

ADOLF J. H. ENTHOVEN

**ACCOUNTING
EDUCATION IN
ECONOMIC
DEVELOPMENT
MANAGEMENT**

NORTH-HOLLAND

ACCOUNTING EDUCATION
IN
ECONOMIC DEVELOPMENT
MANAGEMENT

by

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with a foreword by

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Nobel Laureate in Economics



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*Dedicated to friends and colleagues
in Third World countries who, in
the face of exacting professional
responsibilities and at great
personal sacrifice, are advancing
the education, practice and
frontiers of accounting knowledge
in the context of their own
countries' socioeconomic
development.*

FOREWORD

In principle, the activity called accounting constitutes the measurement of a number of key variables of revenue and expenditure character and related concepts. Accounting started in single firms, especially corporations, for auditing purposes. As discussed in Professor Enthoven's original doctoral dissertation, accounting spread to much wider areas. Some milestones of this rapid expansion are its application to the activities of public authorities, and from there to national accounting, considering a national economy as one unit.

But there are other aspects which widen the scope of accounting as well. The purposes served are among these aspects. Whereas, in the beginning, checking the consistency of the transactions observed was its task, new tasks evolved such as the evaluation of some measure of efficiency. A further development was an evaluation of some measure of optimality of the welfare created by the set of transactions portrayed. Again, the scope of whose welfare to evaluate broadened the field of application. The scope grew from a study of profits as a primitive yardstick used by firms to the study of the social welfare, however conceived, of a whole nation.

Another aspect concerns the type of transactions observed. These range from material transactions to non-material transactions, such as psychological dimensions—unavoidable as soon as welfare concepts are introduced.

Still another expansion was the spread “downward” from large to small unincorporated business units. Thus, farmers and retail traders were taught to have a more sophisticated look at their own labour inputs and capital used.

As in the best organized sciences, economic science has learned to apply the cooperation or dialogue between measurement and theory. New measurements may falsify existing theories, inducing the theorist to revise his theory, which is again to be checked by observations, i.e., measurements. Increasingly, accounting has contributed to economic science in a way comparable to the astronomer's observation of the physical universe.

Finally, the focus of Adolf Enthoven's work is the expansion from applications of accounting in developed countries to those in developing economies. This is not a luxury; where financial resources are scarce their proper use is even more important than in situations of abundance. Professor Enthoven has succeeded in convincing a number of international institutions, including the World Bank Group, of the necessity of accompanying their transactions with the Third World with accounting operations. As a matter of course, underdevelopment also showed up in the state of the art of accounting. Improvement of that has become a major aim of both the institutions involved and the author of this book. The instrument to be used is education; and that brings with it the enormous complex of activities and problems linked with education, learning and training.

This new study by Adolf Enthoven reflects an impressive series of reconnaissance missions and the ensuing projects for accounting education. These projects have confronted the profession with the existence of a number of different “schools” in the subject, connected with national and even ideological divergencies.

It is again a pleasure for me to introduce this “expanding universe” of the subject dealt with to the reader, and to wish him *bon voyage*.

TABLE OF CONTENTS

ACCOUNTING EDUCATION IN ECONOMIC DEVELOPMENT MANAGEMENT

FOREWORD	Professor Dr. Jan Tinbergen	
Chapter I	Introduction and Outline	1
PART ONE	AN OVERVIEW OF ACCOUNTING AND ECONOMIC DEVELOPMENT	
Chapter II	The Significance of Accounting in Economic Development Management.....	11
Chapter III	Elements Influencing the Development of Accounting ...	23
Chapter IV	Accounting Education and International Economic Activities	29
Chapter V	Accounting Education in the Development Process	35
PART TWO	ACCOUNTING EDUCATION IN THIRD WORLD COUNTRIES	
Chapter VI	An Evaluation of Accounting Educational Deficiencies and Requirements	41
Chapter VII	The Role of Accounting Education, Training and Research in Development	51
Chapter VIII	Accounting Educational Programs for Economic Development	65
PART THREE	A FRAMEWORK FOR ACCOUNTING EDUCATIONAL ACTION	
Chapter IX	Ways and Means of Enhancing Accountancy Education and Training	89
Chapter X	Education for Public Sector Financial Management	99
Chapter XI	Development Banking and Accounting Development ...	107
Chapter XII	An International Association for Accounting Development	115
Chapter XIII	International and Regional Vehicles for Action	127
Chapter XIV	Potential Financial Resources for Implementing Framework	135
Chapter XV	Summary and Conclusion	137

PART FOUR	COUNTRY AND REGIONAL STUDIES	
Chapter XVI	Regional Aspects and Developments in the Asian and Pacific Area	155
Chapter XVII	Accounting Education in the Developing Island Nations of the South Pacific	171
Chapter XVIII	Accounting Education in the ASEAN Federation of Accountants (A.F.A.)	187
Chapter XIX	Accounting Education in Indonesia: Its Structure and Requirements	197
Chapter XX	Accountancy and Accounting Education in Korea	210
Chapter XXI	Accounting Education in Malaysia	233
Chapter XXII	Accounting Education in Pakistan	243
Chapter XXIII	Accounting Education in the Philippines	263
Chapter XXIV	Accounting Education in Thailand	297
Chapter XXV	Regional Aspects and Developments in Africa and the Middle East	305
Chapter XXVI	Accounting Education in Egypt	309
Chapter XXVII	Accounting Education in Kenya	325
Chapter XXVIII	Accounting Education in Libya	343
Chapter XXIX	Accounting Developments and Education in Somalia	347
Chapter XXX	Accounting Education in Tanzania	353
Chapter XXXI	Regional Aspects and Developments in Latin America	367
Chapter XXXII	Accounting Education in Brazil	373
Chapter XXXIII	Accounting Education in Mexico	381
Chapter XXXIV	Accounting Education in Venezuela	391
APPENDIX:	Accountancy Education in India	401
REFERENCES		433
ABBREVIATIONS		434
INDEX		437

CHAPTER I

INTRODUCTION AND OUTLINE

This study aims to appraise the significance and function of accounting education, training and research in the context of socioeconomic development management, with particular reference to Third World economies. The actual role of accounting in economic development has already been evaluated in various previous publications, for example, Enthoven 1973/1978 and 1977/1979. The first text deals with the influence and role of accounting for socioeconomic analysis and policy, and the latter explores the orientation and practice of accounting in a series of developing countries around the world. Although some attention was given in these texts to the urgent need to improve accounting (e.g., auditing) education at all levels and branches of accounting (i.e., in the enterprise, government and macro spheres), the actual accounting educational and training aspects were not covered to the extent warranted. In a sense then, this new and underlying study is a logical sequence and culmination of the previous ones. Furthermore, while our current thesis looks at both the *existing conditions and desirable improvements* in regard to accounting education serving socioeconomic development objectives and policies, it also takes into account the future *direction* accounting education may have to follow to fulfill an effective prospective role.

From both these points of view, a broad array of related functional topics is dealt with, such as: accounting education and public sector management; development banking and its relation to accounting education; and changing international socioeconomic patterns and their impact on education.

Many of the major deficiencies in accounting standards and practices stem from an inadequate recognition of both the need for good accounting in all socioeconomic sectors of the economy *and* the unsatisfactory educational exposure to the functions and operations of accounting. Our international surveys indicate that accounting education and research tend to be void of relevance, have a monistic orientation (towards financial reporting and taxation), are based on outdated concepts and norms, and are rather poorly transmitted to students and practitioners. Most of these weaknesses tend to be beyond the immediate control of accounting educators and practitioners, due to a series of historical, economic, general educational, cultural and other complementary factors. We therefore hope to clarify in this study why and how special attention can be given to improve accounting education in Third World economies by both internal and external parties. In this context we propose extensive international accounting educational efforts to remedy the situation. Unfortunately, the nature and potential of accounting and accounting education have not been adequately clarified in many countries.

The reader should not gain the impression that improved accounting education—and accounting practices—will automatically lead to economic develop-

ment. This is not so; the significance of and need for better accounting education and information measurements and reporting for all sorts of socioeconomic activities are, in our opinion, generally not well portrayed. It also needs to be mentioned that accounting education at public and private levels is *not* competing with other economic development policies, such as better income distribution, the "basic needs" concept, and agricultural development; it supplements these policies. Improved accounting education is not a substitute for other socioeconomic development policies, but an integral part thereof, irrespective of the structure, economy and types of economic policies to be pursued. We also should convey at the outset that effective accounting education, hopefully resulting in better accounting/auditing standards and practices, cannot be separated from other levels of education at the primary, secondary and postsecondary levels. Good general educational foundations are prerequisites to better accounting education and practices.

General education has received a fair share of attention and support from local, regional and international agencies, but this not so for *accounting education* in most Third World countries. Governments and international and regional organizations may well pay more attention to the overall significance of good accounting education and accounting methodology in the private and public sectors of the economies. In this regard, accounting education should not merely *follow* socioeconomic development (as has been so often the case) but also to help *shape* it. Such an orientation is badly needed in many countries, and undoubtedly would improve the status of accounting as both a practice and a learning discipline. It requires, however, an extensive appraisal of the aims and contents of the accounting system and its methodology, including the ways and means of transmitting knowledge.

Although each country or region has to evaluate the degree of sophistication required in accounting education, we opine that clear international patterns exist and could be adhered to effectively. Accordingly, we hope this study will assist policymakers and educators in rectifying certain inadequacies, and may lead to a more sound accounting education and research in the context of economic development policy, planning and decision making.

Once the immediate and long-term needs for improving accounting information measurement systems in the public and private sectors of Third World economies are recognized, the role of accounting education will become an integral part thereof. The accounting educational modules may have to be restructured and/or improved. Potential improvements should take into account the countries' socioeconomic objectives and policies, and the past and existing conditions. Different models may have to be developed based upon the type of economy encountered in a country, its eco-political philosophy and the prevailing educational setup and coverage provided for accountants. However, as mentioned previously, certain common required trends and developments tend to exist in all countries, and to a large extent this study sketches divergent but often common educational needs and patterns in different geographical and eco-political regions. The type of accounting system and methodology required

should be of a fairly integrated eco-accounting nature, serving a variety of development objectives.

Throughout history, accounting, by and large, has had a micro orientation, and accountants have not looked upon their discipline as serving society as a whole. As stated in a previous study (Enthoven, 1978, p. 21):

Accounting has passed through many stages: . . . These phases have been largely responses to economic and social environments. Accounting has adapted itself in the past fairly well to the changing demands of society. Therefore, the history of commerce, industry and government is reflected to a large extent in the history of accounting . . . What is of paramount importance is to realize that accounting, if it is to play a useful and effective role in society, must not pursue independent goals. . . . It must continue to serve the *objectives of its economic environment*. The historical record in this connection is very encouraging. Although accounting, generally, has responded to the needs of its surroundings, at times it has appeared to be out of touch with them.

In this context, developing economies have to assess whether their accounting education is "in touch" with its socioeconomic environment, while trying to determine what the needs for accounting education will be five to fifteen years hence. This requires an adequate *educational inventory and planning framework* tied to the country's long-term economic development plans.

The studies of specific countries and the regional observations presented in Part Four will be valuable to Third World countries and regions with similar problems. These country analyses and recommendations serve as the basis for the outlining of certain *general* educational patterns. These in turn are geared to serve action programs of an international, regional and domestic nature. Furthermore, this study hopefully will assist governments, professional and educational entities, international and regional agencies, and international accounting associations or federations, in taking appropriate steps to enhance public and private sector accounting education and developments. A major aim of this study is to assist external agencies to clarify the necessity and scope of accounting education and development in their respective countries and regions, and to help them channel technical and financial aid in this direction. Accordingly, this study can be designated as "A Framework for Action," fully recognizing that the action models may have to be outlined internally before effective internal *and* external programs can be executed. Various vehicles to execute such programs are reflected.

Our study's coverage serves both national and international purposes: national in that it proposes the development of an "accounting inventory and plan" within a country; and international in that it examines methods used to grant technical, manpower and financial assistance, and to execute cooperative accounting development programs on regional and international bases.

Academic and professional bodies in both developed and developing nations have expressed considerable willingness to assist counterparts in countries requiring assistance, and we expect that effective "action programs" can be exe-

cuted. Whether the first steps would be country or regional appraisal missions, or the establishment of an international commission along the lines of the United Nations' (UN) Brandt Commission appointed by Robert McNamara, President of the World Bank, will be touched upon in Chapter XV. Undoubtedly, other ideas will emerge which will warrant consideration. Input and suggestions from international and regional development organizations in this connection will be extremely welcome!

Strong impetus for our study was given by the American Accounting Association (AAA) in 1976-1978 with the appointment of a Committee on International Accounting Operations and Education, chaired by the author. This committee prepared a report, published with the financial support of the Price Waterhouse Foundation, which has been very well received in developing, and developed, economies. Feedback on that monograph, and on previous assessments made regarding accounting and economic development, uncovered a great need to appraise, in greater depth and on a broader scale, the education, training and other developmental aspects (e.g., research) of accounting in a variety of Third World countries and regions. Such appraisals needed to be carried out by knowledgeable persons in their respective countries. Subsequently, a framework could be developed to help improve accounting educational modules in these countries and regions. What emerged was the realization of a need for a more cohesive international framework for spurring accounting education in developing economies, with the potential assistance from certain international organizations and institutions in both developed and developing countries. Such efforts would need to be performed cooperatively by educators, professional bodies and practitioners in Third World countries; international and regional development agencies, such as the World Bank, UN, regional development banks; and educational and professional organizations in the so-called developed countries.

This study then focuses specifically on the *scope and methods* of improving accounting education and related aspects in Third World development management. Extensive international accounting assistance programs are envisaged, for which ways and means are also reflected in our current study.

In regard to a proposed accounting development and assistance program, it appears that some immediate vehicles for action warrant implementation:

1. *Set up an International Association for Accounting Development* to serve as a clearinghouse for information, technical assistance, etc., for the benefit of Third World accounting education.

2. As part of the above, send out *accounting educational appraisal teams* to Third World countries which request them. These teams would evaluate needs and outline a program for accounting educational assistance. They would be comprised of experts from a variety of countries with skills in various fields of accounting education and training and would spend from three to six weeks on each study. Our report on Indonesia (Ch. XIX) gives an idea of what can be done for a specific country.

Complementing the above vehicles for action, or substituting for them, would

be the appointment by the World Bank and/or UN (or other international agency) of a special "Accounting Development Committee" to explore accounting practices and educational systems and requirements in Third World countries, and make recommendations for action.

A portion of the material presented in this study was originally compiled as part of the Committee Report of the Committee on International Accounting Education and Operations for the American Accounting Association (AAA), and the author is grateful to the Executive Committee of the AAA for permission to use this material. Several chapters are similar to the ones presented in the previously mentioned AAA study, and some of the individual country appraisals previously analyzed by our committee members have been updated by them in this study. However, our AAA Committee Report tended to be somewhat narrow in country/regional coverage, and it was necessary to extend the country and regional layouts, and to pursue the educational elements and requirements in greater depth and more extensively. Accordingly, this study also may help the Executive Committee of the AAA in delineating its role in international accounting education.

A number of persons from Third World countries has spent a great amount of time and effort in appraising their countries' situations for the studies presented in Part Four. In alphabetical order by country, they are:

Brazil	Professor Sergio de Iudicibus
Egypt	Professors Metwalli B. Amer, and M.M. Khairy
India	The Institute of Cost and Works Accountants of India and The Institute of Chartered Accountants of India
Indonesia	Professor Adolf J. H. Enthoven
Kenya	Professor James D. Newton
Korea	Korean Institute of Certified Public Accountants and Professor Sang Oh Nam
Libya	Professor Khalifa Ali Dau
Malaysia	Professor C. L. Mitchell
Mexico	Dr. Ricardo M. Mora
Pakistan	Mr. A. M. Ansari
Philippines	Professor Jesus A. Casino
Somalia	Dr. C. P. Cacho
South Pacific	Professor Roger Juchau
Tanzania	Professor Robert Dinman
Thailand	Professor Sangvian Indaravijaya et al.
Venezuela	Professors Omar Nucete and Mireya Villalobos de Nucete

This study would not have been possible without the active cooperation of these experts. We are very grateful for all their input, and hopefully it will lead to more sound international accounting education. These country and area reports serve the following specific purposes:

- They present an insight into the educational modules and requirements in a series of Third World countries, of potential benefit to other Third World economies and development countries' institutions.

- They outline bases for international and regional bilateral technical assistance.
- They set forth vital elements for seeking common accounting educational frameworks in developing regions.

In summation, the objectives of this text are: (1) to appraise, by means of specific Third World country studies in different regions, the need for accounting education in socioeconomic development; (2) to set forth a conceptual and pragmatic framework for enhancing accounting knowledge and education (and related practices) in Third World economies; (3) to assess the role of educational and other institutions throughout the world in disseminating accounting know-how and expertise to developing economies; and (4) to suggest how assistance may be given to Third World countries by way of effective educational, training, and research programs and projects in conjunction with local, regional, and international educational and development bodies.

Part One of this study gives an *overview of the function of accounting in economic development*. Chapter II looks at the content of the accounting information system and its subsystems to aid in socioeconomic analysis, policy and planning. Chapter III appraises the socioeconomic, professional and institutional, and legal and statutory elements that influence accounting structures and processes. Chapter IV presents a sketch of the significance of accounting education, with regard to overall international economic activities, while Chapter V specifically looks at these educational aspects in regard to the economic development process.

Part Two analyzes the *accounting educational conditions, weaknesses and requirements* in Third World countries. Chapter VI describes the main deficiencies and needs in the area of accounting education, based upon the country studies and additional feedback received from around the world. Chapter VII gives a general presentation outlining the functions of accounting education, training and research for economic development management. This is followed, in Chapter VIII, by an analysis of educational programs for countries in the process of economic growth and development.

Part Three deals with a *Framework for Educational Action* in accounting. This Framework for Action is founded upon the analyses presented in previous parts and the country and regional evaluations (reflected in Part Four). Chapter IV gives an overall assessment of the ways and means for carrying out such an action program. Because training for public sector activities has generally been fairly neglected, a special chapter (X) deals with this subject. The potential task of development banks to spur accounting in countries and regions has also been previously overlooked. Accordingly, a separate chapter (XI) deals with the function of development finance institutions in the growth of accounting educational developments. Considerable interest has been expressed by educators, government officers and accounting practitioners in setting up an "International Association for Accounting Development" to function as a clearinghouse, accounting educational research entity, etc. This association would serve the needs of Third World countries in regard to accounting education, research and related developments. The potential activities and structures of such an international association are presented in Chapter XII.

Various international and regional vehicles exist to help implement such an international association, accounting development centers and other international, regional and country educational programs. These vehicles are set forth in Chapter XIII, while the subsequent chapter (XIV) covers the potential sources of finance to carry out the described programs. The last chapter in this section (XV) presents a summary and concluding observations.

Part Four constitutes much of the *background information* for our previous parts; it covers country and regional studies compiled by experts in the respective areas. This background information has been incorporated in the overall study. Hopefully, the specific information may help officials in the countries concerned to discern similar conditions and requirements. These countries' officials may also benefit from our overall study, as it gives directions to improve educational patterns in individual countries, in regions and internationally. We sincerely hope this study may lead to much needed improvements in the education of accountants, and to coordinate on an international scale an area in which the Third World countries are particularly dire.

This study would not have been possible without the active and dedicated involvement of colleagues of mine in the countries represented in this study. Their ideas are reflected in the respective chapters. However, in addition, a great number of other colleagues, government officials and accounting practitioners at domestic institutions in Third World economies and international organizations have given ideas and observations over the years, which have shaped many of my thoughts as reflected in this text.

Finally, I am highly appreciative that my mentor, Professor Jan Tinbergen, has written again a foreword to this study. His tremendous experience, knowledge and insight into the vast fields of economic development, information measurement and education give particular credence to the need to pursue a more active course in regard to "accounting education and economic development." His wisdom, writings, behavior, and deeds have greatly influenced my pursuits.

PART ONE

**AN OVERVIEW OF ACCOUNTING
AND
ECONOMIC DEVELOPMENT**

