization, the Sarbanes-Oxley Act, the SEC adoption of international standards, and the economic and financial meltdown in recent years have been exerting pressure on a number of countries, including the United States, to eliminate the gap between the International Financial Reporting Standards (IFRS) and the U.S. Generally Accepted Accounting Principles (GAAP). Such initiatives have consequences on the world of accounting diversity, and the standards convergence of the U.S. GAAP along with the IFRS largely impacts corporate management, investors, stock markets, accounting professionals and accounting standards setters. Additionally, the convergence of accounting standards is changing the attitudes of CPAs and CFOs toward the harmonization of international accounting, affecting the quality of the International Accounting Standards and the efforts made toward the goal of convergence of GAAP and IFRS standards.

Financial Reporting

Financial reporting standards and requirements vary by country, which creates inconsistencies in financial reporting. This problem becomes more prevalent for investors trying to identify accounting reporting differences when they are considering providing funding to capital-seeking companies that follow the accounting standards and financial reporting of the country in which they are doing business. The International Accounting Standards Board (IASB) seeks a workable solution to alleviate the existing complexity, conflict and confusion created by inconsistency and the lack of streamlined accounting standards in financial reporting. The main difference between the GAAP and the IFRS is the approach each takes to the standards. The GAAP is rules-based while the IFRS is a principles-based methodology. The GAAP consists of a complex set of guidelines attempting to establish rules and criteria for any contingency, while the IFRS begins with the objectives of good reporting and then provides guidance on how the specific objective relates to a given situation.

The Consequences of Initiatives on Worldwide Accounting Diversity

[3] The Impact Of Combining The U.S. GAAP And IFRS http://www.investopedia.com/articles/economics/12/impact-gaap-ifrs-convergence.asp#ixzz4uxWWqqya

The convergence and subsequent change of accounting and reporting standards at the international level impact a number of constituents, including corporate management, investors, stock markets, accounting professionals and accounting standards setters and agencies.

Impact on Corporate Management

Corporate management will benefit from simpler, streamlined standards, rules and practices that apply to all countries and are followed worldwide. The change will afford corporate management the opportunity to raise capital via lower interest rates while lowering risk and the cost of doing business.

Impact on Investors

Investors will have to re-educate themselves in reading and understanding accounting reports and financial statements following the new internationally accepted standards. At the same time, the process will provide for more credible information and will be simplified without the need for conversion to the standards of the country. Further, the new standards will increase the international flow of capital.

Impact on Stock Markets

Stock markets will see a reduction in the costs that accompany entering foreign exchanges, and all markets adhering to the same rules and standards will further allow markets to compete internationally for global investment opportunities.

Impact on Accounting Professionals

The shift and convergence of the current standards to internationally accepted ones will force accounting professionals to learn the new standard, and will lead to consistency in accounting practices.

Impact on Accounting Standards Setters

The development of standards involves a number of boards and entities that make the process longer, more time consuming and frustrating for all parties involved. Once standards have converged, the actual process of developing and implementing new international standards will be simpler and will eliminate the reliance on agencies to develop and ratify a decision on any specific standard.

Arguments for and Against the Convergence of International Accounting Standards

Arguments for the convergence are (a) renewed clarity, (b) possible simplification, (c) transparency and (d) comparability between different countries on accounting and financial reporting. This will result in an increase of capital flow and international investments, which will further reduce interest rates and lead to economic growth for a specific nation and the firms with which the country conducts business. Timeliness and the availability of uniform information to all concerned stakeholders will also conceptually make for a smoother and more time-efficient process. Additionally, new safeguards will be in place to prevent another national or international economic and financial meltdown.

Arguments against accounting standards convergence are (a) the unwillingness of the different nations involved in the process to collaborate based on different cultures, ethics, standards, beliefs, types of economies, political systems, and preconceived notions for specific countries, systems and religions; and (b) the time it will take to implement a new system of accounting rules and standards across the board.

The Quality of International Accounting Standards

The Securities and Exchange Commission's (SEC) goals and efforts both domestically and internationally have been to consistently pursue the achievement of fair, liquid and efficient capital markets, thus providing investors with information that is accurate, timely, comparable and reliable. One of the ways the SEC has pursued these goals is by upholding the domestic quality of financial reporting as well as encouraging the convergence of the U.S. and IFRS standards.

Research indicates that firms that apply the international standards show the following: a higher variance of net income changes, a higher change in cash flows, a significantly lower negative correlation between accruals and cash flows, a lower frequency of small positive income, a higher frequency of large negative income and a higher value relevance in accounting amounts. Additionally, these firms have less earnings management, more timely loss recognition and more value relevance in accounting amounts compared to domestic (U.S.) firms following the GAAP. Therefore, firms adhering to the IFRS generally exhibit higher accounting quality than when they previously followed the GAAP.

FASB's original mission has always been to establish the U.S. GAAP and standards for accounting and financial reporting; however, the mission has been enhanced to include the convergence and harmonization of U.S. standards with international ones (IFRS). There is some opposition to the convergence from all stakeholders involved, including accounting professionals (CPAs, auditors etc.) and corporations' top management (CFOs, CEOs). There are various reasons for such resistance to change, and some are pertinent to the accounting profession, some to corporate management and some are shared by both. The new set of standards that will be adapted will need to provide transparency and full disclosure similar to the U.S. Standards, and it should also ensure broad acceptance.

CPAs' Attitudes Toward Harmonization of International Accounting

Some reasons for the U.S. not embracing the standards convergence are: U.S. firms are already familiar with the existing standards; the inability or low ability to culturally relate to other countries' accounting systems; and a lack of good understanding of the international principles.

Culture in this context is defined by the FASB as "the collective programming of the mind which distinguishes the members of one human group from another." Each nation and culture shares its own societal norms consisting of common characteristics, such as a value system - a broad tendency to prefer certain states of affairs over others - which is adopted by the majority of constituents. The accounting value dimensions used to define a country's accounting system are based on the country's culture; they consist of the following:

1. Professionalism versus statutory control
2. Uniformity versus conformity
3. Conservatism versus optimism
4. Secrecy versus transparency

The first two relate to authority and enforcement of accounting practice at a country level, while the last two relate to the measurement and disclosure of accounting information at a country level. Examining those dimensions and factors that impact an accounting system, it becomes evident that cultural differences have a strong impact on the accounting standards of another nation, thus complicating the standards convergence.

The GAAP have been adhered to for years, and this is the knowledge that accounting professionals are familiar with. A convergence would require learning a new system, which most people would be resistant to. Another reason why U.S. companies are resistant to converging the GAAP with the IFRS is that there is a prevailing opinion that the IFRS lacks guidance compared to the U.S. Standards because the U.S. Standards are rules-based while the IFRS methodology is principles-based. U.S. accounting professionals and corporate management perceive the IFRS to be lower quality than the GAAP. With all of this said, the converged international accounting standards should provide for less complexity, conflict and confusion, which is created by the inconsistency and lack of streamlining that exists with two different accounting systems.

CFOs' Attitudes Toward Harmonization of International Accounting

CFOs are not embracing this change because of the costs involved. There are specifically two areas that are directly impacted: a company's financial reporting and its internal control systems. Another cost involved in the transition and change to the IFRS is the public's perception of the integrity of the new converged set of standards. The SEC reporting requirements will also have to be adjusted to reflect changes of the converged system.

The convergence is based is on the following beliefs: (a) the convergence of accounting standards can best be achieved over time through the development of high quality, common standards and (b) eliminating standards on either side is counterproductive, and, instead, new common standards that improve the financial information reported to stakeholders should be developed. Company boards, in an effort to best serve their investors' needs, should contribute to the convergence process by replacing old standards with the new jointly developed ones.

As previously mentioned, the major difference between GAAP and IFRS comes down to one being rules- based and the other being principles-based; this has posed a challenge in areas such as consolidation, the income statement, inventory, the earnings-per-share calculation and development costs. In consolidation, IFRS favors a control model whereas the U.S. GAAP prefers a risks-and-reward model. IFRS does not segregate extraordinary items in the income statement, but U.S. GAAP shows them as net income. IFRS does not allow LIFO for inventory valuation whereas the U.S. GAAP provides the option of either LIFO, average cost or FIFO. Under the IFRS the EPS calculation does not average the individual interim period calculations, but the U.S. GAAP does. Regarding developmental costs, IFRS capitalizes them if certain criteria are met while the U.S. GAAP considers them expenses.

It has been agreed to "(a) undertake a short-term project aimed at removing a variety of individual differences between U.S. GAAP and International Financial Reporting Standards' (IFRS), which include International Accounting Standards, IASs), (b) remove other differences between IFRSs and U.S. GAAP through coordination of their future work programs, (c) continue progress on the joint projects that they are undertaking, and (d) encourage their respective interpretative bodies to coordinate their activities" ("When Accounting Finally Becomes Global," *The CPA Journal 78(9) 11-12*).

FASB 3 states that the Sarbanes Oxley Act's requirement of the SEC to investigate the feasibility of implementing a more principles-based approach to accounting means that the U.S. needs to continue its compliance with the SOX as part of the process of the convergence of the GAAP and IFRS standards. Both FASB and IFRS have identified short- and long-term convergence projects, including 20 reporting areas where differences have been resolved and completed. Further, the FASB provides clarification on the GAAP by categorizing in descending order of authority as shown in FASB No 5.

The Bottom Line

Despite documented research indicating a higher accounting quality experienced by firms that either follow the IFRS or switched to the IFRS from the GAAP, there is a doubt and concern from the FASB regarding the application and implementation of principle-based standards in the U.S. A solution may be that the IFRS should accept some FASB standards to accommodate the needs of the U.S. constituents and stakeholders.

Despite the convergence efforts made on financial performance reporting, it appears that the main issues lie with the difference in the approach of the U.S. GAAP and IFRS. The IFRS is more dynamic and is continuously being revised in response to an ever-changing financial environment.

It's anyone's guess how this convergence will evolve and impact the accounting profession in the U.S. From a legal perspective, companies will be required to disclose qualitative and quantitative information about contracts with customers, including a maturity analysis for contracts extending beyond a year, as well as the inclusion of any significant judgments and changes in judgments made in applying the proposed standard to those contracts. Maybe the answer lies in the need to consider a more in-depth study and an examination of the factors influencing the molding or development of a country's accounting system.

Creative Accounting: When It's Too Good To Be True[4]

By Justin Kuepper

Accounting practices in the United States have matured over the years, but there are still plenty of ways that companies can disguise their financial results. You can spot these practices in instances when financial statements are depicting excessively positive earnings in combination with negative cash flow or in under-regulated micro-cap stocks or restatements in larger companies.

In this article, we'll explore why companies utilize creative accounting and how it can be detected by looking at a company's financial statements and disclosures. Investors armed with this information will be able to steer clear of potential problems and – on the other side – find opportunities for investment in misunderstood companies. (To learn about the essentials behind creating an income statement, read *Find Investment Quality In The Income Statement*.)

Premature or Fictitious Revenues

One of the most common techniques used by public companies looking to artificially boost their income is to prematurely recognize revenues or simply fabricate them altogether. Exactly when revenues should be recognized varies greatly, but in the end, the point where payment and the delivery of goods are guaranteed is the defining criteria of when revenues should be realized.

- **Look at the Revenue Recognition**

  The easiest way to detect premature revenues is to look at a company's revenue recognition policies found in their 10-Q or 10-K financial statements filed with the U.S. Securities and Exchange Commission (SEC). Investors should carefully read these footnotes and look for the ways in which companies recognize their revenues and note any recent changes in the policies. If revenues have increased from a previous period, compare the recognition policies to ensure that the increase is actually due to enhanced business operations.

[4] Creative Accounting: When It's Too Good To Be True http://www.investopedia.com/articles/trading/10/creative-accounting-too-good.asp#ixzz4uxbcUBoo

- **Monitor Accounts Receivable**

  Since revenues that are prematurely recognized, and in some instances artificially created, are subject to collection uncertainty, accounts receivable will typically increase on the company's balance sheet, while its uncollectable charge will gradually increase as well. Investors that see a liberal revenue recognition policy may want to check for unusual increases in accounts receivable to see if there's a problem.

- **Check the Capacity**

  In many cases, companies that fabricate revenues will not have the manufacturing capacity to justify the sales that they record. As a result, investors can check the manufacturing capacity in order to identify possible fraud. The process of checking this will vary by industry and may include looking at revenue per employee, revenue per property or a consideration of total assets. These figures should be compared with other similar firms in the competing industry. (Footnotes often serve as a means to properly interpret financial results. For more information refer to *Footnotes: Start Reading The Fine Print.*)

Common Types of Revenue Manipulation

- **Side Letters**

  Letters outside of normal corporate reporting channels between the company and its customers which may include misleading conditions such as liberal rights of return, rights to cancel orders at any time, contingencies that could nullify the sale, or even total absolution of payment in some cases.

- **Related Party Transactions**

  Sometimes sales transactions will occur as a result of an existing arrangement with a customer that may not have the same recurring self-financed prospects of an unrelated party transaction.

- **Percentage-of-Completion Contracts**

  Contracts may be accounted for either by using the percentage-of-completion or the completed-contract method. The former can be easily abused by companies by aggressively estimating their progress.

- **Channel Stuffing**

  Channel stuffing occurs when a company ships products to distributors who are encouraged to buy under a short-term offer of deep discounts. Effectively, these are not a proper indicator of future sales and can be considered unsustainable.

Pro-Forma Earnings, Classification and Disclosure

Non-GAAP Manipulation

Many companies issue pro-forma income statements, in addition to GAAP-adjusted statements, as a way to provide a better understanding of changes in operating results. In legitimate cases, this means taking out one-time charges to smooth results. However, companies can also manipulate their financial results under the guise of pro-forma income statements. (To learn how to interpret financial results check out *Understanding Pro-Forma Earnings*.)

Pro-forma income statements are financial results that do not adhere to GAAP; these modified statements are legitimately used by companies to smooth earnings by removing one-time items, thus providing investors with a picture which reflects the usually business operations of the firm. For example, a one-time expense to fix a building as a result of weather damage can be rightfully viewed as an item which does not contribute to the representative valuation of the company.

Despite the positive reasoning behind these measures, there are many ways in which pro-forma earnings can be manipulated. For example, companies can selectively add back a variety of adjustments beyond interest, taxes, depreciation and amortization, such as non-recurring, non-cash and non-operating items. As a result, it is important for investors to always remember to look at GAAP earnings for a clearer picture of true financial performance.

GAAP Manipulation

Aside from pro-forma income statements, companies can also mislead investors by creatively classifying their income in several ways, including:

- Operating income is not strictly defined under the GAAP because classification lines are often subject to discretion - items that are classified into this element can be selectively chosen by management. For example, non-recurring income such as special charges, shareholder class action settlements, and unusual events may be included or omitted within the metric to present a value which is appeasing to shareholders.
- Sales and gross profits can also be manipulated in many ways within the constraints of the GAAP. For example, companies can classify sales as either the gross amount billed to a customer or expected amount to be received. Furthermore, sales can also depend on whether or not shipping and handling is treated as a part of revenues. Finally, gross margins can be manipulated by moving certain expenses between SG&A and other costs of sales.

  In the end, these changes do not impact net income like fictitious sales figures, but they do create artificially higher or lower income statement metrics that can mislead shareholders. As a result, it is very important for investors to look closely at a company's GAAP results in addition to pro-forma results, in addition to closely looking at each line item.

Conclusion

There are many ways in which public companies can creatively manipulate their income statements, from modifying revenues themselves, to creatively classifying income, to utilizing misleading pro-forma income statements. While these practices are often legitimate, as long as they are not abused, investors should dig a little deeper for some real peace of mind. (For more information refer to *Uncovering A Career In Forensic Accounting.*)