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FURTHER EXPLORATION

GLORIA L. GAYLORD
GLENDA E. RIED

Professional Careers Series

CAREERS in

ACCOUNTING

**GLORIA L. GAYLORD,
GLEND A E. RIED**

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FOREWORD

Just reading the financial section of any newspaper will tell you that today's business world is more complex than ever. Financing arrangements are more sophisticated, tax and accounting regulations are more complicated, and borrowing and investing tactics that were unheard of a few years ago are now commonplace. As a result, Certified Public Accountants are in greater demand than ever. CPAs help individuals and businesses sort through the maze and plan strategies for a successful future. The financial information that professional accountants provide is the lifeblood of business and society.

Because its impact is far-reaching, the accounting profession opens vast career possibilities. The in-depth business skills you develop as a CPA prepare you for most positions in management and provide access to the top jobs in business.

CPAs work in a wide variety of arenas: in public practice, in business and industry, in government, and in education. Those in public practice may audit the financial statements of a large Fortune 500 company or advise a small business on a range of subjects vital to the company's survival and growth. They may also serve as personal financial planners, as tax preparers and advisers, and as management and computer consultants. In business, accountants fulfill a wide spectrum of needs from internal auditor to chief financial officer, and from vice president of finance to chief executive officer. In education, accountants serve as professors, department heads, and deans. In government, accountants work at all levels of public

service—from the Securities and Exchange Commission and the Internal Revenue Service to financial departments in state and local governments across the land. In these jobs, they advise government leaders, prepare budgets, and develop spending and revenue projections.

Regardless of their job titles, accountants in all fields are charged with keeping the public trust. In fact, the accountant's ultimate responsibility is to serve society by maintaining the highest levels of integrity and objectivity in performing accounting services. As a result, CPAs command a level of trust matched only by a few professions.

Whatever form of practice you choose, accounting provides a challenging and rewarding career in which there are no limits on where you can go, or how far.

—BEATRICE SANDERS
DIRECTOR, ACADEMIC AND CAREER DEVELOPMENT
THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

PREFACE

Accounting is an attractive profession because it offers professional challenge, industry diversity, management opportunities, personal growth opportunities, and financial rewards. Major responsibilities of the accountant today are to see that the company complies with government regulations, to advise on how to improve profits and cut losses, to review accounting systems, and to provide outside counsel on management decisions.

The American Institute of Certified Public Accountants (AICPA) publishes an annual study entitled “The Supply of Accounting Graduates and the Demand for Public Accounting Recruits.” The 2004 study found that nearly fifty thousand accounting majors graduated in 2003 with B.A.s or M.A.s. Public accounting firms hired 28 percent of new graduates with bachelor’s degrees and 59 percent of master’s in accounting graduates in 2003. Twenty percent of graduates with bachelor’s degrees took jobs in business and industry, as did 18 percent of master’s degree graduates. Positions in government were chosen by 4 percent of bachelor’s recipients and by 3 percent of graduates with master’s degrees. Also in 2003, 109,872 candidates took the CPA exam.

The job outlook is good. The profession is expected to add new jobs at a 10 to 20 percent annual rate, according to the Bureau of Labor Statistics’ projections, and since it is such a large profession thousands of replacement jobs will open up each year as current employees retire or move on.

This book will be important to anyone contemplating a career in accounting. It will help the high school student and the beginning accounting student know what to expect in the accounting area. It will help the declared account-

ing major in college decide whether to enter public accounting, the corporate world, or the governmental area and whether to obtain an advanced degree.

The book has several purposes. One purpose is to guide and inform anyone interested in an accounting career of the many opportunities currently available. Another purpose is to help students plan the necessary steps to achieve success in the field. It also is an aid in career decision making. It will inform students of qualifications needed for different accounting positions and help guidance counselors to advise students.

The book covers accounting careers in public and corporate accounting, governmental and other not-for-profit organizations, and it describes the accounting educator, the self-employed accountant, and the financial planner. Included within each of these career areas are job descriptions of positions, educational qualifications, salary ranges, certification requirements, future job potential, and employment trends.

An entire chapter is included on accounting job opportunities in Canada. This chapter discusses possibilities for employment in public accounting, business and industry, government, and as an accounting educator. Information is included on salary for different categories along with names and addresses of organizations providing certification in different areas of accounting.

There is a chapter on preparing for the accounting job, including a section about college internships, résumé preparation, interviewing, and achieving a professional image. The last chapter gives information needed to advance in a career. It includes ideas on communication, networking, and mentoring.

A suggested reading list of articles and books for additional information is provided at the end of each chapter. Appendixes list names and addresses of professional organizations, addresses of state boards of accountancy, and much more additional useful information. The book provides an in-depth description and discussion of every major area of accounting available for the college graduate.

A thank-you is given to the University of Toledo for hours of typing and to Price Waterhouse for its generous donation of staff time and facilities. A special acknowledgment is made to Paul Bjorn and Donna Murphy in the Cleveland office of Price Waterhouse.

—GLORIA L. GAYLORD
GLENDA E. RIED

CONTENTS

Foreword ix

Preface xi

CHAPTER 1

Public Accounting 1

Practice areas • Types of firms • Levels of responsibility and salary • Certification • Employment opportunities • National offices of the Big Four firms • Notes • Suggested reading

CHAPTER 2

Corporate Accounting 19

Corporate job titles and responsibilities • Education and salary • Certification • The future • Suggested reading

CHAPTER 3

Opportunities with Government 41

Federal government careers • State government careers • City and local government careers • Civil service (Office of Personnel Management) • Rights of government employees • The future • Federal employment service centers • Suggested reading

CHAPTER 4

The Accountant for Nonprofit Organizations 71

Public school systems • Colleges and universities • Hospitals and health-care facilities • Voluntary health and welfare organizations • Notes • Suggested reading

CHAPTER 5

The Sole Practitioner 85

Qualifications • Types of services rendered • Starting and building a practice • The future • Suggested reading

CHAPTER 6

The Accounting Educator and Administrator 97

High school accounting teacher • Business and community college teachers • University accounting faculty • The academic administrator • Notes • Suggested reading

CHAPTER 7

The Financial Planner 111

Financial analysts • Personal financial advisors • Certified Financial Planner Board of Standards, Inc. • Suggested reading

CHAPTER 8

Accounting in Canada 121

Chartered accountants • Certified general accountants • The Society of Management Accountants • Government accounting • Accounting educator • The future • Suggested reading

CHAPTER 9

Accounting Trends Today 137

Accounting and American business • Education for today's accounting careers • Computers in accounting • International opportunities • Notes • Suggested reading

CHAPTER 10

Getting Started on a Career 149

Setting goals • Financial aid opportunities • Enhancing your college education • Job search skills • Suggested reading

CHAPTER 11

Maximizing Your Career 163

Being organized • Communicating • Maintaining a
career-oriented attitude • Being assertive • Using power •
Finding a mentor • Networking • Promoting yourself • Notes •
Suggested reading

APPENDIX A

National Accounting-Related Organizations 175

APPENDIX B

**Major Accounting Journals of
Academic and Professional Societies 179**

APPENDIX C

**State Boards of
Accountancy in the United States 181**

APPENDIX D

Canadian Resources 187

CHAPTER

1

PUBLIC ACCOUNTING

Accounting theory is shaped by its users and must be flexible to accommodate changing business requirements. From earliest times, people recorded information by making marks on stone or clay. Archaeologists have found evidence of this in the ruins of ancient Sumeria and Egypt.

A late fifteenth-century Italian monk, Luca Pacioli, is credited with the earliest written evidence of double-entry bookkeeping. Today it is possible for a company to keep a complete and coordinated record of all its transactions using a double-entry bookkeeping system. Companies then generate financial statements from this summary of transactions.

The Industrial Revolution began in England in the mid-eighteenth century and spread to the United States during the 1800s. Industrialization required huge amounts of capital and initiated the rise in importance of the corporation as a form of business. The need for a more standard set of accounting rules and regulations that would allow stockholders to compare and evaluate the operations among several companies gave special impetus to the field of public accounting. Public accounting is the area of accounting that is specifically concerned with the preparation and presentation of financial statements in a fair and consistent manner for external use by investors, creditors, and analysts.

Today's accountant is as much a business executive as a technician. The whole nature of the work done by the public accounting profession has undergone some significant changes in recent years, and the changes continue. The requirements for those entering the profession continue to be

demanding. The rewards, in terms of remuneration and self-satisfaction, are increasingly attractive.

PRACTICE AREAS

There are five major areas of work within the public accounting field: accounting and auditing, taxation, management consulting, entrepreneurial services, and forensic accounting. In large firms, these areas are separated into different departments. In smaller firms, the areas may not be formally divided because the same person may perform more than one of these functions.

Accounting and Auditing

Accounting and auditing are the basic functions of most public accounting firms and in most large firms still generate a large portion of the firm's revenues.

An auditor's job is to determine whether the economic activities of an organization are fairly reflected in its financial statements. Certified public accountants (CPAs) examine clients' financial statements and express an opinion as to whether these statements fairly present the financial condition of the organization.

Auditors need to go beyond the numbers of a company and look at the operations from a businessperson's perspective. Understanding the total business operation leads to a well-planned and well-executed audit. This includes learning about the company's long-range objectives, strategy, and operating environment, then the systems and procedures that make up its controls, and finally how its people interact with the business and its control systems.

Auditors need to review a company's internal control system. Internal control requires mastery of the methods and procedures that govern the authorization of transactions, the safeguarding of assets, and the accuracy of the financial records. Good internal control aids in maximizing efficiency. It also helps guard against waste, unintentional errors, and fraud.

Auditors examine financial documents and other records. In the past, many pieces of paper had to be examined during the audit, but sophisticated computer systems and advances in technology have forced auditing

firms to use state-of-the-art, computer-based automated techniques to perform many of the audit functions.

Even though many of the functions are computerized, the auditor still needs to confirm bank balances, verify and value ending inventory, check the existence of plant assets, and examine depreciation schedules. The audit involves reading minutes of vital company meetings; studying contracts; and conferring with management, directors, and outside counsel about company operations.

The auditor then reaches a conclusion, using information gained from analyzing the company and from overall knowledge of the business climate. This conclusion is the culmination of the audit work and is called the *audit report*. The independent auditor's act of reporting his or her professional opinion on the fairness of financial statements has come to be known as the *attest function*.

The audit report has a standard three-paragraph format when the statements are fairly presented in conformity with "generally accepted accounting principles." It is as follows:

Independent Auditor's Report

Stockholders and Board of Directors
AU Company

We have audited the accompanying balance sheet of the AU Company as of December 31, 2005, and the related statements of income, retained earnings, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well

as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of AU Company at December 31, 2005, and the results of its operations and its cash flows for the year ended in conformity with generally accepted accounting principles.

Able, Baker, and Charlie

February 15, 2006

The phrase “generally accepted accounting principles” (GAAP) refers to a common set of accounting concepts, standards, and procedures. This set of accounting rules has become generally accepted by agreement and usage.

The American Institute of Certified Public Accountants (AICPA) is a professional organization of CPAs, many of whom are in public accounting practice. The AICPA has been the dominant organization in the development of accounting standards over the last fifty years. From 1939 through 1959, the AICPA Committee on Accounting Procedures issued fifty-one Accounting Research Bulletins (ARBs) recommending certain principles or practices. From 1959 to 1973, the Accounting Principles Board (APB) issued thirty-one Opinions that CPAs are required to follow. In 1973, the APB was replaced by an independent, seven-member, full-time Financial Accounting Standards Board (FASB). The FASB has issued numerous Statements of Financial Accounting Standards and interpretations of those standards. The FASB is widely recognized as the major influence in the private sector in the development of new financial accounting standards.

The Securities and Exchange Commission (SEC), created under the Securities and Exchange Act of 1934, has the authority to prescribe accounting and reporting practices for companies under its jurisdiction. This includes virtually every major U.S. business corporation. Rather than exercise this power, the SEC has adopted a policy of working closely with the accounting profession, especially the FASB, in the development of accounting standards. The SEC indicates to FASB the accounting topics it believes should be addressed. External pressure by the SEC and a concerned public continue to make the FASB a responsible body.

Taxation

Taxation is a complex and challenging area of the accounting profession because of constantly changing tax policies, the growth of multinational firms, and the greater complexity of business in general. Tax-related work forms a significant segment of the practices of both large and small accounting firms. The tax consultant is a crucial resource for businesses and individuals.

The CPA specializing in the tax area offers a broad range of services. These services include tax planning and advice, the filing of tax returns and supporting documents, representation of clients before government agencies, estate planning, and other assistance to clients in regard to complying with tax laws.

The rapid expansion of the complexity and impact of tax problems has increased the demand for tax professionals. Tax advisers often spend much of their time on consulting matters. They are involved in helping executives plan a company's business activity and advising them on personal financial matters.

Typical tax consulting projects include:

- Advising a client on acquisitions and mergers
- Guiding a reorganization of a client's international operations to reduce taxes
- Evaluating tax aspects of various leasing agreements
- Counseling corporate executives on minimizing personal taxes

Since tax laws change often, the tax professional must be a lifelong student in order to remain current and responsive to clients' needs.

Management Consulting Services

The role of management consulting professionals is to help clients define the information needs of their organization and to identify and assemble the data needed to create the information. An important function of management consulting services (MCS) is to help with a company's financial planning and control. Equally important is the area connected with information systems and electronic data processing. Other areas usually handled

by MCS are pensions, benefits, and compensation; executive recruiting; operations research and quantitative analysis; and industrial engineering.

The background of the management consulting professional represents a wide range of disciplines, not limited to accounting. Many entry-level consultants have degrees in computer science, general business, or liberal arts (with a quantitative focus on a subject such as math, economics, or statistics).

Some of the largest management consulting organizations in the world operate as departments within accounting firms. Demand for consulting services is international. MCS are used by virtually every industry. Examples of consulting projects by CPA firms are:

- Advised a stock exchange corporation and developed a computer system that improved the speed and accuracy of settlement among brokers
- Assisted New York City in implementing a new integrated financial management system covering all major agencies and programs
- Helped several major railroads with comprehensive resource planning, costing of major operating systems, and rate settlements
- Aided the U.S. Treasury Department in its evaluation of Chrysler Corporation's appeal for financial assistance through financial modeling and a review of financial, marketing, and operating data

A career in management consulting offers the opportunity to work with a company's executives in applying the concepts of modern management and information technology.

Entrepreneurial Services

This is a fast-growing and dynamic practice area that has been formed in most large firms in the last few years. The person working in this area deals with the special requirements of a start-up or growing company. Professionals in this group are involved in counseling and advising the emerging or middle-market company that may lack the in-house resources to successfully handle strategic planning, cost control, attracting capital, going public, or choosing the right information system or compensation plan. Audit, tax, and management consulting skills are all used to satisfy the needs of an emerging business.

Forensic Accounting

Some public accountants specialize in forensic accounting—investigating and interpreting white-collar crimes such as securities fraud and embezzlement, bankruptcies and contract disputes, and other complex and possibly criminal financial transactions, such as money laundering by organized criminals. Forensic accountants combine their knowledge of accounting and finance with law and investigative techniques in order to determine if illegal activity is going on. Many forensic accountants work closely with law enforcement personnel and lawyers during investigations and often appear as expert witnesses during trials.

TYPES OF FIRMS

CPA firms are divided into categories according to such criteria as number of employees, number of offices, or total dollars of billable revenue. Using these criteria, a firm is sometimes classified as small, medium, or large; and local, regional, national, or multinational.

A group of giant multinational CPA firms is known as the Big Four because four firms comprise the group. This group of CPA firms was originally known as the Big Eight; however, a series of mergers in the last two decades have left four organizations to comprise the Big Four. The Big Four firms audit the majority of companies represented in the Fortune 1000. These firms are:

- **Deloitte Touche Tohmatsu.** An organization of member firms providing professional services and advice.
- **Ernst & Young.** Member firms help companies in all industries to handle a broad range of business issues.
- **KPMG.** Provides business advice to help companies manage their businesses.
- **PricewaterhouseCoopers.** Provides assurance, tax, and advisory services to public and private clients.

These CPA firms have offices in many U.S. and Canadian cities, as well as other major cities throughout the world. Addresses of the national headquarters of these firms are listed at the end of this chapter. These four firms have instant name recognition within the accounting profession. Some of