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TRENDS

Teaching Judgment in Beginning Accounting[1]

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Beginning accounting focuses mostly on definitions, procedures, and calculations:

- What is an asset and how does it differ from an expense?
- How do you record the purchase of an asset or an expense?
- How do you calculate the amount of an expense or how much of an asset that has been expired?
- How much are total assets or expenses?

There are straight-forward answers to these questions, but it is important to encourage students, most of whom will have only one or two accounting courses in their academic careers, to consider the judgments that underline accounting and financial reporting. Consider the following business decisions by a company seeking to obtain equipment for its business:

- It can purchase equipment by taking out a bank loan
- It can purchase equipment by issuing stock
- It can lease the equipment

Also, consider the following financial reporting decisions:

- The company estimates the useful life of the equipment to be five years.
- The company estimates the residual value of the equipment to be 10 percent of cost.
- The company uses the straight-line method to estimate depreciation.
- The company records the lease payment as an operating lease.

In this more extended *Trends*, I show how realistic judgment examples can be introduced into your class using concepts and techniques that students will understand and benefit from at this level.

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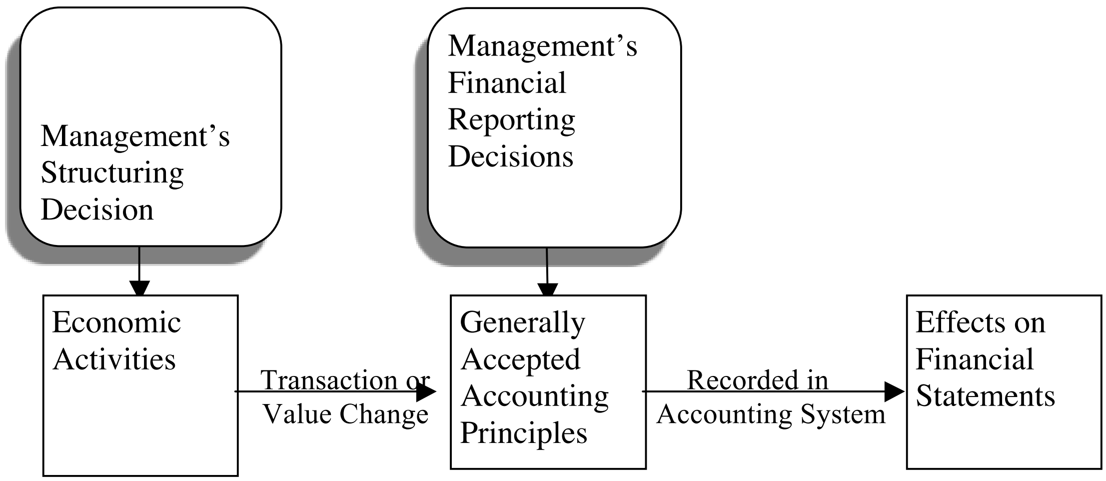
[1] This *Trends* is based on a longer study made by the author during his year (2010-2011) as the Wicklander Fellow in Business Ethics at DePaul University.

Business-structuring versus financial-reporting decisions. As may be seen in Figure 1, every item in the financial statements is the result of the complex interaction of these two decisions by management:

- A business structuring decision and
- A financial reporting decision

Figure 1: Business-Structuring Decisions versus Financial-Reporting Decisions. [2]



Financial statements are affected first by business structuring decisions that engage the business in economic activities. These decisions result in transactions or changes in value that must then be recorded in accordance with generally accepted accounting principles (GAAP). Financial statements are affected second by financial reporting decisions because GAAP offers both alternative financial reporting treatments and relies on judgment. Various accounting decisions must be made to record the transactions in the accounting system from which the financial statements and related disclosures are prepared.

Management can structure its decisions to such a way as to determine subsequent GAAP treatment by, for example, how they

- Time transactions to result in favorable timing of revenue or expense recognition
- Write contracts, such as lease agreements and pension agreements.

[2] McKee, T.E. (2005). Earnings Management: An Executive Perspective, 1st Edition.

GAAP requires managers to make numerous financial reporting judgments that have an impact on reported earnings. Examples of these financial reporting judgments that could subtly shade earnings in one direction or another include:

- Long-term construction contracts require estimates of progress toward completion and costs to complete. Managers could use optimistic estimates of progress toward completion to inflate earnings.
- Accounts receivable must be stated at net realizable value. Managers could use optimistic estimates of collectability to overstate earnings.
- Costs must be classified as product costs or period costs. By classifying some borderline costs as product rather than period costs, managers can reduce expenses during times of inventory growth.
- Gains on asset dispositions may be fully recognized in the period of sale. Managers could time the sale of appreciated assets such as marketable securities and fixed assets to bolster earnings.
- Software development companies must estimate the point at which technological feasibility is reached for software products and capitalize software development costs after that point. Managers could accelerate this date to avoid immediately expensing some software development costs.
- Anticipated costs of satisfying warranty obligations must be accrued and matched to revenues. By making optimistic estimates of product warranty costs, managers could reduce current expenses.
- Ordinary repairs are expensed as incurred, while major repairs are capitalized. By treating ordinary repairs as major repairs, managers could bolster current earnings.
- Inventories must be stated at the lower of cost or market. Managers could use optimistic market values, resulting in reduced inventory write-downs. [3]

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[3] Jackson, S.B., and Pitman, M.K. (2001, July). "Auditors and Earnings Management," *The CPA Journal.* <http://www.nysscpa.org/cpajournal/2001/0700/features/f073801.htm>

In a study of 347 cases of fraudulent financial reporting over the last decade, the Committee of Sponsoring Organizations (COSO) identified numerous motivations for falsifying the financial reports, including to:

- Meet external earnings expectations of analysts and others
- Meet internally set financial targets or make the company look better
- Conceal the company's deteriorating financial condition
- Increase the stock price
- Bolster financial position for pending equity or debt financing
- Increase management compensation through achievement of bonus targets and through enhanced stock appreciation
- Cover up assets misappropriated for person gain[4]

Overly aggressive earnings management is a form of fraud and differs from reporting error. Management wishing to show earnings at a certain level or following a certain pattern seek loopholes in financial reporting standards that allow them to adjust the numbers as far as is practicable to achieve their desired aim or to satisfy projections by financial analysts. These adjustments amount to fraudulent financial reporting when they fall 'outside the bounds of acceptable accounting practice'. The special COSO report also identified the most common financial fraud techniques among the 347 fraud companies to include:*

• Improper revenue recognition (recording fictitious revenues or recording revenues prematurely)	61%
• Overstatement of assets (excluding accounts receivable)	51%
• Understatement of expenses/liabilities	14%
• Insider trading also sited	24%
• Disguised use of related party transactions	18%
• Other miscellaneous techniques (acquisition, joint ventures, etc)	20%[5]

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[4] Beasley, M.S., Carcello, J.V., Hermanson, D.R., & Neal, T.L. (2010, May). *Fraudulent Financial reporting 1998-2007: An Analysis of U.S. Public Companies.* Committee of Sponsoring Organizations of the Treadway Commission (COSO), 14.

[5] Ibid., p. 17.

* Totals more than 100% because of multiple abuses

Judgment, estimates, and accounting choices. Accounting choices, both structural and judgmental, should be made within the framework of GAAP. Most people understand that GAAP are the set of rules, practices, and conventions that describe what is acceptable financial reporting for external stakeholders, but they may find it surprising that a single, normal, everyday accounting choice may be either ethical or unethical. The difference between an ethical and an unethical accounting choice is often merely the degree to which the choice is carried out. The problem with many accounting judgments is that there is no clear limit beyond which a choice is obviously unethical. Thus, a perfect routine accounting decision, such as expense estimation, may be illegal if the estimated amount is extreme but perfectly ethical if it is reasonable. GAAP does not tell managers what specifically is normal and what is extreme. It is more like a speed limit sign that just says "Don't Drive Too Fast!"

An example for your class. Uncollectible accounts estimation is a prime example of an accounting decision many managers have to make. Since a company extends credit as an incentive for customers to buy, estimated losses from those who do not pay are considered a cost of the current period even though it will not be known until future periods, which customers will not pay, and what the amount of non-payment will be. GAAP requires that an estimate of uncollectible accounts be recorded as an expense in the same fiscal year as the revenue from the product is recorded. This follows a basic accrual accounting concept of matching expenses with related revenue.

Even small changes in estimates can have important effects on reported earnings. To illustrate, assume that a company has operating income of $100,000 before the estimate of uncollectible accounts. Also, assume management estimates uncollectible accounts to be $6,000 or 2 percent of net sales of $300,000. The income statement would look like this:

Revenue	$100,000
Less: Estimated Uncollectible accounts expense	6,000
Net	$ 94,000

However, the fact that uncollectible accounts will be $6,000 is not always so clear.

Assume that for the past five years, average uncollectible accounts costs on the same level of sales have ranged from $4,000 to $8,000 (1.33% to 3.67% of net sales), with no specific pattern being apparent.

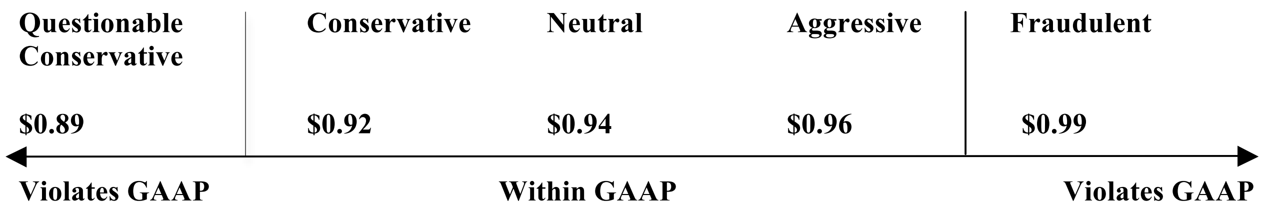
- A financial manager who wanted to report the highest possible current period income would be justified in using $4,000 amount for the current year's expense estimate even though $4,000 is the bottom of the historical range.
- That same manager might use $8,000 to be conservative in a year when the economy is weak.
- That same manager might even be justified in using $3,000 if there was evidence that improved customer credit investigation and improved economy during the current fiscal year would be expected to lower future losses from uncollectible accounts.
- But what if that manager used an estimate of $1,000 simply because that figure would make it possible to achieve a desired net income target for the fiscal year? Since the $1,000 has no reasonable support, using it would be crossing the ethical line to possible financial fraud even though GAAP does not draw the clear line ethical use of judgment and unethical use.
- Or, on the other end of the spectrum, management might choose the highly conservative estimate of $11,000 because the company for whatever reason (perhaps to avoid taxes or to appear unattractive to a take over) did not want to show higher income. Since the $1,000 or $11,000 have no reasonable support, using it would be crossing the ethical line to possible financial fraud even though GAAP does not draw the clear line ethical use of judgment and unethical use.

As may be seen in Figure 2, the concept of a reporting earnings continuum from questionable conservative to conservative to neutral to aggressive to fraudulent. The question becomes as to where to draw the lines. Should they be wide latitude as in Figure 2a or more narrow as in Figure 2b? The answer does make a difference. In this one example of a rather modest difference in estimate from $1,000 to $11,000 (.33% to 3.67% of net sales), it make a difference of $.10 per share ($.99-$.89) or approximately

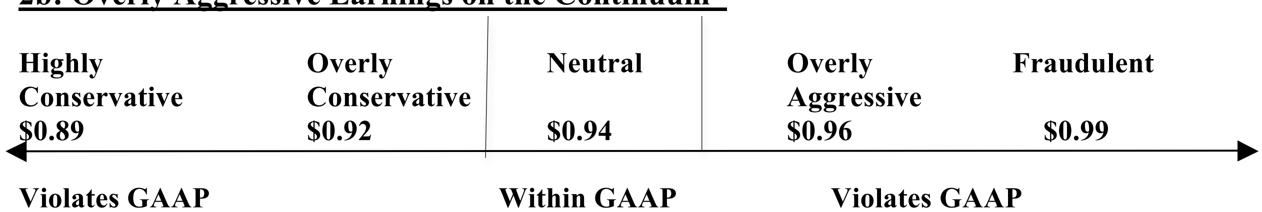
10 percent of earnings per share (EPS). Given that EPS is the most commonly quoted performance measure for companies and that when companies miss analysts' earnings estimates by $.01, 75 percent of the time it is by more than the estimate. Finally, consider that the estimate of uncollectible accounts is only one of dozens of estimates made by management in preparing the financial statements.

Figure 2: Where Do You Draw the Line?

2a: The Earnings Management Continuum of Ethical Financial Reporting [6]



2b: Overly Aggressive Earnings on the Continuum [7]



It is clear from Figure 2, there is no "bright line" in GAAP to tell managers what is and what is not acceptable. It is also clear that while this illustration shows the magnified effect of just one judgment, we have seen earlier that management is presented with numerous structural and estimate decisions that can impact reported earnings. Management is simply expected to make choices that appropriately reflect a company's economic performance. What is appropriate for one company may not be appropriate for another. Here are some example cases that range from highly conservative to fraudulent.

Case example—Highly Conservative: Following the anti-trust investigation by the U.S. attorney general, Microsoft failed to recognize revenue as earned. This is perhaps

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[6] Adapted from Dechow, P.M. Skinner, D.J. (2000). "Earnings management: reconciling the views of accounting academics, practitioners, and regulators," *Accounting Horizons* 14 (2): 239.

[7] Ibid.

an example of unacceptable highly conservative earnings management shows that not all earnings management practices involve overstatements. The SEC alleged that Microsoft's accounting practices from July 1994 through June 1998 caused its income to be substantially misstated. Microsoft failed to accurately report its financial results, causing overstatements of income in some quarters and understatements of income during other quarters. SEC said Microsoft enhanced its financial results by setting aside artificially large reserves to reduce revenues, with the idea of reversing that procedure to record the revenues in less profitable times. The reserves totaled between $200 million and $900 million during the period in question. The SEC criticized the use of such so-called "cookie-jar" reserves, which can give investors an inaccurate picture of the company's current financial performance. Under a settlement with the Securities and Exchange Commission, Microsoft has agreed to refrain from accounting violations to settle federal regulators' allegations that it misrepresented its financial performance. Under the settlement, Microsoft neither admitted to nor denied wrongdoing and no fine was imposed. [8]

Case example—Conservative to Neutral: Based on management's analysis of sales returns and allowances and uncollectible accounts, Time Warner established reserves of $2,253 billion and $2,229 billion at December 31, 2009 and 2008, respectively, These estimates represent about 30 percent of gross accounts receivable in both years. Management explains that this is an "area of judgment affecting reported revenues and net income" and is based on analysis of "vendor sell-off of product, historical return trends, current economic conditions, and changes in customer demand."[9] This is perhaps an example of conservative to neutral earnings management.

Case example—Neutral to Aggressive: Following the 9/11 crisis, Southwest Air changed the estimated lives of its airplanes from 22 years to 27 years under the reasoning that improved maintenance methods enabled them to get more useful years use out of the aircraft. This change in accounting estimate, which does not require a consistency

[8] "Microsoft Settles Accounting Charges with SEC, *USA Today,* June 3, 2002.

[9] Time Warner Inc. (2010). *Annual Report,* 2009.

disclosure in the auditor's report, had the effect of enabling Southwest to continue to show year-to-year earnings growth. The change of estimate and its effect were disclosed in a note to the financial statements. This is perhaps an example of acceptable neutral to aggressive (not overly aggressive) earnings management.[10]

Case Example—Acceptable Aggressive: Some companies, including AT&T Inc. and Verizon Communications Inc., are changing their accounting for pension plans in 2010 by shifting to mark-to-market accounting. In the market meltdown from the financial crisis in 2008-2009, these companies incurred very large losses: $23 billion for AT&T and $12 billion for Verizon. Rather than recognize these losses on their income statements in 2008-2009 the companies elected in accordance with current U.S. standards to amortize them over future years.[11] Now, in the 2010 financial statements, these companies are electing to change their accounting for pension funds to mark-to-market accounting in line with international standards and to restate prior years financial statements. The effect of this change is that the large losses in 2008-2009 will never be reflected in the current year's financial statements and 2010 earnings will be much better than they would have been. The companies justify the change as making the financials more transparent for investors in the current and future years by reflecting changes in the market value of pension assets and obligations. An AT&T spokesman says it improves accounting clarity so "everyone can understand where the gains and losses that get recognized in our income statement at the end of each year are tied to real economic events." And a Verizon spokesman says the new approach "actually is a preferable accounting method and one that aligns with the fair value accounting concepts and current [IASB] proposal."[12] This is perhaps an example of acceptable aggressive earnings management

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[10] Southwest Airlines, Inc. (2003). *Annual Report,* 200*2.*

[11] Michael Rapoport. (2011, March 9). "Rewriting Pension History," *The Wall Street Journal*.

[12] Barry B. Burr. (2011, February 21). "Mark-to-Market Accounting Helps Companies Shift Pension Plan Losses," *Pensions and Investments*.

<u>Case Example—Overly Aggressive:</u> The S.E.C. accused Dell of misleading investors by using money the company received from the chip maker Intel to pad its quarterly earnings statements. Company executives, according to the S.E.C., relied on the payments from Intel to meet or surpass Wall Street's expectations. Intel paid Dell in the form of rebates as part of an agreement to ensure that Dell would not use computer chips made by Advanced Micro Devices (AMD) in its personal computers and computer servers, according to the civil charges. Those rebates are the subject of federal and state antitrust inquiries of Intel. When Dell eventually picked AMD as a second supplier, Intel cut the rebates, and Dell's financial performance suffered, the complaint said. The S.E.C. said in its charges that investors were not aware of the extent of period to project financial results that the company wished it had achieved but could not," said Christopher Conte, associate director of the SEC's enforcement division, in a statement announcing the settlement. "Dell was only able to meet Wall Street targets consistently during this period by breaking the rules." Without the Intel payments, Dell would have missed the consensus estimate for earnings per share published by Wall Street analysts who followed the company in every quarter during its fiscal years from 2002 through 2006. The exclusivity payments constituted a steadily growing part of what Dell reported as its operating earnings, from 10 percent in fiscal 2003 to 38 percent in the fiscal 2006, then jumping to 76 percent in the first quarter of fiscal 2007, the S.E.C. said. In settlement, Dell, several former executives, and its founder, Michael S. Dell, agreed to pay more than $100 million in penalties to settle charges of disclosure accounting fraud filed by the Securities and Exchange Commission.[13]

<u>Case example--Fraudulent:</u> Satyam Computer Services, which was once ranked among the top three IT firms in India, boasted in early 2008 that the company had mastered U.S. GAAP accounting, "We can say with confidence that we carry out U.S. GAAP accounting as perfectly as any other global corporation. . . We have to comply

[13] Wyatt. E. (2010, July). "Dell to Pay $100 Million Settlement," *The New York Times.* < http://www.nytimes.com/2010/07/23/business/23dell.html>

with SOX [Sarbannes-Oxley] requirements well ahead of time."[14] On the morning of Jan. 7, 2009, Ramalingam Raju, the chairman of troubled Indian IT outsourcing company Satyam Computer Services, sent a startling letter to his board and the Securities & Exchange Board of India. Raju acknowledged his culpability in hiding news that he had inflated the amount of cash on the balance sheet of India's fourth-largest IT company by nearly $1 billion, incurred a liability of $253 million on funds arranged by him personally, and overstated Satyam's September 2008 quarterly revenues by 76% and profits by 97%. After submitting his resignation, Raju ended his letter by apologizing for his inability to close what began as a "marginal gap between operating profits and the one reflected in the books of accounts" but grew unmanageable.[15] Satyam was charged with fraud and was later bought by Mahindra & Mahindra Inc. Satyam has come to be known as the "Enron of India." This is a case that clearly deceptive accounting: unethical and fraudulent.

Summary. Thus, using case examples of well-known companies, we can introduce students to the judgments and estimates, both of a business nature and a financial reporting nature that underline financial statements and are important considerations if they are to become knowledgeable business people.

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[14] Reason, T. (2009, January). "Pro-Forma Distraction at Satyam," *CFO.com.* <http://www.cfo.com/article.cfm/12964444/c_13047759?f=insidecfoeurope>

[15] Kripalani, M. (2009, January). "India's Madoff? Satyam Scandal Rocks Outsourcing Industry," *businessweek.com.* <http://www.businessweek.com/globalbiz/content/jan2009/gb2009017_807784.htm>

LEVERAGING NARRATIVE LEARNING TOOLS: A PEDAGOGICAL DISCOURSE TO TEACHING INTRODUCTORY ACCOUNTING COURSES

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LEVERAGING NARRATIVE LEARNING TOOLS: A PEDAGOGICAL DISCOURSE TO TEACHING INTRODUCTORY ACCOUNTING COURSES

INTRODUCTION and RATIONALE

This paper outlines a narrative discourse strategy to teaching accounting courses. It discusses narrative learning tools, demonstrating how students make use of the "Aha moment," relating new knowledge to make a direct connection to their study of accounting concepts. During the academic years 2005-2006 and 2006-2007, a pedagogical/narrative discourse to teaching introductory financial and managerial accounting courses was a strategy used as a vehicle for evoking students' awareness of and curiosity for their individual knowledge acquisition in accounting courses. Using this strategy requires a combination of:

- ✓ pre-post assessments
- ✓ journalizing
- ✓ lecture series or professional business meetings
- ✓ "min1-responsibility centers"

In this methodology, students are perceived as actors on their own life-stage. Accounting and business education are complex ideologies and as such students need to be able to evoke their own critical thinking skills and abilities and to combine them with activities outside of the class-room to promote their personal knowledge acquisition. The rationale for using this combined strategy was to help students initiate their knowledge of accounting concepts before and after they took the course.

WHAT IS NARRATIVE DISCOURSE?

A narrative discourse is an account (or recounting) of events, usually in the past, that employs verbs of speech, motion, and action to describe a series of events that are contingent one on another and that typically focuses on one or more performers of actions. For general purposes in semiotics and literary theory, a "narrative" is a story or part of a story. It may be spoken, written or imagined, and it will have one or more points of view representing some or all of the participants or observers. In stories told orally, there is a person telling the story, a narrator whom the audience can see and/or hear, who adds layers of meaning to the text non-verbally. The narrator also has the opportunity to monitor the audience's response to the story and modify the manner of the telling to clarify content or enhance listener interest. This is distinguishable from the written form in which the author must gauge the readers' likely reactions when they are decoding the text and make a final choice of words in the hope of achieving the desired response. Whatever the form, the content may concern real-world people and events; this is termed "personal experience narrative" (Fludernik, 2003; Freeman, 2004). Using narrative discourse, students have an opportunity to combine reflective analyses on the various learning tools to determine what they learned and what they can use in the future, their personal experience narrative.

COMBINED METHODOLOGY and SAMPLE NARRATIVES

Pre/Post Assessment

On the first day of class, students are given a worksheet, which has two sections separated by blank lines. The first section is labeled pre-assessment and the second post-assessment. Students are asked to write a paragraph delineating all they knew about accounting to date, either from high school courses taken or from other means in the section labeled pre-assessment. They are also instructed to leave the post-assessment (second section) blank and to keep the work sheet and to hand it in on the last day of class. On the last day of class they are instructed to complete the post-assessment section of the work sheet and to self-assess what they know about accounting at that juncture. They are also asked to critically review and analyze what they have learned and to identify pre-knowledge, versus post-knowledge, the "aha" moments in their personal experiences. Appendix 2 shows examples of two student's pre/post assessment, the synopses of the students' reflections are included below:

Students' pre-post assessments	Pre-Assessment	Post-Assessment
Student 1	*I know nothing.*	*I learned so much about accounting, I know balance sheets and income statements are very important to decision making.*
Student 2	*I hardly know how to balance my check book!*	*I now know how to balance my check book! I also know that accounting is just like balancing my check book; it is like the check book for businesses. The checks are their expenses and the deposits are like their income or sales.*

From these synopses you can see how much students have learned and grown. In other words, they not only learned much about accounting from beginning to end, but have learned how to articulate succinctly what they have learned. See appendix for example.

Reflective Journalizing

In addition to pre/post assessments students are instructed to keep a journal of their new knowledge each week. In their journal, they must document one new accounting concept that they learned during that week. In order for students to know that their knowledge acquisition is of utmost importance, the journals are reviewed periodically and credit is given for entries. They are asked to share with the class the new knowledge gained, referencing one specific "aha moment," concept, or formula they learned during the course of the semester. The following synopses were taken from two student's journal entries:

Students' journals	Week 1	Week 6
Student 1	*Accounting is cool, it is the language of business*	*Cash flow statements have three sections: operating, investing, and financing*
Student 2	*Accounting is used to tell people how the company receives money and how they spend it*	*When you are doing a cash flow statement it shows that you have to add back depreciation because it is not really cash*

As can be surmised from these journal synopses, the students' knowledge base is becoming more sophisticated from week one to week six. Again, you can see that it is not only their knowledge base that is improving, but their narrative skill levels as they articulate what they have learning.

<u>Lecture or Professional Meetings</u>

In addition, students are asked to attend at least two *Tetley Lecture* series (see appendix 1 for more information on these lecture series) or professional meetings of their choice. At the end of the semester they describe the four W's of narrative discourse: why, where, who, and what. Students are asked to write a reflection piece that describes the four W's of narrative discourse: why, where, who, and what. The following synopsis highlights the meaning of the four W's as well as one student's reflection of the meaning making based on a lecture series attended.

Students' meeting reflection	Lecture Series	Student's reflection
Student 1 The W's • *What: The Name of the Series or Professional Meeting* • *Who: The presenter and his/her organization* • *Why: The topic of the lecture, and why the lecture was important* • *What: What was learned during the lecture, "the aha moment"*	Referring to lecture by Steve Kooning, COO for Turner Broadcasting. September 20, 2006.	*Student wrote, "At first I thought the lecture was going to be a waste of my time. But I was happy I went because I learned so much about what happens in the news, media and film business like at CNN. I am glad I went and I recommend these lecture to other students."*

As can be surmised for the above synopsis, the student attends the meeting because it was mandatory. However, she subsequently realized that the premonition she held of the lecture being a possible "waste of time" resulted in an "Aha moment." Instead of it being a waste of her time, she was able to make a direct connection to media as a business, which she may not have thought of before. Every business school has some program or series which are similar, in addition, they will have professional organizations that will offer professional workshops or meeting that students can leverage. Hence, faculty can make attendance and exposure to such meetings mandatory for credit and students will reap the benefits of attending even though they may not initially think so.

<u>"Mini-Responsibility" Centers</u>

The concept of "Mini Responsibility" Centers is a term I coined and proffered as a strategy for decentralizing and managing large accounting courses using the course/classroom as a business. This approach was implemented based on several assumptions about learning communities. These MRCs are communities of practice, they lead to students defining their identities and making meaning for and from their learning processes as they were able to collaborate and learn from each other in their team-based groups. This team-based approach may sound like a cliché; however, these multiple centers are strategic for building and leveraging the *profits* or benefits of self-knowledge management.

In these centers each student member must take responsibility for his/her own actions; must want to be successful and to see self as well as team goals and ideals fulfilled. These goals could simply be getting projects done in a timely manner or getting an "A" in the course. In addition, among several rationales for implementing this innovative strategy, the most important one is to refocus the teaching/learning process from the traditional professor/lecture orientation to a community, team-based process, and for the students. Students self-select their teams and their team leaders and assistant leaders and carry out several learning activities together during the semester. There are several responsibilities that each team and its leader have in helping each other learn accounting in this community of practice. These mini-responsibility centers are used as an effective management tool for large classes. Team leaders and assistant leaders are asked to write a reflection piece that describes the four W's of narrative discourse: why, where, who, and what. The following synopses highlight excerpts from three student leaders' narrative reflections

Student Leaders	**Students' MRC Narratives**
—Andrew Weegar Accounting 2100 Team Leader	*At the start of the semester I volunteered to be my team's leader without having any real idea of what I was getting myself into. In fact, all I knew is that I'd rather be a leader and know what was going on with my grades than let someone I did not know have control over them. Even though I might have made this decision for the wrong reasons I have not regretted it at all and I actually learned a lot about leadership skills and my teammates. During the course of the semester I was the one that had to keep our group on task during the quizzes and divide up the work for the project and case study. This was a new experience….<u>This new found confidence and skills actually helped me out in my other courses this semester</u>…When I took this role I expected this role to help my*

	grades improve and my leadership skills but I did not expect was for it to help me with my people skills. For my entire life I have been a shy person…with this new role I had to talk to the entire team and at first it was about class and assignments, but eventually I started to get to know my team members….Overall my reflection of my experience as a team leader is a positive one. Not only did this experience help me to learn about accounting but it also taught me valuable leadership and people skills that already have started to help me in my college career and personal life. <u>Overall, I feel like this method of teaching class is the best I have encountered at Kennesaw so far and I hope that you continue to use it so that other students can benefit from it as I have, in future years</u>.
—Ryan Andrews, Acct 2100 Team Leader	*As a team leader this year in Accounting 2100 I had many responsibilities. My main responsibilities as the team leader were to coordinate case studies and projects, grade quizzes, and just help out with everyday class room activities. I believe this was a great tool to get to know other class members better and to work together as a group….being the team leader as a great experience….I believe that this is a great idea because it teaches team work and leadership....I think you should keep doing this "group" activity; it is very beneficial for the groups and yourself. I am very thankful for this opportunity to grow as a leader and to help improve my team working skills. <u>These skills that I will need to have for the rest of my life. Thank you for this great opportunity</u>*
—Calaudia Escorza, Accounting 2200 Assistant Team Leader	*When I joined our group no one wanted to be Assistant Leader so I didn't think it was a big deal and volunteered…Dipa is our Leader and she was a good leader….Being in this [role] was in my opinion a great thing because it meant that other people depended on you. <u>This encouraged me to be "on top of my game" in class because other people depended on me and my work. There would be times when I did not want to get up, get ready and drive for 30 minutes to Kennesaw. The only thing that changed my mind was feeling as though I was letting my team down.</u> I did not want them thinking I was slacking. I was encouraged to come to class on those lazy days when you just want to stay in bed because I felt I owed it to my teammates to go. In my opinion for future semesters you should also keep on doing this project. This [not] only saves you time as a professor, but helps to promote leadership and also creates skills needed to work in teams. These traits are highly sought after in the business world, or so I have heard.*

As indicated by the students' synopses, these MRCs are definitely a good way to prepare the students for the real world when they will need to work in teams. Placing this much faith and responsibilities in students is a great tool for accounting faculty to motivate team mates and create positive business traits that each student will need in the future. The "aha" moments occurs in various places when students need to exercise their leaderships skills, when they realize others are relying on them, and when they also realize that team work is real is reality in the work world. Conducting accounting classes in such decentralized ways was a huge stepping stone for students to practice and experiment the interaction aspect of a professional career. It helped to create an environment of trust, open communication, and creative thinking among students.

CONCLUSIONS and IMPLICATIONS

This paper highlights how a combination of pre-post assessments, journalizing, and mandatory attendance to a lecture series or professional business meeting, and mini-responsibility centers as a decentralizations tool for managing large accounting classes, are used as narrative learning tools. These narrative learning tools are leveraged in an effort to evoke students' awareness of and curiosity for their individual knowledge acquisition in accounting courses. The rationale for using this combined strategy was to help students initiate their knowledge of accounting and business concepts like critical thinking and leadership skills during and after they take an accounting course. Implicitly and although this strategy is used for students' success it is can also be implicated in the personal efforts to improve teaching strategies. The students' narrative synopses are analyzed to help faculty determine if, when, and how students make use of the "aha" moments. The learning journals, pre/post questionnaires, lecture or professional meetings and MRC leaders' reflections highlights how students made meaning of their learning experiences, that is, when or where the "aha" moments of connecting an accounting concept occurs during the course.

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Appendix 1

Tetley Lecture Series at Kennesaw State University Kennesaw, GA

In 1990, the Coles College of Business committed to the development of a lecture series that would attract some of the nation's great leaders to the Kennesaw State University campus to interact with students, faculty and business executives. A great motivator was to provide a more casual forum for undergraduate and graduate students to interact with some of the great role models from business and industry. The Lecture Series also introduced the University to opinion leaders, many of whom had never before visited the campus. Thanks to a generous endowment created by Tetley, Inc., the Lecture Series has attracted more than sixty leaders from the private and public sectors. Each Tetley speaker delivers a thirty to forty-five minute address, followed by a question and answer session. Most lectures are held in Room 151 of the Burruss Building, the Coles College state-of-the-art facility. Depending on the time of day, lectures are generally preceded or followed by a luncheon or reception which includes a more intimate collection of faculty, students, and invited guests. **Over the years, Tetley speakers have adopted various themes for their lectures. For example:** Topics varied dramatically and some speakers employed videos, slides, overheads, handouts or samples. All brought a passion to the Series that has made them distinguished leaders.

- Frank Belatti focused on turnaround strategies;
- Arthur Blank examined the trauma of downsizing and starting a new venture;
- Ronald Bruno looked at the dynamics of a family held business;
- Tom Cousins shared insights from a family held business;
- Jerry Dempsey talked about refocusing a 100 year old enterprise;
- Donald Hess concentrated on customer service and competitive positioning;
- Irwin Lowenstein examined managing through a leveraged buyout;
- Mary Madden looked at starting a niche technology-based venture;
- Harry Maziar commented on the importance of sales and marketing;
- Peter Spirer talked about the history of the tufted carpet industry;

<u>Appendix 2</u>

<u>Accounting 2100</u>
<u>Pre-Post Self Assessment</u>

Pre Assessment Instructions: Please fill-in the following blank lines. Indicate what you currently know about accounting. It is Ok to say you know nothing if that is indeed the case.

____

____

____

____

____

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____

Student (1) wrote*: I know nothing.* Student (2) wrote*: I hardly know how to balance my check book!*

Post Assessment Instructions: Please fill-in the following blank lines. Indicate what you now know about accounting and analyze how your knowledge has changed during the semester.

____

____

____

____

____

____

____

Student (1) wrote*: I learned so much about accounting, I know balance sheets and income statements are very important to decision making.*

Student (2) wrote*: I now know how to balance my check book! I also know that accounting is just like balancing my check book; it is like the check book for businesses. The checks are their expenses and the deposits are like their income or sales.*

Discussion and Empirical Analysis of the Use of Accounting Workshops to Improve Outcomes in the Introductory Accounting Course

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Introductory Accounting is one of the foundation courses in most business curricula. While some students do very well with the content, there are significant numbers who do not successfully complete the course or receive a minimal passing grade. In an effort to improve student success and increase retention, midterm and final study workshops were implemented. The implementation and assessment of the workshops are discussed in this paper.

City University of New York (CUNY) is the third largest university system in the country. It encompasses 23 schools, including 11 four-year colleges, six community colleges, and six graduate and professional schools. It enrolls approximately 260,000 university-level students.[1] Bronx Community College (BCC), with a student population approximately 11,000, is one of six community colleges of CUNY. BCC is an urban campus in one of the most diverse cities in the world which is reflected in the variety of cultural and educational backgrounds of the student body. BCC students are "non-traditional" students who face many challenges such as lack of financial resources, job commitments, family and parenting obligations, and lack of academic preparedness that hinders their ability to succeed in college. The Business and Information Systems Department (BIS) enrolls about 25% of the students at BCC and offers an Associate of Science (A.S.) degree in Business Administration with options in Accounting; Management; Marketing Management; and Computer Programming, and an Associate of Applied Science (A.A.S.) degree Accounting; Computer Information Systems; Marketing Management; Office Administration and Technology; and Medical Office Assistant.

Success in the introductory accounting course requires good study habits (acquired in grades K-12), the ability to comprehend quantitative information presented in written and numerical formats, and basic math and analytical skills. As reflective of community colleges across the nation, a significant portion of students at BCC do not have these skills and require remedial education to prepare them for credit bearing college courses. According to a recent New York Times article *"About three-quarters of the 17,500 freshmen at the community colleges this year have needed remedial instruction in reading, writing or math, and nearly a quarter of the freshmen have required such instruction in all three subjects..... The reasons are familiar but were reinforced last month by startling statistics from state education officials: fewer than half of all New York State students who graduated from high school in 2009 were prepared for college or careers, as measured by state Regents tests in English and math. In New York City, the proportion was 23 percent..... Many of those graduates end up at CUNY, one of the nation's largest urban higher-education systems, which requires its community colleges to take every applicant with a high school diploma or equivalency degree*.[2] These accounting workshops attempt to help "bridge the gap" in student preparedness by reinforcing basic accounting concepts and providing additional opportunities for skills practice and student-faculty interaction.

All students enrolled in courses offered in the Business curriculum are required to take a first course in accounting fundamentals entitled <u>ACC 11 – Fundamental Accounting I (ACC 11)</u>, a 4 credit, 5 hour course. In the past the overall success rates of students taking fundamentals of accounting have been below expectations. The accounting workshops, funded through the Perkins grant, were instituted in fall semester of 2008 with the objective of improving passing grades and retention rates. Intuitively, one would expect that any additional exposure of students to teaching should improve outcomes and indeed, it has. This article will discuss the nature of our accounting workshops and will present empirical information and analysis that supports it continuance at the college.

ABOUT THE WORKSHOPS

The workshops are conducted each semester before midterm grades are assigned and before the final examination. Midterm grades are not permanent and serve the dual functions of (1) notifying students about the instructor assessment of their current performance, and (2) encouraging communications with students who are curious as to why they are failing the course or what they need to achieve a better grade. It is also at this point in the semester when students make the decision to "drop out" or withdraw from the course. A student's decision to withdraw may be a prudent decision but negatively impacts retention rates for the department and the college, and reduces the probability that the student will graduate. The aforementioned NY Times article also states that *"...many students, remedial or not, will never graduate. CUNY officials say that only about 25 percent of full-time students at the community colleges graduate within six years, though the university does not track students who transfer to another college. A recent nationwide study that followed community college freshmen over six years found that only 35 percent earned any sort of degree*." One reason students may feel compelled to withdraw is because they are struggling with the course content and have no other alternative available to them at that point in the semester. Some students who are passing the course may withdraw because they are not satisfied with their current performance or their expected final grade. The workshops provide them with that "one more chance" to work with the course material and achieve a passing or improved grade.

The workshops are planned and conducted by full-time faculty members currently teaching fundamental accounting who understand the learning obstacles faced by our students. The workshop faculty identifies the topic areas that will be covered and prepares 2 sets of handouts which resemble "mini practice sets". One set is used in the morning "instructional session" and the other set is used in the afternoon "group practice" session. The workshop covers a variety of topics including adjusting entries, worksheets, and financial statements. Students are informed about the workshops via email, printed flyers, and class announcements. The best form of advertisement for the workshops is former and current attendees who inform other students about the benefits of participating in the review sessions.

Four workshops (two at midterm and two before final examinations) are conducted during the semester. The morning sessions are instructional and are conducted in a lecture format. Students individually complete a comprehensive handout working along with the instructor. The afternoon sessions require that the students organize themselves in groups to work collectively as each student complete a second handout. Faculty members provide support and direction to each group and individual students to ensure that students are able to complete the handout requirements. At the completion of workshops, students are "requested" to complete an anonymous student survey which is used to gather subjective information about the student's workshop experience. Student answers and comments have proven to be very helpful in improving workshop notification procedures and assessing how students felt about the workshops. An unedited sample of student responses to one of the questions in the survey is presented in Exhibit 5.

GRADING AND ANALYSIS OF STATISTICS

Each semester the BIS department is required to submit a request for workshop funding supported by quantitative information. The statistics in this article are cumulative since the inception of the workshops in fall 2008 to fall 2010. The qualitative information includes a summary of responses from the student surveys administered at the end of the work shop sessions. During the five semester periods from fall 2008 through fall 2010, 1,399 students were enrolled in ACC 11 of which 411 or 29.4% participated in the workshops.

Grades assigned consist of the academic letter grades of A+ through F. Other grades assigned are described below:[3]

- W - Withdrew Officially – 4th week through 10th week only. Student initiated. No impact on GPA.
- WA - Administrative Withdrawal – Grade assigned to students who registered for classes at the beginning of the term but did not provide proof of immunization by compliance date. No impact on GPA.
- WU Unofficial Withdrawal - 4th week through end of semester. Student attended at least once, but failed to withdraw officially. May be assigned only during the final grading period. (Counts as a failure.)
- WN Never Attended – No impact on GPA.

In this paper, for grade analysis purposes, the grades of F and WU are classified as failing grades, and the grades of WA and WN as administrative grades. My conclusions on the data presented do not take into account other factors which could influence students' grades such as (1) the decision to "get serious" and do some studying, and (2) other changes in personal circumstances which might contribute to or detract from a student's ability to perform academically.

The first table of statistics entitled Final Grade Distribution (Exhibit I) is an overall summary that compares the percentage of each grade category assigned to (1) students who attended the workshops versus those who did not attend and, (2) all ACC 11 students during the same period. The data in Exhibit I represented graphically in Final Grade Distribution – Attendees versus Non-Attendees (Exhibit II) shows a couple of favorable trends. A higher percentage of the grades A through C are assigned to workshop attendees than non-attendees. As we move toward the failing or WU grades the percentage of F and WU grade occurrence is decreasing for attendees, while for non-attendees the trend increases precipitously, particularly for the grade of WU. This suggests that the workshops not only improved overall grades, but provided students with a level of confidence necessary to complete the course rather than withdraw unofficially.

Exhibit I also shows that 83.9% of the students who participated in the workshops received a passing grade compared with 38.6% of students who did not attended, and 51.9% for all ACC 11 students. This data is represented graphically in Pass/Fail Analysis- (Exhibit III) illustrating the impressive overall performance of the attendees compared to other ACC 11 students.

The last graph entitled ACC 11 Workshop – Withdrawal Rates – Fall 2008 through Fall 2010 (Exhibit IV) compares the percentage of students, attendees and non-attendees, opting to officially withdraw (W grade) from the course each semester since the workshops started in fall 2008. While withdrawals have increased during the period, workshop attendees withdrew at a significantly lower rate the non-attendees. In the last semester shown, fall 2010, the withdrawal percentage of attendees has decreased. This trend is a positive sign giving the concern that a significant number of community college students are at risk of not graduating. It is not unreasonable to assume that minimizing the number of W grades assigned would have a beneficial impact on student retention and future graduation rates.

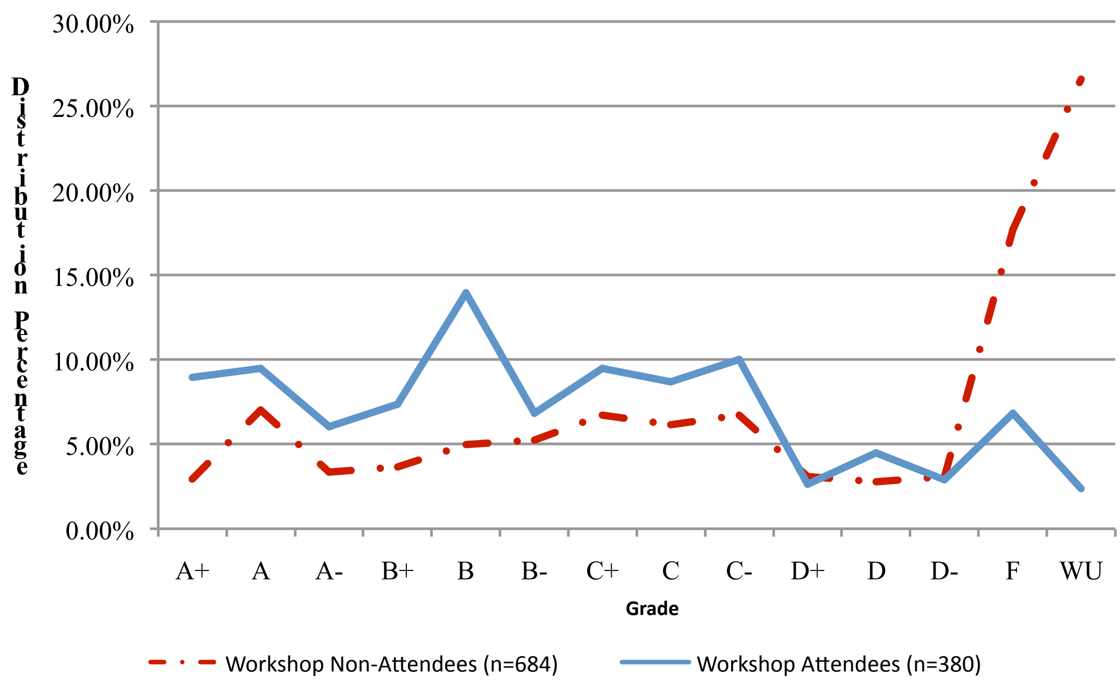
FINAL THOUGHTS

Based on the documented success of the workshops and being an eternal optimist, I believe the workshops will continue to be funded and provide our students with a valuable service. Most importantly, we will need to increase accessibility to workshop content for non-participating students. We have discussed achieving this through the use of workshop videos to provide students with online access to recorded workshop sessions. These videos can be made available on the college's web servers or as YouTube videos. We are also considering the use of online learning resources such as CengageNow[4] to offer pre-workshop assignments and post-workshop assessment

Exhibit I
ACC 11 Workshops - Fall 2008 thru Fall 2010
Final Grade Analysis

Final Grades	Students who did not participate in study sessions (n=988)	Students who participated in study sessions (n=411)		All ACC 11 students (n=1399)
		Number	Percentage	
A+	2.02%	34	8.27%	3.86%
A	4.86%	36	8.76%	6.00%
A-	2.33%	23	5.60%	3.29%
B+	2.53%	28	6.81%	3.79%
B	3.44%	53	12.90%	6.22%
B-	3.64%	26	6.33%	4.43%
C+	4.66%	36	8.76%	5.86%
C	4.25%	33	8.03%	5.36%
C-	4.66%	38	9.25%	6.00%
D+	2.13%	10	2.43%	2.22%
D	1.92%	17	4.14%	2.57%
D-	2.13%	11	2.68%	2.29%
F	12.25%	26	6.33%	10.51%
W	24.70%	24	5.84%	19.16%
WU	18.42%	9	2.19%	13.65%
Administrative Grades	6.07%	7	1.70%	4.79%
Total	**100.00%**	**411**	**100.0%**	**100.00%**
% passing (A+ thru D-)	38.56%	345	83.94%	51.89%
% Failing (F, WU)	61.44%	35	8.52%	24.16%
Withdrawals (W)	24.70%	24	5.84%	19.16%
Administrative Grades	6.07%	7	1.70%	4.79%
Total	**100.00%**	**411**	**100.00%**	**100.00%**

Exhibit II
Final Grade Distribution - Workshop Attendees vs Non-Attendees
Fall 2008 through Fall 2010



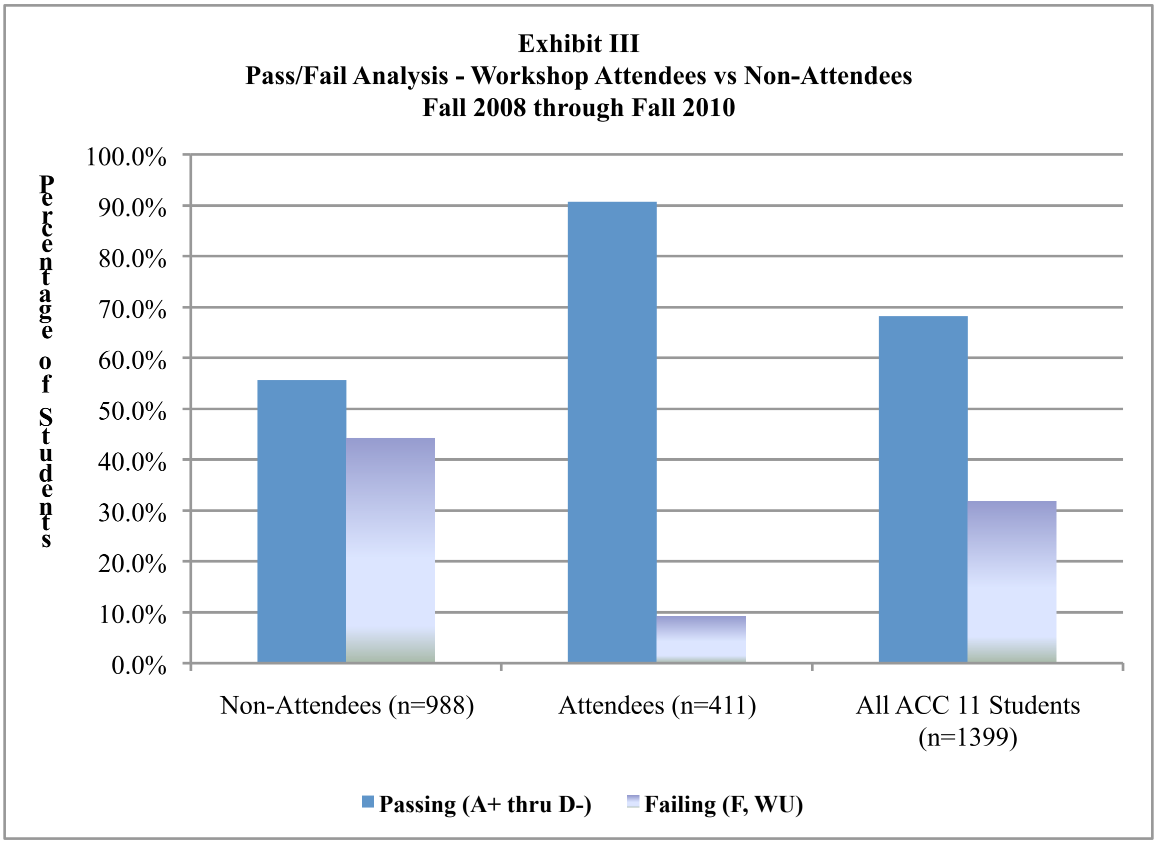


Exhibit III
Pass/Fail Analysis - Workshop Attendees vs Non-Attendees
Fall 2008 through Fall 2010
Percentage of Students
100.0%
90.0%
80.0%
70.0%
60.0%
50.0%
40.0%
30.0%
20.0%
10.0%
0.0%
Non-Attendees (n=988)
Attendees (n=411)
All ACC 11 Students (n=1399)
Passing (A+ thru D-)
Failing (F, WU)

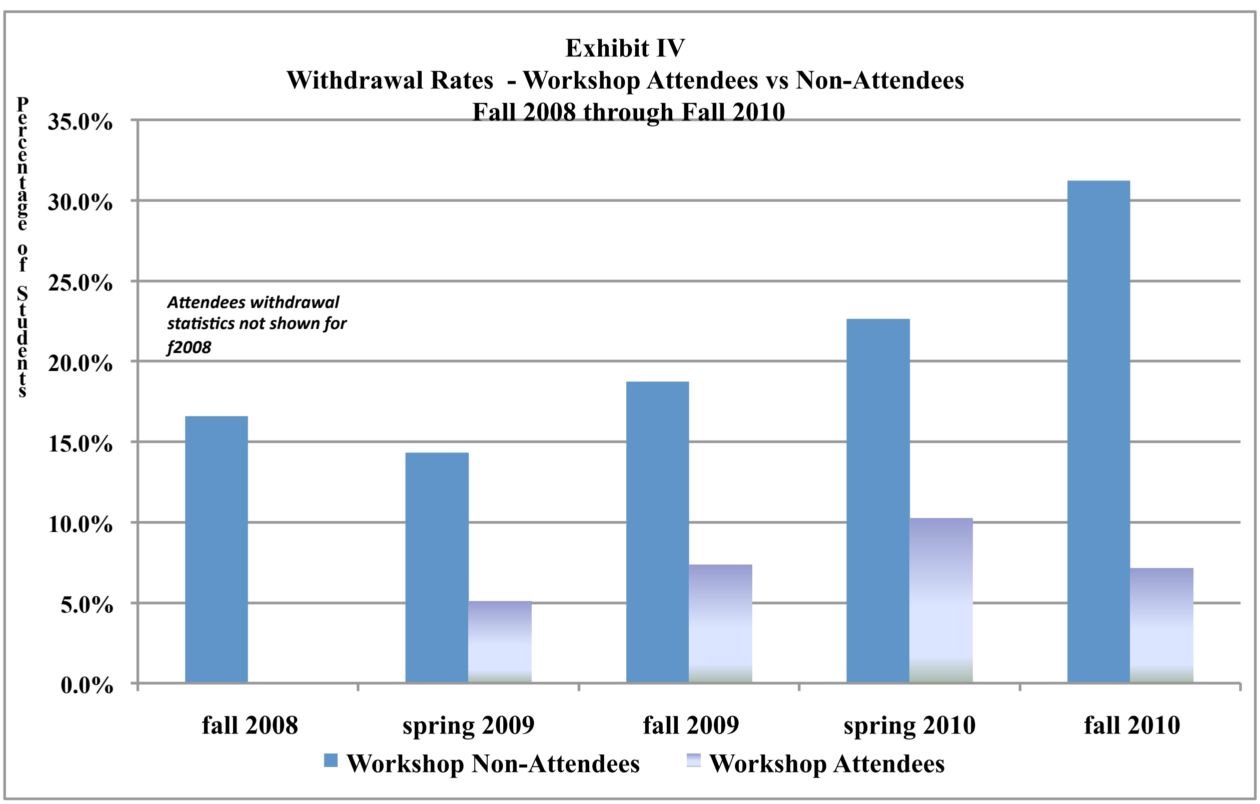


Exhibit IV
Withdrawal Rates - Workshop Attendees vs Non-Attendees
Fall 2008 through Fall 2010
Percentage of Students
35.0%
30.0%
25.0%
20.0%
15.0%
10.0%
5.0%
0.0%
Attendees withdrawal statistics not shown for f2008
fall 2008
spring 2009
fall 2009
spring 2010
fall 2010
Workshop Non-Attendees
Workshop Attendees

Exhibit V

ACC 11 Study Session
Sample Question and Responses (Unedited)

Question: Did the workshops increase your understanding of the course content? Why or why not?

Yes, it reinforced what I've learned in ACC 11.

Yes. The workshops were good because through this I am refreshing my mind as to how to do the worksheet and financial statements. The Workshop allowed me to apply the knowledge I have gained in my current accounting class

Yes. They are very helpful. They provide better understanding of the material.

Yes. I learned something new about the merchandising income statement.

Yes. It reinforce the structure of financial statements.

Yes, great practice by repetition and the review covered and supported class content.

Yes, the workshop improved my skills on the topics.

Yes because I increased my knowledge in accounting especially on the worksheet. Income statement, statement of owner's equity and the balance sheet.

Yes, it helped me review things I didn't understand. Explained things I would have had trouble understanding on my own

Yes, I feel that I am more clear on the worksheet.

Yes because I was able to work in a study group at my own pace.

Yes. I don't study and do homework as much as I should so the workshop helped me understand the content more and it helped me to review.

Yes. It covered more material than in class and reviewed more exercise and examples are alwaysvery helpful. The review seems to bring everything we learned together.

Yes. I have learned a bit more about something I didn't know before (Merchandising transactions)

Yes, the workshop was beneficial.

Yes. It taught me how to do get the worksheet done correctly and about merchandising transactions.

Yes. It did because I am able to do adjusting entries and the worksheet without a problem.

Yes. It was good practice.

Endnotes

[1] Yale Daily News Publishing Company. The Insider's Guide to the Colleges 2011 – 37th Ed 2011. http://books.google.com/books

[2] Foderaro, Lisa W. “CUNY Adjusts Amid Tide of Remedial Students.” New York Times 3 March 2011

[3] Bronx Community College. Bronx Community College – College Catalogue – 2009-2011. <http://www.bcc.cuny.edu/CollegeCatalog/2009-2011/5-Academic%20Policies%20and%20Procedures.pdf , p48>

[4] CengageNow is an online teaching and learning resource of Cengage Learning

A CLASS ROOM AID FOR GASB 54 FUND BALANCE REPORTING AND GOVERERNMENTAL FUND TYPE DEFINITIONS

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A CLASS ROOM AID FOR GASB 54 FUND BALANCE REPORTING AND GOVERERNMENTAL FUND TYPE DEFINITIONS

INTRODUCTION

GASB 54, *Fund Balance Reporting and Governmental Fund Type Definitions* issued in March 2009 is yet to find its way into many textbooks currently being used for Non Profit and Governmental Accounting courses. The objective of the current paper is to suggest a way to include this update in the class lectures.

It is hoped that the use of summary tables and brief summaries of the complex new requirements will ease the learning curve for the students and help instructors convey the information in an effective manner.

BACKGROUND

What is a Fund balance? It is the difference between governmental assets and liabilities on the balance sheet. It is a widely used component in the state and other local government financial statements. Fund balance information is of interest to municipal bond analysts, taxpayer associations, research organizations, oversight bodies, state, county and local legislators and their staff and reporters. Fund balances indicate available liquid sources that can be used pay back long-term debt, reduce property taxes, expand existing government programs, perhaps add new ones and enhance the financial position of the government. The Governmental Accounting Standards Board (GASB) found that improvements may be warranted in communicating fund balance information to all these existing users and any new ones.

Traditional Components of Fund balance focus on the availability of these moneys for appropriations. Table 1 below depicts the total fund balances and changes in those funds as per GASB 34 classification. A perusal of this and the new GASB 54 classification will help understand the incremental communication improvements.

Table 1

GASB 34 Fund Classification

<table>
<tr><td>Reserved Fund Balance
(Not available for appropriations)</td><td colspan="2">Unreserved Fund balance
(Available for appropriation)</td></tr>
<tr><td rowspan="2">Types of Restrictions on resources
• Permanent (nature of item e.g. Prepaid items)
• Temporary (conditions for spending yet to be met e.g. specific tasks must be performed)
• External limitations (e.g. available for only for certain external party specified purposes)</td><td colspan="2">Types:</td></tr>
<tr><td>(1) Designated Unreserved fund balance – Internal restriction - Government specifies purpose and limits for appropriation
• Restriction placed by a governing body
• Set aside by management plans</td><td>(2) Undesignated unreserved fund balance - Resources can be used without either internal or external parties</td></tr>
</table>

GASB research showed that the existing standards for fund balance reporting was being conveyed and interpreted inconsistently by different governments. User understanding of the information was affected and they were unable to readily interpret reported fund balance information.

GASB 54 FUND DEFINITIONS AND TYPES

Types of Governmental funds and definitions are summed in Table 2. They are similar in functions to GASB 34 definitions and types.

Table 2

Fund types and functions

Fund types	Fund uses	Restrictions on usage and disclosures
General Fund	Account and report all financial resources not accounted for and reported in another fund	What is permitted by law for expending funds for operating the government
Special Revenue Funds	Account for report the proceeds of specific resources	Revenue sources restricted or committed to expenditure for specified purposes excluding debt and capital projects funds. Disclosure: Purpose for each major special revenue fund – revenues and other resources are identified by sources
Capital Projects Fund	Expenditure for capital outlays, like acquisition or construction of capital facilities and other capital assets for general primary governmental functions.	Funds are restricted, committed or assigned to expenditure for capital outlays for primary government
Debt Service Fund	Funds are used for paying expenditures for principal and interest	Funds are restricted, committed or assigned to expenditure for servicing debt when legally mandated. Accumulated funds for future payments must reported in the fund.
Permanent Fund	Funds used for supporting reporting government's programs that benefit the government or its citizens.	Funds are restricted to the extent that only earnings and not principal may be used expended.

Old vs. the new fund classification

Table 3 is a ready reference to the comparison of the old and new the Fund balance classifications following the passage of GASB 54 and the fund balance relationships to the Government wide financial statement classification of Net Assets.

Table 3

Comparison of Old and New classification of funds and relationship to Net Asset Statements

Fund Financials	
Old classification for funds	New Classification for funds
Reserved	1. Non spendable 2. Restricted 3. Committed
Unreserved	1. Assigned 2. Unassigned
Government Wide Financials – Fund balance and Net assets relationship	
Net Assets	**Fund balance**
Restricted	1. Non spendable 2. Restricted
Unrestricted	1. Committed 2. Assigned 2. Unassigned

Under the GASB 34 regime, fund balances that are the differences between assets and liabilities of a fund were allocated between reserved and unreserved fund classifications. The reserved fund portion may include resources not available for spending in the current year budget. Examples are inventories, long term receivables, prepaid expenses. Other reservations may be due to legal restrictions on spending that are narrower than the purpose of the fund- examples may be encumbrances and some types of grants.

Amounts classified in the respective funds as seen in the following example. The government earmarks $100000 for its capital projects and $200000 tax revenues set aside for paying debt service and $500000 of cash is available for any purpose. The general fund may show these as:

	General Fund	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Total
Reserved for					
Capital Projects	$100000				$100000
Debt Service	$200000				$200000
Unreserved	$500000		*$200000*	*$100000*	$500000

If the individual funds are reported outside of the General Fund, these funds would show the balance as unreserved. Under the new requirements, each of the funds will show the restrictions in the same classification as the general fund as shown below.

	General Fund	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Total
Restricted for					
Capital Projects	$100000			*$100000*	$100000
Committed for					
Debt Service	$200000		*$200000*		$200000
Unreserved	$500000				$500000

Under the GASB 34 provisions, unreserved fund balances may have parts of the fund designated for management planned purposes and place limitations on the fund. Other portions may be un-designated and may include resources whose use is limited, but not for purposes narrower than the purpose of the fund. GASB 54 will change the 34 classifications and the following hierarchy is established for reporting and disclosures.

GASB 54 FUND BALANCE HEIRARCHY

To improve the communication value of fund balance, a classification of the fund balance hierarchy is used and is based primarily on the levels to which a government is constrained to expend on the specifically permitted purposes. Not all governments may have all the five components classified as under in Table 4. All governmental funds may have the restrictions and may make the required disclosures on the constraints. These would follow the policies and procedures adopted by the reporting government for its funds. Table 4 identifies the fund by name, the restrictions on fund usage and the source of the authority to do so. Examples of funds for each classification are also presented.

Table 4

Fund Balance classification and Disclosure of constraints

Fund balance Name	Nature of Fund balance (any governmental fund)	Restrictions	Examples	Change to original classification
Non-spendable Fund Balance	1. Portions of net resources inherently not in a spendable form 2. Portions of net resources legally or contractually restricted and need to be maintained intact.	Not expected to be converted into cash Amounts to be retained in perpetuity now classified as non-spendable	1. Inventories and prepaid items, long term amount of loans and notes receivable, property acquired for resale by the reporting government 2. Corpus of a permanent fund	NA
Restricted Fund Balance	Net fund resources dedicated to the purpose of the fund (similar to restricted fund balance and restricted net assets in govt. wide financial statement).	Limitations placed by External entities • Creditors • Grantors • Contributors or • Laws • Regulations • Governing body of a government • Higher level government	1.Debt covenants 2. Grants to be used for specific purposes 3. Purposes specified by legislation	Grantors or donors can agree to changes in the classification
Committed Fund Balance	Amounts that can only be used for specific purposes	Constraints imposed by: Formal action of government's highest level of decision making authority by legislation, resolution or ordinance to fulfill contractual obligations	– Cemetery charges for grave openings, burials, foundations, etc. To be used for cemetery operations.	Government can change or remove specified use by legislation, resolution or ordinance as done previously

Assigned Fund Balance	Amounts 1. in all governmental funds[1] (not classified as non spendable and are neither restricted nor committed) and 2. general fund balances that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed(funds for stabilization are an exception)[2]- is the lowest level of classification for all funds with the exception of the general fund and funds with deficits	Intent is expressed by 1. the governing body or 2. A body with authority, for example, a budget or finance committee or 3. an official to whom the governing body has delegated authority to assign the amounts to be used for specific purposes	An appropriation of existing fund balance to eliminate a projected budgetary deficit	Governing bodies or individuals with authority
Unassigned Fund Balance	1. Is the residual classification for the General Fund balances resulting in excess of non spendable, restricted, committed and assigned fund balances 2. Is the excess of non-spendable, restricted and committed fund balance over the total fund balance.		Surplus Deficit	

Classifying Fund Balance Amounts

A government must determine what amounts must be reported as non spendable fund balances before classifying the rest of its fund balances as restricted, committed, and assigned. It should indicate the nature of the net resources that are being reported in a governmental fund.

[1] Negative fund balances must reduced by using unassigned fund balances to eliminate any deficits. Negative fund balances should not be reported in restricted, committed or assigned fund balances in any fund.

[2] Some governments formally set aside amounts for use in emergency situations or when revenue shortages or budgetary imbalances arise.

An individual governmental fund may include non-spendable resources and amounts that are classified as restricted, committed or assigned or any combination of those. The general fund would include an unassigned amount. A government must determine the composition of its ending fund balance by applying its accounting policies. The policy if in place should state whether the order of spending resources when an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available. Within the unrestricted fund balance, the classification should be based on the government's accounting policies regarding whether it considers committed, assigned, or unassigned amounts to have been used when an expenditure incurred is to be spent from the any of the said unrestricted fund balance for its intended purpose.

However, if a government has not established any policy for its use of unrestricted fund balance amounts, committed funds would be used first, followed by assigned amounts, and then unassigned amounts for expenditures incurred for purposes for which resources in any of those unrestricted fund balance classifications can be used.

DEFICITS IN FUN BALANCES

In a governmental fund other than the general fund, if the expenditures incurred for a specific purpose end up exceeding the amounts in the fund that are restricted, committed, and assigned to that purpose, a negative balance may result. If that should happen, amounts assigned to other purposes in that fund should be reduced to eliminate the deficit. If the deficit eliminates all other assigned amounts in the fund, or if there are no amounts assigned for other purposes, the negative balance should be classified as unassigned in that fund. In the general fund, a similar negative balance would have been eliminated by reducing the unassigned fund balance pursuant to the accounting policy mentioned earlier. No negative amounts should be reported for restricted, committed, or assigned fund balances in any fund.

STABILIZATION (RAINY DAY) ARRANGEMENTS

Some governments formally set aside funds for use in emergency situations or when there are revenue or budgetary imbalances. Such amounts are subject to controls that dictate the circumstances under which they can be spent. Many governments have formal arrangements to maintain amounts in budgets or revenue stabilization[3], working capital needs, contingencies or emergencies, and other similarly titled purposes. Statutes, ordinance, resolution, charter, or constitution provide authority to set aside funds for such purposes. Stabilization amounts can be expended only certain specific circumstances exist.

REPORTING OF STABILIZATION BALANCES

Stabilization is considered a specific purpose. These amounts must be reported in the general fund as restricted or committed based on the source of the constraint placed on their use.

[3] The Term Stabilization is used to refer to economic stabilization, revenue stabilization, budgetary stabilization, and other similarly intended (including rainy day) arrangements.

If the stabilization arrangements do not meet the criteria that will allow them to be reported as restricted or committed fund balances they must be reported in the general fund as unassigned.

ENCUMBRANCES ACCOUNTING USES

For governments that use encumbrance accounting, significant encumbrances should be disclosed in the notes to the financial statements by major funds and non major funds in the aggregate. Encumbrances amounts for specific purposes for which amounts have not been previously restricted, committed, or assigned should not be classified as unassigned but, rather should be included within the committed or assigned fund balance as per definitions mentioned earlier.

REPORTING BALANCES FUND BALANCE CONSTAINTS

Exhibit 1 is from the Appendix C of Statement No. 54. It is an example of disclosing constraints on fund balances on a hypothetical balance sheet. The details about the fund as required by GASB 54 are shown on the face of the financial statement. Exhibit 2 illustrates the same fund balance information, however, in the aggregate and details may be in the notes to the financial statement. GASB 54 allows for the use of a combination of both approaches –display some classifications in the aggregate and others in details. There is no illustration in the pronouncement of this approach.

NOTE DISCLOSURE OF FUND BALANCE CLASSIFICATION POLICIES AND PROCEDURES

Governments should disclose the following information about their fund balance classification policies and procedures in the notes to the financial statements:

a. For committed fund balances and assigned fund balances: Describe the authority and actions that resulted in the funds being committed and assigned.
b. The policy of the government in regard to spending restricted and unrestricted fund balance and the sequence of spending for committed, assigned and unassigned.
c. The authority for establishing, requirements for additions, and conditions permitting amounts in stabilization balances to be used.
d. Details of any formal policies adopted for maintaining minimum fund balances.
e. The purpose of each major special revenue fund and sources of revenues and other inflows reported in each of these funds.
f. Significant encumbrances are reported in association with other disclosures of significant commitments made against these encumbrances.

GOVERNMENTAL FUND TYPE DEFINITIONS

GASB suggests that its research indicated that governments are not following current standards in defining their fund types. To ensure consistency, clarifications of certain terms are provided. The General Fund, Debt Service Fund and Capital Projects reflect the new fund classifications of restricted, committed and assigned created in GASB 54.

Additional guidance is provided for special revenue funds to clarify when resources are to be reported in the fund. The standards define this fund to account for

a. Proceeds of specific sources that are restricted or committed to expenditure for specified purposes other than debt service and capital projects.
b. Proceeds of specific restricted or committed revenues sources should be the foundation of the fund.
c. Other sources like investment earnings, transfers from other funds are reported in the fund if those resources are restricted, committed or assigned for specified purposes in the fund.
d. The purpose of each major special revenue fund must be disclosed with details identifying which revenues and other resources are reported in each of these funds.
e. If at some point a government does not expect inflows from restricted or committed resources, the special revenue fund must be discontinued and the any remaining balance reported in the general fund.
f. The term "legally restricted" must be removed.

The GASB expects that this new less restrictive definition will provide additional guidance to governments whose funds are not meeting the definition at the current time. GASB 54 will be effective after June 15, 2010 for the fiscal year 2011. Early implementation is encouraged.

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A VISUALIZATION OF TEACHING THE INDIRECT METHOD FOR COMPUTING CASH FROM OPERATIONS

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A VISUALIZATION OF TEACHING THE INDIRECT METHOD FOR COMPUTING CASH FROM OPERATIONS

INTRODUCTION

The Statement of Cash Flows (SCF) complements the Statement of Financial Position and the Statement of Comprehensive Income by explaining where the cash came from (cash receipts) and how the cash was spent (cash payments) (Harrison Jr. et al. 2011; Powers and Needles Jr. 2010). International Accounting Standard (IAS) 7 requires companies to classify cash flows during the accounting period according to operating, investing and financing activities (International Accounting Standards Board 2010). IAS 7 also requires companies to report net cash flows from operating activities using either the direct method or the indirect method (International Accounting Standards Board 2010).

Most companies adopt the indirect method in preparing the net cash flows from operating activities section of SCF (American Institute of Certified Public Accountants 2010; Harrison Jr. et al. 2011; Powers and Needles Jr. 2010; Romeo and Bao 2011). The American Institute of Certified Public Accountants conducted a survey and found that 99 per cent of respondents use the indirect method (American Institute of Certified Public Accountants 2010). As the indirect method is predominantly used by companies, it is important to ensure that students understand the indirect method of preparing SCF. This paper presents a visualization method to teach the indirect method in order to enhance the understanding of students.

TEACHING THE INDIRECT METHOD

The indirect method starts with the net income from the Statement of Comprehensive Income, which is prepared based on accrual basis. The indirect method adjusts the accrual basis net income to obtain the cash basis net cash flows from operating activities (Powers and Needles Jr. 2010). Under the indirect method, a template of the net cash flows from operating activities section of SCF appears as follows (Harrison Jr. et al. 2011, pg 720).

Cash flows from operating activities

Net income
Adjustments to reconcile net income to net cash flows from operating activities:
+ Depreciation/depletion/amortization expense — *Step 1*
+ Loss on sale of long-term assets
– Gain on sale of long-term assets — *Step 2*
– Increases in current assets other than cash
+ Decreases in current assets other than cash
+ Increases in current liabilities — *Step 3*
– Decreases in current liabilities
Net cash provided by (used for) operating activities

The adjustments can be summarized into three steps (Harrison Jr. et al. 2011). First, the depreciation, depletion and amortization expenses are added to net income. Second, gains on the sale of non-current assets are deducted from net income while losses on the sale of non-current assets are added to net income. Last, all changes in working capital, except for cash and cash equivalents are adjusted. Working capital consists of current assets and current liabilities. Decreases in current assets and increases in current liabilities are added to net income. On the other hand, increases in current assets and decreases in current liabilities are deducted from net income. The following table summarizes the adjustments to net income for changes in current assets and current liabilities (Powers and Needles Jr. 2010, pg 553).

	Add to Net Income (+)	Deduct from Net Income (−)
Current Assets	↓ Decrease	↑ Increase
Current Liabilities	↑ Increase	↓ Decrease

Students typically have no issues with the first two steps of the adjustment process to obtain the net cash flows from operating activities from net income. For the first step, they understand that the depreciation, depletion and amortization expenses are non-cash expense items that require adjustments. As for the second step, they are aware that gains and losses on the sale of non-current assets are non-operating items and should not be reflected under the operating activities section of SCF. However, students may approach the third step mechanically. They will simply determine the direction of the changes in current assets and current liabilities and apply the formula accordingly. They may not truly understand why they have to add to net income when there is a decrease in current assets (increase in current liabilities) or deduct from net income when there is an increase in current assets (decrease in current liabilities).

This paper aims to present a visualization method to explain the third step of the adjustment process to account for changes in the working capital. A key item of net cash flows from operating activities is cash collected from customers. Cash collected from customers result from sales revenue but these two figures normally do not match due to timing differences. If a company sells on account, it may have movement in accounts receivable, a current asset. If a company collects cash in advance without delivering the goods/performing the services, it may have movement in unearned revenue, a current liability. Thus, changes in accounts receivable and unearned revenue have to be adjusted in order to obtain the cash collected from customers from sales revenue.

To visualize the indirect method, one must draw a diagram in which students can see that cash collected from customers do not match sales revenue. There are two other possible scenarios. Sales revenue can be greater or less than cash collected from customers.

<u>Scenario 1 (Sales Revenue is Greater Than Cash Collected from Customers)</u>

Sales Revenue for the Year Ended December 31, 2010

Cash Collected from Customers for the Year Ended December 31, 2010	Reason 1 for the Gap? (To Deduct from Net Income)	Reason 2 for the Gap? (To Deduct from Net Income)

Based on the above diagram, students can see that sales revenue is greater than cash collected from customers for the year ended December 31, 2010. Students are told that the gap is caused by timing differences between the accrual basis net income and the cash basis cash collected from customers. Next, students are prompted to think of two reasons for the gap. What are two business transactions that will increase sales revenue but have no impact on cash collection? As sales revenue is greater than cash collected from customers, both reasons require deduction from net income in order to obtain cash collected from customers.

The first reason relates to credit sales made on account in 2010 for which cash has not yet been collected in the same year, 2010. The corresponding journal entry for the business transaction is:

DR Accounts Receivable *(↑ Increase in Current Asset)*
CR Sales Revenue *(↑ Increase in Sales Revenue)*

Based on the above journal entry, students can see that this business transaction increases accounts receivable and sales revenue but has no impact on cash collection. Accounts receivable is a current asset. Thus, an increase in current asset requires a deduction from net income.

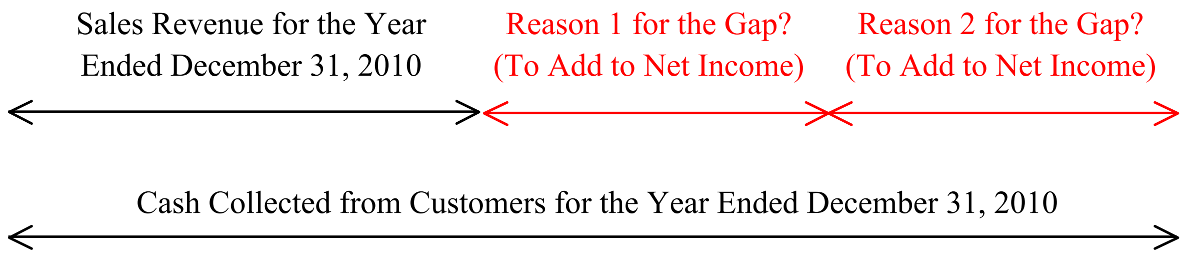
The second reason relates to cash collected in the previous year (2009) but the goods are delivered and/or services are performed in 2010. The corresponding journal entry for the business transaction is:

DR Unearned Revenue *(↓ Decrease in Current Liability)*
CR Sales Revenue *(↑ Increase in Sales Revenue)*

Based on the above journal entry, students can see that this business transaction decreases unearned revenue. It also increases the sale revenue but has no impact on cash collection. Unearned revenue is a current liability. Thus, a decrease in current liability requires a deduction from net income.

To summarise, the above diagram and related journal entries enable students to understand why they have to deduct from net income when there is an increase in current assets and a decrease in current liabilities.

<u>Scenario 2 (Sales Revenue is Less Than Cash Collected from Customers)</u>



Based on the above diagram, students can see that sales revenue is less than cash collected from customers for the year ended December 31, 2010. Similarly, students are told that the gap is caused by timing differences between the accrual basis net income and the cash basis cash collected from customers. Next, students are prompted to think of two reasons for the gap. What are two business transactions that will increase cash collection but have no impact on sales revenue? As sales revenue is less than cash collected from customers, both reasons require addition to net income in order to obtain cash collected from customers.

The first reason relates to credit sales made on account in the previous year, 2009 for which cash has only been collected in 2010. The corresponding journal entry for the business transaction is:

DR Cash *(↑ Increase in Cash Collection)*
CR Accounts Receivable *(↓ Decrease in Current Asset)*

Based on the above journal entry, students can see that this business transaction decreases accounts receivable. It also increases cash collection but has no impact on sales revenue. Accounts receivable is a current asset. Thus, a decrease in current asset requires an addition to net income.

The second reason relates to cash collected in advance in 2010 but the goods will be delivered and/or services will be performed in the next year, 2011. The corresponding journal entry for the business transaction is:

DR Cash *(↑ Increase in Cash Collection)*
CR Unearned Revenue *(↑ Increase in Current Liability)*

Based on the above journal entry, students can see that this business transaction increases unearned revenue and cash collection but has no impact on sales revenue. Unearned revenue is a current liability. Thus, an increase in current liability requires an addition to net income.

To summarise, the above diagram and related journal entries enable students to understand why they have to add to net income when there is a decrease in current assets and an increase in current liabilities.

CONCLUSION

As the indirect method is predominantly used by companies, it is important to ensure that students understand the indirect method of preparing SCF. Under the indirect method, all changes in current assets and current liabilities have to be accounted in order to adjust accrual basis net income to cash basis net cash flows from operating activities. Students may simply determine the direction of the changes in the current assets and current liabilities and adjust mechanically without truly understanding why they have to add to net income or deduct from net income. This paper presents a visualization method to teach the indirect method in order to enhance the understanding of students. Using this visualization method, students could understand why they have to add to net income when there is a decrease in current assets (increase in current liabilities) or deduct from net income when there is an increase in current assets (decrease in current liabilities).

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PLAYING THE DOUBLE ENTRY MONOPOLY GAME – ACTIVE LEARNING IN ACCOUNTING PRINCIPLES AND PRACTICES

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PLAYING THE DOUBLE ENTRY MONOPOLY GAME – ACTIVE LEARNING IN ACCOUNTING PRINCIPLES AND PRACTICES

Worldwide sales of the famous board game Monopoly exceeded 250 million in 103 countries (Daffey, 2008). An estimated half a billion people are believed to have played the game Monopoly (Dixon, 2009), and more than 200 editions have been released in 37 languages (Daffey, 2008). Have you ever wondered why Madonna is so successful and rich? Apparently her favourite board game as a 10-year old child was Monopoly (Day, 2008). There is even a Monopoly World Championship for this popular game (Dixon, 2009). Why not use this famous board game in our accounting classroom? Needles (2011) explain that the diverse group of students in introductory principles of accounting classes makes it necessary to present the subject matter that will arouse their interest because motivating them to want to learn accounting is always a major challenge.

The double entry rules in financial accounting are often taught in an abstract manner in the classroom. For example, we often intone: "To increase an asset account, you put an entry on the debit side. Emphasis is frequently placed on memorizing the rules and many students have little or no practical context from which to draw and help them understand this sometimes esoteric subject. There are contrary views held as to whether or not such technical skills should actually be taught in a tertiary level accounting curricula. Nevertheless, in universities that do offer accounting principles and practices courses (also termed as introductory financial accounting), lecturers often face an uphill battle imparting an understanding of the double entry effects of transactions. How to present this information to students, to ensure that effective learning is taking place, to lay the foundations of financial accounting is an on-going challenge. To address this process, seen by some as tedious and boring, we have taken this famous board game into the classroom. We have incorporated the accounting equation into playing this game so that learners not only come to understand the double entry effect of transactions but also have 'fun'. A sense of practical reality is achieved as they need to continually 'balance their books' during game play, while they progress around the board, either receiving or paying out money and 'even going to jail'. This paper explains the teaching approach taken to making it fun for students to actively learn the double entry effects of transactions that lays the foundations of financial accounting.

PLAYING THE DOUBLE ENTRY MONOPOLY GAME

The rules of the Monopoly game were modified to suit the classroom situation and to enable students to progress more quickly to recording transactions as they moved round the board. The basic strategy of the Monopoly game is to purchase as many properties as possible so that you can build on them to maximise the amount of rental that you can collect from your opponents in order to bankrupt them. This is unchanged. To allow the game to progress faster, students were allowed to build on property without having to collect the whole colour-group set of properties first. They were even allowed to build immediately upon purchase of the property without having to go around the board as per the original rules of the game. Our introductory financial accounting paper has 2 lecture hours, 2 workshop hours and 1 lab tutorial. Students enrolled for the paper have to sign on for workshop sessions with a class size of 15 – 20 students for smaller group interactions with their tutors; it is a requirement that students attend weekly workshops. The objective of these sessions was to allow students to become involved in hands-on problems solving. The double entry monopoly game is played in the very first workshop session and serves as both an icebreaker for students to socialise and interact with their peers as well as to become actively engaged in the learning process.

In essence the playing of this game enables students to learn the double entry effect of increasing or decreasing the five fundamental elements depicted in the Accounting Equation (Assets, Expenses, Liabilities, Owner's Equity and Income) without the need to worry about the confusing double entry concepts of debits and credits. This initial step of getting students comfortable with balancing the accounting equation through increases and decreases of the five elements will subsequently be extended to the application of the double entry rules through a transaction analysis chart.

Transaction Analysis Chart					
Transaction:	Accounts Affected:	Type of Account: A, E, L, OE, I	Increase/ Decrease	Debit/ Credit	Amount

Rules and illustration of applying the double entry through the Accounting Equation:

You have $1,500 to invest into your rental property business. Cash (Asset) increases by $1,500 and Capital (Equity) increases by $1,500.

Asset			+	Expenses	=	Liabilities	+	Owner's Equity	+	Income
Cash	Property	Building						Capital		
+1,500								+1,500		
1,500					=			1,500		

You must use the accounting equation to maintain a running record of what is happening in your business. It must remain in balance and the amount of cash in your hand should actually agree with what your equation says.

Every time you pass GO and collect $200, record this as a Cash increase of $200 and an Income increase of $200.

Asset			+	Expenses	=	Liabilities	+	Owner's Equity	+	Income
Cash	Property	Building						Capital		
+1,500								+1,500		
1,500					=			1,500		
+200										+200
1,700					=			1,500	+	200

When you purchase a PROPERTY, record this as an increase in Property (Asset) and a decrease in Cash (Asset) with the appropriate amount. The money for the property goes to the

BANKER. Say for example, you purchase Queen Street (the most expensive property in the New Zealand edition) for $400.

Asset			+	Expenses	=	Liabilities	+	Owner's Equity	+	Income
Cash	Property	Building						Capital		
+1,500								+1,500		
1,500					=			1,500		
+200										+200
1,700					=			1,500	+	200
- 400	+ 400									
1,300	400				=			1,500	+	200

YOU are allowed to build on that property straight away if you wish (i.e. if you have spare cash or you are prepared to take a risk). This will be an increase to Building (Asset) and a decrease to Cash (Asset) with the appropriate amount that you have spent on paying for the buildings (see the property card you have for the cost of building on your property). The money for the buildings goes to the BANKER.

For example, it costs $200 to put a house on your Queen Street property. You might want to do this because the rental that you can get on the Unimproved Site is only $50 whereas with 1 House built on it, you will be able to collect $200, with 2 houses $600 and with a Hotel, the rental will escalate to $2,000. This is the amount you will get every time an opponent lands on your Queen Street property (compared to only $50). YOU decide to spend only $200 on 1 House to be built on the property at this stage of the game.

Asset			+	Expenses	=	Liabilities	+	Owner's Equity	+	Income
Cash	Property	Building						Capital		
+1,500								+1,500		
1,500					=			1,500		
+200										+200
1,700					=			1,500	+	200
- 400	+ 400									
1,300	400				=			1,500	+	200
- 200		+200								
1,100	400	200			=			1,500	+	200

If you pay Rent to other players as a result of landing on their property, or pay Income Tax as a result of landing on that space, or any other expenditures as instructed by the Chance and Community Chest cards, YOU must record this as a decrease to Cash (Asset) and an increase to Expenses.

Say you throw the two die and land on Income Tax space where you have to pay 10% or $200. You decide to pay $200.

Asset			+	Expenses	=	Liabilities	+	Owner's Equity	+	Income
Cash	Property	Building						Capital		
+1,500								+1,500		
1,500					=			1,500		
+200										+200
1,700					=			1,500	+	200
- 400	+ 400									
1,300	400				=			1,500	+	200
- 200		+200								
1,100	400	200			=			1,500	+	200
- 200				+ 200						
900	400	200	+	200	=			1,500	+	200

Income Tax and other payments like Doctor's fees, Get out of Jail money ($50) as indicated by the Chance and Community Chest cards will be placed in the centre of the playing board and anyone landing on FREE PARKING will take all that money and record it as an increase to Cash and Income.

If you receive rent from another player that lands on your property, YOU must record this as an increase to Cash and Income. For example, you collected $200 rent from an opponent who lands on your Queen Street property that has a house (one green house) built on it.

Asset			+	Expenses	=	Liabilities	+	Owner's Equity	+	Income
Cash	Property	Building						Capital		
+1,500								+1,500		
1,500					=			1,500		
+200										+200
1,700					=			1,500	+	200
- 400	+ 400									
1,300	400				=			1,500	+	200
- 200		+200								
1,100	400	200			=			1,500	+	200
- 200				+ 200						
900	400	200	+	200	=			1,500	+	200
+200										+200
1,100	400	200	+	200	=			1,500	+	400

If you are running short of cash and want to remain in the game, you can borrow up to $1,000 from the BANKER. Once you reach that limit and you run into debt with other players, you will have to start selling off your assets (buildings and property). You must show these as decreases to your assets. If you use one of your properties as payment for RENT to another player then you must record this as a decrease to Property asset and an increase in Rent Expense.

YOU just landed on an opponent's property. He owns Lambton Quay and has built a hotel on it. You have to pay him $1,500. You quickly count your cash and find that you only have $1,100. You see only two possible choices at this stage, either sell off some of your own assets or borrow from the bank to pay this rent. You decide to borrow $500 from the bank.

Asset			+	Expenses	=	Liabilities	+	Owner's Equity	+	Income
Cash	Property	Building						Capital		
+1,500								+1,500		
1,500					=			1,500		
+200										+200
1,700					=			1,500	+	200
- 400	+ 400									
1,300	400				=			1,500	+	200
- 200		+200								
1,1 00	400	200			=			1,500	+	200
- 200				+ 200						
900	400	200	+	200	=			1,500	+	200
+ 200										+200
1,100	400	200	+	200	=			1,500	+	400
+500						+500				
1,600	400	200	+	200	=	500	+	1,500	+	400
-1,500				+1,500						
100	400	200	+	1,700	=	500	+	1,500	+	400
700			+	1,700	=	500	+	1,500	+	400
$2,400					=	$2,400				

You may if you wish, enter into a partnership with another player but you will still need to maintain proper records depending on your partnership agreement.

At the conclusion of the game, you will need to determine your 'WEALTH' or lack of it by paying off any debts to the bank and other players and totalling up your cash, buildings and property values at the cost you acquired them for.

IF YOU HAVE MANAGED TO KEEP PROPER RECORDS WHILE TRYING TO MAKE ALL THAT MONEY, EXCELLENT WORK! WE CAN TRULY SAY THAT YOU ARE A "BORN ACCOUNTANT"!!

Students are encouraged to 'balance their books' and measure their performance and position by determining their profit and net assets value. The above illustration can be used to show that the student made a loss of $1,300 (Income – Expenses whereby Income was only $400 and Expenses totalled $1,700). Net assets will therefore only be $200 (Total Assets – Total Liabilities where total assets equated $700 with total liabilities being $500; alternatively, students can work this out by having Owner's Equity of $1,500 subtract the loss of $1,300 to give Capital at end of $200).

To keep the atmosphere in the classroom festive, fun and exciting, students were also given lollipops for the duration of the ‘game’. Student feedback, not just from the younger students, but also more mature ‘adult’ students have remained positive in the years that we have introduced this active learning tool into the accounting classroom. This game not only encourages students to learn the double entry effect on transactions in a fun and meaningful manner but it also creates a more conducive learning environment for a first year accounting class. Positive feedback from former students, including one who is now a Tax Manager and another an Audit Manager (both working for one of the big four accounting firms) and other accounting professionals suggest that the teaching approaches used in our introductory financial accounting has made a significant impact on their technical knowledge of accounting and its application in the real world.

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