AIR

Accounting Instructors' Report

A Journal for Accounting Educators

Belverd E. Needles, Jr., Editor

ISSN#: 2325-0267

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Fall 2012 AIR Newsletter

TRENDS

THIRTY YEARS SERVING ACCOUNTING EDUCATORS

Belverd E. Needles, Jr., Editor

Thirty years ago this year, I wrote "Welcome to the first issue of *Accounting Instructors' Report*." Our purpose is to serve college accounting educators by providing a medium for sharing information about the teaching of accounting. Over that time, we published 75 issues of *Accounting Instructors' Report*, which included 75 *Trends* editorials in which I have tried address changes that affected the environment of our teaching, the way we teach, and the nature of our students. In those issues, we published almost 400 articles that included "essays, studies, and research about the content, philosophy, teaching techniques, and administration of accounting courses."

The second issue of *Accounting Instructors' Report* published in October of that first year of 1982 contained my attempt to highlight what I thought were the most significant trends affecting the teaching of accounting. Let's see how I did.

First, I noted, "there has been a decrease in the students' working of accounting problems in a controlled laboratory setting." This trend which has continued means that students are more on their own to study and understand their homework. Technology as noted below has helped alleviate the problems this causes and there is possibly some trend toward more labs settings. For instance, at my school, DePaul University, we have found the weekly, required labs for all beginning accounting students has lowered the failure rate for 35-40 percent to 15-20 percent.

Second, I noted, "average class size has increased dramatically. Business and accounting have been among the fastest growing of all academic disciplines. At some schools, they represent half the student body. At the same time, there has not been a comparable increase in faculty. Shortages of qualified faculty and budget constraints have led to an inevitable increase in class size. Where thirty students in a class was the norm, forty, fifty, or more is now the rule. Many schools have lecture sections of 300 to 500 students." This prediction certainly was on the mark and continues today. With tight state budgets and the shortage of Ph.D.'s, the challenges here continue.

Third, I noted, "there has been an increase in the number of part-time and working students. Among students taking accounting nationally, the full-time student who can devote daily and intense attention to homework and other preparation for class is in a clear minority." This is also very much on the mark. Our students' lives are very complex with studying often being a lower priority than we would like it to be. In years of surveying accounting students time allocations, more than 95 percent work for an average of 26 hours per week. What I failed to take into account earlier was commuting time. My surveys show the average student spends 11 hours per week commuting. Thus, combined with an average of 12 hours per week in class, 49 hours per week on average are taken by work, commuting, and class. This does not count time for eating, pleasure, sleeping, and other activities.

Fourth, I note, “related to the increase in students, the number of evening classes, and the scarcity of full-time faculty, is the increased use of part-time instructors and teaching assistants. Although these people can be among the most dedicated and conscientious teachers, they often are the least experienced and by definition they have other personal jobs and goals that conflict with teaching. When you combine the part-time and working student with the part-time and working instructor, the opportunity for meaningful interaction, help, and feedback outside the classroom is greatly reduced, if it exists at all.” An objective of *Accounting Instructors' Report* has been to address the needs of part-time faculty.

Fifth, I note, “the increased availability of technology for use in the educational process.” This projection has proven true beyond our wildest dreams. Although microcomputers were very new in 1982 (IBM released it’s first one in 1981) and the Internet was not even conceived, I noted correctly that:

> “The growing availability of the microcomputer is going to change this situation by placing the control of the computer and the learning situation in the hands of the individual student in the classroom. Further, the existence of relatively low-priced microcomputers means part-time and working students may have them in their homes and can study accounting on their own time. In other words, the computer can now be adapted to the student and the learning situation, rather than the other way around. Thus, with fewer hours in class, more students per class, less time for regular study, less personal contact with the instructor, and fewer qualified instructors, more of the burden of learning accounting falls on the student's aptitude for self-study and more of the burden of teaching accounting falls on the textbook and related study items.”

There are, of course, many developments I did not anticipate, but appeared in subsequent *Trends* essays. The Internet has made possible 24/7 communications by email, video lectures, hybrid and online courses, homework grading, and other innovations. No doubt tablets and smart phones and video conferencing will lead to more revolutionary changes. I did not address the content of accounting courses in 1982. We did not have a statement of cash flows (passed in 1988), the FASB was only 9 years old with 50 statements (170 today), and the conceptual framework was only partially complete. The International Accounting Standards Board (IASB) and IFRS were almost 20 years in the future.

I undertook *Accounting Instructors' Report* thirty years ago because of my “belief that [its stated] purpose [was] not now being served adequately. Creative accounting instructors across the country are developing new insights into the teaching of accounting, and technology is rapidly changing the way accounting is taught and practiced. Further, there is a deep-seated frustration that there are not more and better ways to communicate with colleagues to discuss common problems and to exchange ideas on the teaching of accounting.” Today, we continue this same mission, and as we stated in the first issue, “We actively solicit your views, suggestions, and participation in *Accounting Instructors'*

Report. I look forward to hearing from you."

FIVE THINGS YOU SHOULD KNOW ABOUT INTEGRATING IFRS IN YOUR BEGINNING ACCOUNTING COURSE

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Five Things You Should Know About
Integrating IFRS in Your Beginning Accounting Course

INTRODUCTION

International Financial Reporting Standards (IFRS) are set by the International Accounting Standards Board (IASB) in London. They are now being used in more than 120 nations in the world. The U.S. neighboring countries Canada and Mexico adopted IFRS in 2011 and 2012 respectively. The U.S. Securities and Exchange Commission (SEC) has not yet committed U.S. listed companies to using IFRS and continues to deliberate this question. The Group of Twenty repeatedly supported IFRS and views IFRS as an important factor to overcome the current financial crisis. A single set of high quality global accounting standards is viewed as having the capacity to improve information for investors, resulting in a more efficient worldwide capital allocation.

Whether the SEC decides to adopt IFRS or not, the convergence process involving the FASB and IASB continues as initiated by the Norwalk Agreement of 2002. Numerous U.S. based multinational companies (MNCs) have foreign subsidiaries that are required to report under IFRS and numerous foreign based MNCs have U.S. subsidiaries that must have their results converted to IFRS for consolidation purposes. Furthermore, cross border offerings of various securities are increasing and investors must become aware of IFRS in order to understand financial statements for investment purposes.

It is important to notice that the beginning accounting courses should not only encompass IFRS because of the accounting issues involved. IFRS affect other functions of business, such as information systems, human resources, taxation and management. Thus, accounting majors are not the only students that have to learn about IFRS. Non-accounting majors should also be exposed to IFRS. For non-accounting majors, the beginning course may be their sole opportunity to be exposed to the international accounting standards. To not provide such an introduction to IFRS will result in business graduates being unprepared to understand and analyze financial statements of global companies, most of whom use IFRS.

One important component of the SEC work plan involved assessing the readiness of ‘‘all parties involved in the financial reporting process, including investors,’’ for a conversion to IFRS, which may require changes to the university accounting curricula. The 2012 SEC Final Staff Report addresses a variety of concerns, among them the state of IFRS education and training for preparers and users. Hence, addressing IFRS in the introductory accounting courses contributes to enabling domestic investors and accountants to successfully deal with a potential transition to IFRS.

We have been teaching IFRS in various levels of the accounting curriculum during the past four years (from beginning to graduate level stand-alone courses). During this time, we have researched and organized an extensive list of informative IFRS related websites that facilitate in engaging the interest of and imparting IFRS knowledge to beginning accounting students.

This article is structured into the following five sections: (1) IFRS Resources and Websites Available; (2) Providing Incentives for Beginning Accounting Students to Learn IFRS; (3) History, Structure, and Standard-Setting of the IASB; (4) IFRS-U.S. GAAP Comparisons and Status of Global Adoption; and (5) Engaging Beginning Accounting Students with IFRS Videos.

(1) IFRS RESOURCES AND WEBSITES AVAILABLE

There are numerous sources of engaging and up-to-date IFRS educational materials and information available on various websites. The majority of these websites are accessible for free. These websites are created and hosted by a variety of organizations, including the accounting firms, standard setters, regulators, universities and professional associations.

The IFRS Foundation and the IASB provide a wealth of information on their website IFRS.org. The large accounting firms Ernst and Young, KPMG, Deloitte, PricewaterhouseCoopers, BDO, Grant Thornton, and RSM McGladrey provide separate IFRS related websites. The U.S. Securities and Exchange Commission (SEC) has a section of their website focused on IFRS. The American Institute of Certified Public Accountants (AICPA) hosts a comprehensive site called IFRS.com.

We have researched and organized a list of the most informative IFRS websites at TeachingIFRS.com. The homepage of TeachingIFRS.com is shown in Appendix I.

Our work in creating TeachingIFRS.com has been recognized by an Honorable Mention for the 2012 AICPA Mark Chain/FSA Innovation in Graduate Teaching Award. Our website consolidates and provides links to numerous freely available IFRS pedagogical materials, which address both the full version of IFRS and the IFRS for SMEs. It provides easy access to IFRS e-Learning modules, job trends, certification programs, videos and webcasts, official pronouncements, news releases, textbooks and much more. Professors and students now have a single, one-stop resource for the teaching and learning of IFRS. TeachingIFRS.com complements and provides valuable IFRS supplements for the accounting curriculum, from introductory to capstone courses, at both the undergraduate and graduate levels.

(2) PROVIDING INCENTIVES FOR BEGINNING STUDENTS TO LEARN IFRS

The students in the beginning accounting course should be aware that IFRS will impact their careers regardless of their major or future functional area of expertise. We make our students aware of the significance that IFRS will have upon their careers by utilizing the website Indeed.com. Indeed is the leading job site worldwide, with over 70 million unique visitors and 1.5 billion job searches per month. Indeed is available in more than 50 countries and 26 languages. A search for all IFRS related jobs (as of October, 2012) is provided in Appendix II.

Additional more refined and selected searches can be shown to students by inserting terms such as “Information Systems”, “Finance”, etc. to make non-accounting majors in the class aware of the benefits of learning about IFRS. For example, the upper left hand column of

Appendix II shows numerous job ads mentioning "IFRS and Finance" (1,020) or "IFRS and Information Systems" (436).

In addition, Indeed.com has a function called "Trends" in which a graphical representation of IFRS employment opportunities in accounting and other functional areas can be requested. A graph of the frequency of the term "IFRS" elicits a sharp rise in such ads from 2005 to 2010, with a subsequent leveling off in the past two years. Such a visual display makes it easy to discuss the timeline of IFRS History shown below and it also demonstrates potential employment opportunities. Appendix III shows a trend graph of IFRS opportunities from Jan. 1, 2005 until Oct., 2012. The actual job listings can be explored to find the details of the job ads if class time allows or as a homework assignment.

For the accounting majors in the class, the recent appearance of IFRS on the CPA exam should be emphasized. We find it useful to display in-class to the students the Uniform CPA Examination FAQs - International Financial Reporting Standards (IFRS) on the Uniform CPA Examination.

Finally, beginning accounting students should be made aware of the sharp growth in international trade, foreign direct investment, and the international capital markets. This overall increase in international business provides a strong rationale for a single set of high quality global accounting standards. To educate students about the growth in cross-border listings, we utilize data and graphs from the New York Stock Exchange (NYSE) and the London Stock Exchange (LSE). To explain the growth in global trade (imports and exports) we draw upon data and graphs from the World Trade Organization (WTO) and for the growth in foreign direct investment, we draw upon data from the United Nations World Investment Report.

Investors in the global capital markets would benefit by the increase in comparability brought about by IFRS. Multinational corporations (MNC's) would benefit by decreased reporting costs in listing their shares in foreign stock markets. MNC's would also have a lower cost of preparing global consolidated financial statements and lower training costs of sending staff to foreign assignments.

(3) HISTORY, STRUCTURE AND STANDARD-SETTING OF IASB

Beginning accounting students should be aware that the effort to create global standards has an interesting history dating back to the creation of the IASB's predecessor body, the International Accounting Standards Committee (IASC) in 1973. We explain to our students the details of the timeline as seen in Exhibit 1.

EXHIBIT I: TIMELINE OF IFRS HISTORY FOR BEGINNING STUDENTS

1973 Formation of the International Accounting Standards Committee (IASC) and the FASB

2001 Formation of the IASC Foundation and the International Accounting Standards Board (IASB), Sir David Tweedie appointed Chairman of IASB

2002 EU passes regulation to adopt IFRS for listed entities in 2005; FASB and IASB sign 'The Norwalk Agreement' in which they commit to reduce differences between US GAAP and IFRS, initiating the conversion efforts

2005 Nearly 7,000 listed entities in Europe adopt IFRS
2006 IASB announces 'three years stable platform period' - entities that have already adopted IFRS do not need to implement new IFRS until 2009
2007 SEC removes reconciliation requirement for non-U.S. entities reporting under IFRS
2008 SEC proposes roadmap for potential mandatory adoption of IFRS by U.S. Filers under Chairman Christopher Cox
2009 New SEC Chairman Mary Shapiro is reluctant to support existing roadmap to IFRS. The Group of Twenty supports IFRS as an important step towards reforming the Financial System
2010 SEC announces that its staff will develop a work plan that would better analyze the issues regarding the potential adoption of IFRS. SEC issues Progress Report in late 2010.
2011 SEC postpones decision to adopt IFRS and publishes two staff papers: (1) An Analysis of IFRS in Practice and (2) A Comparison of U.S .GAAP and IFRS. Hans Hoogervorst appointed Chairman of IASB
2012 SEC issues 'Final Staff Report' regarding work plan. The decision to permit or adopt IFRS is pending.

The first module of the Ernst and Young (EY) IFRS Curriculum entitled "Introduction to IFRS" includes a 41 slide power point presentation that we find helpful for introductory accounting classes. The topics covered within the EY power point include: (1) What is IFRS?; (2) Is IFRS better or different than U.S. GAAP?; (3) Who are the International Standard Setters?; (4) What is the Structure of the International Accounting Standard Setters?; (5) What is the History of International Standard Setting?; (6) How are the International Standards Set?; (6) How are the International and U.S. Standard Setters Working Together?; (7) What is the Outlook for IFRS Adoption?; and (8) Why is it important to learn about IFRS Today?

(4) IFRS-U.S. GAAP COMPARISONS AND STATUS OF GLOBAL ADOPTION

Beginning accounting students should be introduced to some of the key U.S. GAAP-IFRS differences and the current status of global IFRS adoption. Several excellent U.S. GAAP-IFRS comparison publications have been created by the global firms and recently the SEC published their detailed comparison of IFRS vs. U.S GAAP. These publications can be accessed at the following web addresses: SEC, PwC, KPMG, EY, Deloitte.

In addition, several introductory accounting textbooks now provide U.S. GAAP-IFRS comparisons and there are several short IFRS books that can be used as supplements to the beginning accounting textbooks.

Since students in the introductory courses are in the early stages of learning accounting concepts, we recommend focusing on the more basic IFRS – U.S. GAAP differences such as accounting for inventory, intangible assets and property, plant and equipment. For inventory accounting, students should become aware that LIFO is not allowed under IFRS and that IFRS uses lower of cost or net realizable value instead of lower of cost or market. For intangible asset accounting, it should be pointed out that IFRS allows some research and development (R&D) costs to be capitalized when certain conditions are fulfilled whereas in the U.S. most R&D is expensed. For accounting for PP&E, students should learn that IFRS allows the revaluation method for valuation subsequent to acquisition while the U.S. sticks to historical cost. There are other accounting issues involving U.S. GAAP-IFRS comparisons that can be inserted into the beginning accounting course, however such discussions should remain brief due to the vast amount of material that beginning students must cover. Beginning students should at a minimum have their eyes opened to the fact that IFRS based statements will have differences that may need to be explored during their future careers. The accounting majors in the class will most likely be exposed to more detailed and extensive comparative studies in their intermediate level courses or in separate stand-alone International Accounting or IFRS courses.

The current adoption status of IFRS in G-20 nations can be seen in a list compiled by the IASB and an interactive map with accompanying details has been made available by PwC.

(5) ENGAGING BEGINNING STUDENTS WITH BRIEF IFRS VIDEOS

By using short videos in class, we find that students become more interested and engaged in learning about IFRS. We believe that the IFRS brief topic videos are the most suitable videos for the beginning accounting courses. This is because introductory students typically lack in-depth accounting knowledge and class time is limited due to the many basic accounting topics that need to be covered. Table 1 below lists and describes the IFRS videos that we find most valuable for introductory-level classes. This table provides a guideline for professors unfamiliar with IFRS and does not preclude the selection and assignment of other short IFRS videos.

The PwC IFRS Ready video and several of the short AICPA IFRS and YouTube.com videos are excellent supplements for introductory accounting classes that can effectively increase student awareness of IFRS. Our experience is that students respond favorably when viewing the AICPA video 'IFRS: Adopting Global Standards' (eight minutes) and the PwC 'IFRS Ready? How' video (seven minutes). The videos make students aware of the global harmonization of accounting standards, explained through accounting firm partners and managers, executives of multinational corporations, and officers of the AICPA and International Federation of Accountants (IFAC). Finance majors, international business students and other business students should also be made aware of the coming IFRS revolution, as IFRS is not only an 'accounting' issue but also affects other functional aspects of a company. These brief topic videos offer a very good source of virtual guest speakers who get students' attention.

TABLE 1: IFRS Online Videos for Introductory Accounting Classes: Author's Favorites

Title	**Source**	**Time**	**Benefit for Students**
IFRS: Adopting Global Standards	IFRS.com	8 min.	Global experts discuss the significance of IFRS and their experiences with it.
PricewaterhouseCoopers (PwC): IFRS Ready: How?	YouTube	7 min.	PwC partners and managers, and an IBM executive discuss the influence of IFRS in their careers.
SEC Chair Mary Schapiro - 2010 Open Meeting on Global Accounting Standards	SEC.gov	4 min.	SEC Chairperson Mary Schapiro, "Remarks on the Convergence of Global Accounting Standards".
IASB Chairman Hans	YouTube	3 min.	IASB Chairman, Hans Hoogervorst shares his

Hoogervorst - 2011 IFRS Summit			thoughts on "IFRS Being Adopted in the United States".
IFRS Summit 2010: Convergence - FASB Chair Leslie Seidman	YouTube	2 min.	Leslie Seidman, FASB Chair, shares her views on the convergence between IFRS and U.S. GAAP.
Importance of Global Standards to Ford Motor Company	IFRS.com	5 min.	Robert L. Shanks, Vice President and Controller of Ford Motor Company, speaks about the importance of IFRS to Ford.
FASB/IASB Convergence Project	AICPA.org	3 min.	AICPA President and CEO Barry Melancon discusses the convergence between IFRS and U.S. GAAP.
Brazil's Transition to IFRS	YouTube	3 min.	Ana Maria Elorrieta, President of IBRACON, shares her perspective on Brazil's recent implementation of IFRS.

Appendix I: Homepage for TeachingIFRS.com

Welcome to TeachingIFRS.com

Your one-stop source for Teaching and Learning International Financial Reporting Standards

IFRS Resources
IFRS Official Pronouncements
IFRS Accounting Videos for the Classroom
Other Accounting Video Resources

IFRS Classroom Materials
IFRS E-Learning Interactive Modules
IFRS Certifications

Selected IFRS Articles
IFRS Books
IFRS Research and Surveys
IFRS Employment

IFRS around the World

IFRS for SMEs

About TeachingIFRS.com

PURDUE CIBER

We appreciate the generous support of the Purdue Center for International Business Education and Research (CIBER) program.

Please send links that we have missed to: info@TeachingIFRS.com Thank you.

This website is designed to be used directly in the classroom

Quick Links: Most popular examples to use with your students:
Show the interactive PwC IFRS Worldmap
Show an Interview with Sir David Tweedie
Show how to get free access to the unaccompanied IFRS
Illustrate the Relevance of IFRS with our 'IFRS Job Trends'
Provide a list of leading IFRS Resources: IASB.org, IFRS.com
Provide reading assignments to your students
Provide a list of IFRS Certification Programs
Find high quality classroom and testing materials

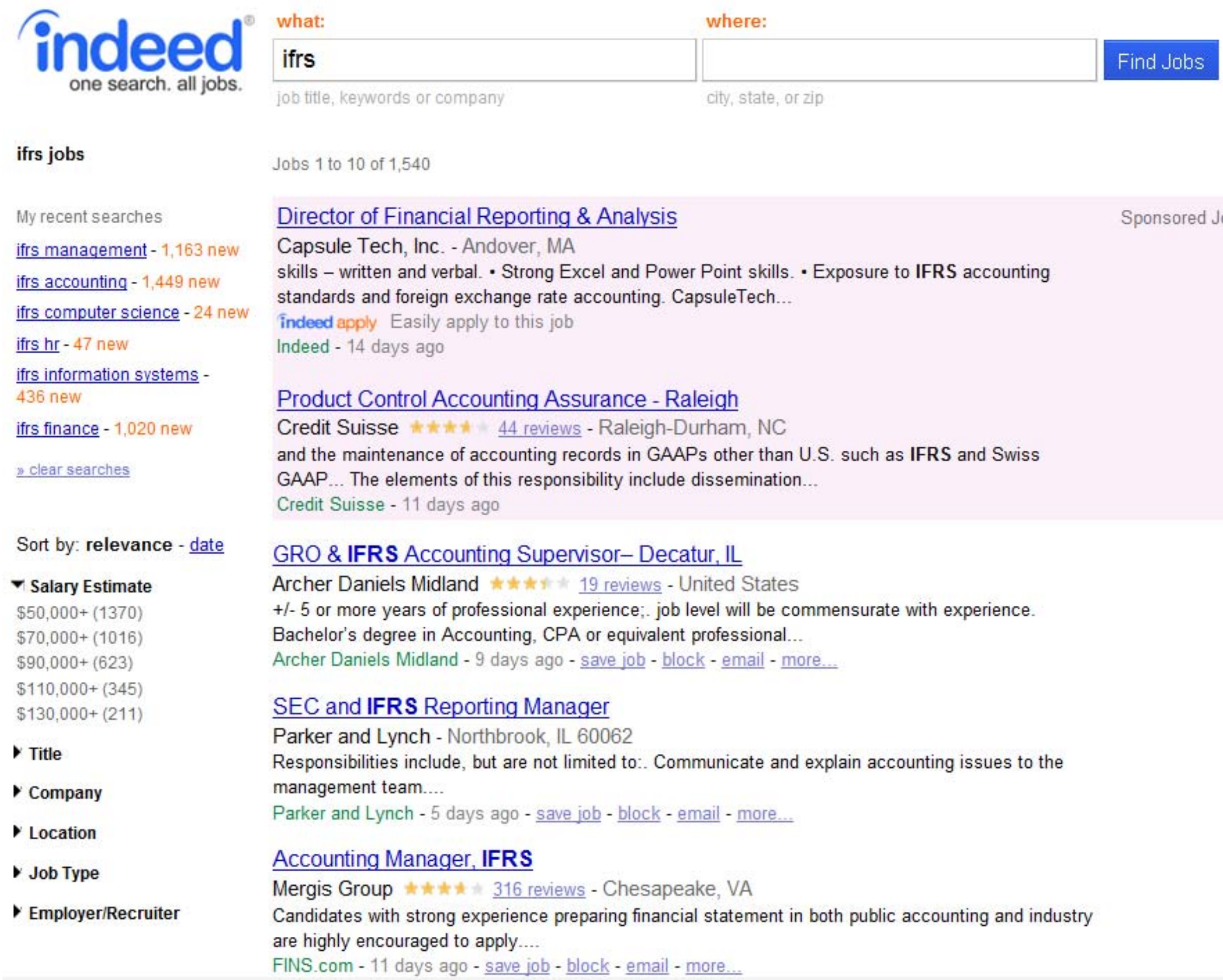
Arleen Thomas of the AICPA on the new IFRS Certificate

IASB Chairman Hans Hoogervorst and Joel Osnoss of Deloitte discuss the adoption of IFRS in the U.S.

SEC Chairman Shapiro's Opening Statement at Open Meeting on Global Accounting Standards

Former IASB Chairman Sir David Tweedie on IFRS in the U.S.

APPENDIX II: Indeed.com Search for IFRS Job Opportunities (Oct., 2012)



Appendix III: IFRS Job Trend Graph from Indeed.com (Oct., 2012)

ifrs Job Trends

Indeed.com searches millions of jobs from thousands of job sites.
This job trends graph shows the percentage of jobs we find that contain your search terms.

PEYTON, INC: AN IFRS PROJECT FOR THE FIRST INTERMEDIATE ACCOUNTING COURSE

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PEYTON, INC: AN IFRS PROJECT FOR THE FIRST INTERMEDIATE ACCOUNTING COURSE

INTRODUCTION

In 2008, the Securities and Exchange Commission (SEC) proposed a roadmap to issuing new rules that would require US domestic listed companies to adopt International Financial Reporting Standards (IFRS) by as early as 2014. Last year, the SEC suggested a slight variation on the path that could lead to US Generally Accepted Accounting Principles (GAAP) continuing for the foreseeable future and only gradually, over time, changing in the direction of IFRS. Given the situation, accounting educators who teach financial accounting courses face a major challenge in determining whether, and how, to integrate IFRS content into their courses. This paper offers a project that instructors teaching the first intermediate accounting course can use to give students exposure to IFRS and some of the major differences with US GAAP.

LEARNING OUTCOMES

Through completing this project, students should gain:

(1) A better understanding of the financial accounting and reporting issues covered in the first intermediate course;

(2) A knowledge of the major differences between US GAAP and IFRS requirements for the topics covered in the course; and

(3) Some experience researching issues in the IFRS standards.

STATUS OF IFRS ADOPTION IN THE US

Foreign Registrants

In 2006, the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) signed a Memorandum of Understanding (MoU) outlining an agenda of 21 issues for which the two Boards planned to pursue convergence of their standards over the next few years (FASB and IASB 2006). For some issues, the Boards agreed to choose either one side's existing treatment or the other's. For other issues, labeled joint projects, the Boards committed to working together to develop new, highly converged guidance. Seeing significant progress, the SEC moved in late 2007 to eliminate a requirement that foreign registrants using IFRS also supply a US GAAP reconciliation (SEC 2007). With the US GAAP requirement eliminated, such familiar names as BP p.l.c. and Siemens AG now trade in US markets based solely upon IFRS information.

Domestic Registrants

US domestic listed companies hoped for the same opportunity. In late 2008, the SEC proposed a rule that, if implemented, would require domestic registrants to adopt IFRS starting in 2014 and permit a few of the largest ones to elect IFRS reporting even sooner (SEC 2008). In the proposal, the SEC stated a timeframe for making a decision on IFRS adoption of 2011, which corresponded closely to a target date the FASB and IASB had set for completing several of their joint projects.

FASB/IASB Convergence

In 2008, the Boards updated their 2006 MoU (FASB and IASB 2008). With a few agenda items completed, they aimed to finish most of the rest by 2011. This plan proved a bit too ambitious. In a June 2010 progress report, the Boards noted they were on track to finish about half of their agenda by 2011 (FASB and IASB 2010). They settled on a strategy of prioritizing certain of the remaining projects, with the goal of completing them by midyear 2011. These projects included leases, revenue recognition and financial instruments. The IASB Chairman, Sir David Tweedie, hoped he could secure a commitment from the SEC to adopting IFRS prior to leaving his position on June 30, 2011 (Tweedie 2011).

The Boards have struggled to achieve convergence on the priority projects. In addition, stakeholders have expressed concerns with aspects of the exposure documents, particularly those on leases and revenue recognition. The Boards concluded they needed to address these concerns, which meant they would not be able to meet their target date. In November 2011, they issued a revised joint exposure draft on revenue recognition (FASB and IASB 2011). They plan to issue a new exposure draft on leases in the second quarter of 2012. Thus, completion of the priority projects likely has been pushed back to the end of 2012, or even into 2013.

SEC's "Condorsement" Idea

In 2010, the SEC announced a work plan that it intends to follow in forming a decision on IFRS adoption (SEC 2010). The SEC cited as one of two primary decision factors that IFRS exhibit sufficient comprehensiveness, enforceability and comparability to serve as a suitable replacement for US GAAP. It also stated that it wanted to see the priority convergence projects completed.

The SEC has not yet announced a decision on adopting IFRS, but it did offer some insight into its thinking through release of a staff paper in May 2011 (SEC 2011). In the staff paper, the SEC described an approach it is calling "condorsement" and asked interested parties to share their views. Basically, condorsement would combine two approaches that countries have taken to integrating IFRS into their reporting systems, convergence and endorsement.

Regarding the *convergence* aspect, US GAAP would remain for a transition period, and the FASB would continue to function and pursue improvement and convergence of US standards with IFRS. The SEC suggested the transition period could last five to seven years. Regarding the *endorsement* aspect, the US would establish an endorsement process, perhaps managed by the FASB, to review, propose for adoption and adopt any new standards issued by the IASB. The success of an endorsement process would rely, in large part, upon the FASB participating fully in the IASB's due process to ensure that US concerns are considered in the development of new international standards.

If the SEC settles on a path that includes a convergence aspect, the convergence activity likely would shift to being mostly one-sided. Recent comments by IASB officials suggest the IASB will cease working solely with the US once the priority joint projects have been completed (Tweedie 2011; Orlik 2011). By the end of the transition period, US GAAP should be very similar to IFRS. The SEC staff paper points out some differences could remain due to retaining US GAAP for issues where IFRS is silent and to the potential for carve-outs arising through the endorsement process. When the transition period is completed, the SEC could require adoption of IFRS, or simply proceed with the functioning endorsement protocol.

Stakeholder Views on IFRS Adoption

The AICPA surveyed its members in 2011 and found that 53% of the respondents believed the SEC should proceed with requiring adoption of IFRS (AICPA 2011). An additional 23% believed the SEC should permit, though not require, domestic listed companies to use IFRS. A majority of those who favored an SEC decision to adopt IFRS supported a condorsement approach, where further convergence would be achieved before adoption is imposed.

A recent survey of company executives indicates strong support among them as well. A 2011 Grant Thornton survey of CFOs found that 76% believed the US should move to IFRS within the next five to seven years (Grant Thornton 2011). As with the AICPA survey, most of the respondents favoring adoption within five to seven years wanted to see further convergence over that period before adoption is mandated.

Private Companies

For US private companies, the most significant development in relation to IFRS occurred in 2008, when the AICPA recognized the IASB as an approved standard setting body. For private companies, this decision opened the door for them to choose IFRS and have an AICPA member audit, review or compile their financial statements. According to a Deloitte survey of private companies in 2009, 11% of respondents were either using IFRS already or planning to adopt the standards shortly (Deloitte 2009).

In 2009, the IASB released a version of IFRS for small- and medium-sized entities (SMEs), giving US private companies a choice of two IFRS versions to consider. The SME standards are shorter in length, and for many issues, simpler than the full IFRS. Some private companies may object to certain aspects of these standards, such as requirements to immediately recognize actuarial gains and losses and to apply a fair value reporting model to most investments. According to a 2011 Grant Thornton survey of CFOs, just 22% of private company respondents supported replacing US GAAP with the SME standards (Grant Thornton 2011).

IMPLICATIONS FOR ACCOUNTING EDUCATORS

So, how should accounting faculty proceed? The SEC has proposed that US public companies be required to adopt IFRS by mid-decade. It appears to be backpedalling slightly from the proposal by raising the condorsement idea, which would produce a more gradual adopting of specific IFRS requirements within an ongoing US GAAP framework. Add to these developments for public companies that US private companies already have options to use either full IFRS or a streamlined SME version. Accounting faculty have long struggled with how to teach the ever-expanding volume of US GAAP requirements in the intermediate sequence. Now, they have the added challenges of determining whether to integrate IFRS content, and if so, how.

Most intermediate accounting textbooks have taken the approach of adding some IFRS coverage to supplement a continued emphasis on US GAAP. *Intermediate Accounting* (14th edition), by Kieso, Weygandt and Warfield, provides a good example. The authors have added a section at the end of most chapters that they call IFRS Insights. In these sections, they discuss key US GAAP/IFRS differences and offer some questions and problems for students to work. In a textbook of 1,581 pages, the IFRS Insights sections account for 164 pages, or 10% of the total. The AICPA is taking a similar approach with the CPA exam. It began testing IFRS on a limited basis in 2011, while continuing to give primary attention to US GAAP requirements.

How do accounting faculty view IFRS? KPMG and the American Accounting Association (AAA) have surveyed faculty annually the last few years for their thoughts on IFRS (KPMG and AAA 2011). The 2011 survey shows that most respondents believed the SEC will opt for a condorsement approach that will reshape US GAAP gradually over a period of years in the direction of IFRS. Yet, the majority believed that accounting programs should be teaching IFRS now. Many said that their schools already are teaching IFRS, with the most common setting being in the intermediate courses. The respondents cited two main challenges to expanding coverage of IFRS in their curricula. One is finding time in the existing intermediate courses to add IFRS coverage. The other is developing meaningful problems and case studies that help students to see the differences between US GAAP and IFRS.

This paper describes an IFRS project that faculty can use in teaching the first intermediate accounting course. The project addresses both of the concerns raised by faculty in the KPMG/AAA survey. It aims to give students meaningful exposure to significant differences between US GAAP and IFRS for the set of issues that arise in the first intermediate course. Furthermore, given the design, an instructor could choose to use it as a standalone outside-of-class assignment. The project easily could be integrated into the first intermediate course, even one that continues to give primary emphasis to US GAAP treatments.

THE PROJECT: PEYTON, INC.

Peyton, Inc.

Peyton, Inc. is a private company based in Charlotte, NC. The company operates retail sporting goods stores in most of the larger cities in the eastern US. It has issued common shares and bonds to a small group of investors and secured additional financing through bank loans. The company has no plans at this time to seek capital in public markets.

Peyton currently reports on a US GAAP basis. In February 2012, Peyton sent copies of its 2011 financial statements, for the calendar year 2011, to its investors and bank lenders. The company's controller, Dana Elliott, has been learning about IFRS, and she is giving more and more thought to Peyton possibly switching to these standards. As a private company, Peyton could elect to use IFRS as long as its stakeholders would be willing to accept IFRS basis financial statements. Dana is aware that two versions of IFRS exist, the full version and a shorter and slightly simpler SME version. From preliminary conversations with the company's investors and lenders, she has determined that they would be more willing to receive IFRS financial statements if prepared according to the full version of the standards.

Dana has discussed the idea with other members of the company's management team, and they have encouraged her to investigate further. As an initial step, Dana wants to see how IFRS adoption would affect the company's 2011 financial statements. In early March 2012, she meets with the members of her accounting staff and asks them to begin working on converting the recently released 2011 financial statements to an IFRS basis. Peyton's 2011 US GAAP basis financial statements are shown in Exhibit 1.

Primer on First-time Adoption of IFRS

As stated in IFRS 1, *First-time Adoption of International Financial Reporting Standards*, companies making a first-time adoption must apply the new standards on a retrospective basis (see ¶¶ 10-11). IFRS 1 provides certain exceptions to a full retrospective approach, but none pertain to Peyton's case (see ¶¶ 13-19 and Appendices B, C and D). IFRS 1 requires adopting companies to prepare an opening IFRS balance sheet as of the beginning of the earliest period to be presented in the first set of IFRS basis comparative financial statements (see ¶ 6 and Appendix A). International Accounting Standard (IAS) 1 specifies that companies must present at least one comparative period, which has been Peyton's practice for many years (see ¶ 38).

Dana thinks the company could adopt IFRS as quickly as its 2012 financial statements. If Peyton were to adopt IFRS for 2012, technically, Dana and her staff would need to begin with preparing an opening IFRS balance sheet as of January 1, 2011. For now, in this initial step, she simply wants to gain an understanding of how the company's financial statements would look on an IFRS basis. So, she asks her staff to focus on recasting the 2011 financial statements. The process of recasting the 2011 financial statements will reveal any adjustments that would be needed to prepare the opening IFRS balance sheet (as of January 1, 2011).

IFRS 1 states that adopting companies must use the IFRS in effect as of the end of the year in which IFRS reporting is adopted. Dana and her staff plan to proceed with using the IFRS expected to be in effect as of December 31, 2012. She has gathered some information she believes will be relevant to converting Peyton's 2011 financial statements and organized it into a list of 10 items, given in Exhibit 2.

Instructions for Students

Assume you are a valued member of Dana's staff. She has asked you to assist with recasting Peyton's 2011 financial statements to an IFRS basis. In part, she hopes this project will help you develop a better understanding of how IFRS differs from US GAAP.

Specifically, you must research the 10 items given in Exhibit 2, determine any changes that are needed and prepare a set of IFRS compliant financial statements for 2011. Dana tells you she suspects the 10 items will necessitate changes in the recognition, measurement and presentation of information. For the researching step, she directs you to the IASB's website, which offers free access to the standards (see http://www.ifrs.org/IFRSs/IFRS.htm). You must register to establish an account, but the process is a simple one.

As the meeting is ending, Dana asks you to provide her with the following two things:

(1) A table that lists the 10 items, and for each one, shows the specific standard, and paragraph within the standard, that provides the relevant guidance; and

(2) A set of IFRS basis financial statements for the calendar year 2011. Omit the statement of cash flows.

IMPLEMENTATION

This project has been used the last three years in the author's Intermediate Accounting I classes. This course covers through the topic of acquisition and disposal of fixed assets. The project has been given as an individual assignment, and a total of 133 students have completed it during the last three years. The course focuses mainly on US GAAP requirements. The IFRS project is given as a standalone assignment both to reinforce issues covered earlier in the term and to expose students to some of the ways in which IFRS requirements differ.

Students are given three to four weeks to complete the project. Approximately 60 minutes of class time are needed to support it. Half of that time is used to explain the requirements, and the other half to discuss the graded papers. Students generally have performed as well on the IFRS project as they do on the exams and other assignments.

This project asks students to work with the full version of IFRS. The main reason is that the intermediate accounting textbooks, to the extend they address IFRS, address the full version. Also, the students seem more interested in starting with the full version.

The students are provided a project handout that includes Exhibits 1 and 2. No surprise, many students have questions as they work to complete the project. Exhibit 3 shows some optional additional guidance that an instructor might want to consider giving to students. The information in this exhibit reflects the students' most frequently asked questions.

Based upon the experience to date, the aspect of the project students find most challenging is determining the deferred income taxes under IFRS. The first intermediate course introduces students to income tax effects and the presentation of them in financial statements. In the balance sheet chapter, students learn that deferred income taxes must be presented separately in the current and noncurrent sections. In contrast, IFRS requires that all deferred income taxes be classified as noncurrent (see IAS 1 ¶ 56). The instructor may want to consider simply giving students the IFRS figure for net deferred income taxes. The students still would need to determine how the amount should be shown in the balance sheet.

As an alternative to asking students to research the issues in the IASB standards, some instructors might prefer pointing students to information provided in the textbook. For those who prefer this option, the Suggested Solution includes citations from two leading textbooks.

Students likely would need to supplement the textbook information with an outside source. The larger CPA firms have produced some excellent guides on US GAAP/IFRS differences. See, for example, the one prepared by Grant Thornton (available at http://www.grantthornton.com/portal/site/gtcom/menuitem.91c078ed5c0ef4ca80cd8710033841ca/?vgnextoid=bb444cfadd5d3110VgnVCM1000003a8314acRCRD)

Finally, because adjustments are needed to convert Peyton's balances to an IFRS basis, some instructors might want to ask students to prepare and submit a conversion worksheet. The Suggested Solution also includes a completed conversion worksheet.

CONCLUSION

This paper offers a project that addresses concerns expressed by accounting faculty regarding IFRS coverage in their courses. In a recent survey, faculty cited concerns about not having enough time in intermediate courses to spend on IFRS issues and not having enough meaningful assignments that help students to see the differences between US GAAP and IFRS. The project described in this paper can be used as a standalone assignment that does not require significant class time. In addition, it gives faculty who are looking for IFRS assignments another option that they easily can implement in their courses.

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EXHIBIT 1: PEYTON, INC.'S US GAAP FINANCIAL STATEMENTS

Peyton, Inc.
Statement of Earnings
For the Year Ended December 31, 2011
(*all amounts in 000s*)

Net sales		$731,600
Cost of goods sold		405,800
Gross margin		325,800
Operating expenses:		
Salaries expense	$98,300	
Utilities expense	27,400	
Advertising expense	23,700	
Repairs & maintenance expense	21,200	
Depreciation expense	16,900	
Bad debts expense	9,800	
Amortization expense	4,300	201,600
Income from operations		124,200
Other revenues and gains:		
Dividend revenue	7,400	
Gain on sale of investments	27,100	34,500
Other expenses & losses:		
Interest expense	(9,600)	
Loss on inventory write-down	(7,100)	
Loss on retirement of debt	(11,800)	(28,500)
Income from continuing operations before taxes		130,200
Income tax expense		45,570
Income from continuing operations		84,630
Discontinued operations:		
Income from operations (net of taxes of $5,922)	10,998	
Loss on disposal (net of taxes of $15,750)	(29,250)	(18,252)
Extraordinary loss from earthquake damage (net of taxes of $8,015)		(14,885)
Net income		$ 51,493

Peyton, Inc.
Statement of Comprehensive Income
For the Year Ended December 31, 2011
(*all amounts in 000s*)

Net income	$ 51,493
Other comprehensive income:	
Unrealized gain on available-for-sale securities (net of taxes of $5,110)	9,490
Comprehensive income	$ 60,983

Peyton, Inc.
Statement of Changes in Equity
For the Year Ended December 31, 2011
(*all amounts in 000s*)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total
January 1, 2011 balance	$75,000	$138,400	$175,647	$20,810	$409,857
2011 net income			51,493		51,493
2011 other comprehensive income				9,490	9,490
2011 dividends declared			(22,000)		(22,000)
December 31, 2011 balance	$75,000	$138,400	$205,140	$30,300	$448,840

Peyton, Inc.
Statement of Financial Position
As of December 31, 2011
(*all amounts in 000s*)

Assets

Current assets:			
Cash and equivalents		$ 55,240	
Accounts receivable	$164,700		
Less: Allowance for bad debts	9,900	154,800	
Inventories	181,400		
Less: Allowance to reduce to market	7,100	174,300	
Deferred income taxes		21,600	
Prepaid expenses		10,900	
Total current assets			$416,840
Long-term investments			132,700
Property, plant & equipment:			
Land		32,000	
Buildings	319,400		
Less: Accumulated depreciation	126,300	193,100	
Equipment	171,900		
Less: Accumulated depreciation	108,200	63,700	288,800
Intangible assets:			
Goodwill		52,000	
Licenses		34,600	86,600
Other assets:			
Long-term notes receivable			61,300
Total assets			$986,240

Liabilities & Stockholders' Equity

Current liabilities:			
Accounts payable		$ 87,100	
Accrued expenses		35,400	
Customer deposits		26,900	
Bank overdraft		8,500	
Total current liabilities			$157,900
Noncurrent liabilities:			
Bonds payable		120,000	
Long-term notes payable		113,200	
Long-term lease obligations		91,600	
Deferred income taxes		54,700	379,500
Total liabilities			537,400
Stockholders' equity:			
Common stock	$ 75,000		
Additional paid-in capital	138,400	213,400	
Retained earnings		205,140	
Accumulated other comprehensive income		30,300	
Total stockholders' equity			448,840
Total liabilities and stockholders' equity			$986,240

EXHIBIT 2: INFORMATION FOR CONVERSION TO IFRS BASIS

(*all amounts in 000s*)

1. Peyton plans to use the fair value measurement model option for reporting its land under IFRS. The company has obtained independent real estate appraisals as follows:

January 1, 2011	$55,000
December 31, 2011	$70,000

2. The discontinued operation presented in Peyton's 2011 US GAAP financial statements relates to a disposal in 2011 of the company's stores in Florida. Peyton continues to operate retail stores in other parts of the eastern US. The Florida operations that were sold qualify as an asset group, but not as a separate major line of business or geographical area of operations.

   The income from operations of the Florida stores of $16,920 (before taxes) from the beginning of the year to the sale date was determined as follows:

Net sales	$49,670
Cost of goods sold	22,500
Salaries expense	6,600
Utilities expense	1,800
Advertising expense	1,100
Depreciation expense	750
Income from operations	$16,920

   The cost of goods sold figure of $22,500 is computed on a LIFO basis. The figure would be the same under the average cost method

3. Peyton has gathered the following information related to its cost of inventories and cost of goods sold:

	2011	Prior Years
Inventories (LIFO)	$181,400	–
Inventories (Average Cost)	$265,900	–
Cost of goods sold (LIFO)	$405,800	$2,160,000
Cost of goods sold (Average Cost)	$347,100	$2,134,200

4. If permitted by IFRS, Peyton would like to present its other comprehensive income in the same way it has chosen for its US GAAP financial statements.

5. The bank overdraft of $8,500 exists on a checking account at Citigroup. This particular account sometimes is overdrawn, and when that happens, the overdraft automatically converts to a loan balance. Peyton does not have any other cash accounts at Citigroup.

6. At year-end <u>2010</u>, Peyton had notes receivable totaling $61,300. Peyton recognized impairment of these receivables in 2010 amounting to $15,700. The company has determined that the same write-down would have been needed in IFRS financial statements for 2010. At year-end <u>2011</u>, Peyton continues to hold these notes, and the debtor's credit rating has improved dramatically. As a result, the present value of the expected future cash flows from the notes has increased to their full face value of $77,000.

7. During 2011, Peyton's operations in Virginia were hit by the biggest earthquake to occur in that area in more than a century. The company suffered losses to facilities and inventory totaling $22,900 (before taxes).

8. Peyton has gathered the following information related to the market value of its inventories at December 31, 2011:

Replacement cost	$167,600
Net realizable value	$249,100
Net realizable value, reduced by normal profit	$174,300

9. Peyton's deferred income taxes under US GAAP at year-end 2011 were as follows:

Current deferred income tax assets	$34,800
Current deferred income tax liabilities	$13,200
Noncurrent deferred income tax assets	$20,500
Noncurrent deferred income tax liabilities	$75,200

All of the above deferred income tax amounts were levied by the same taxing authority. Peyton must determine how the deferred income taxes should be presented under IFRS.

10. Assume the company's income tax rate for all years and income items is 35%. For any adjustments that create a change in Peyton's income taxes, recognize the effect of the change in income taxes through the company's Deferred Income Taxes account.

EXHIBIT 3: OPTIONAL ADDITIONAL GUIDANCE FOR STUDENTS

The instructor could elect to give the student some or all of the following additional guidance:

- To help you get started with the research task, refer to the specific IAS and IFRS standards indicated below:

Information Item	IAS or IFRS
1	IAS 16 – *Property, Plant and Equipment*
2	IFRS 5 – *Noncurrent Assets Held for Sale and Discontinued Operations*
3	IAS 2 – *Inventories*
4	IAS 1 – *Presentation of Financial Statements*
5	IAS 7 – *Statement of Cash Flows*
6	IAS 39 – *Financial Instruments: Recognition and Measurement*
7	IAS 1 – *Presentation of Financial Statements*
8	IAS 2 – *Inventories*
9	IAS 1 – *Presentation of Financial Statements*
10	–

- Information items 1 (relating to land) and 3 (relating to inventory costs) require retrospective treatments.

- For information item 6 (relating to notes receivable), see IAS 39, ¶ 65.

- For information item 9 (relating to presentation of deferred income taxes), see IAS 12, ¶ 74.

- For information item 10 (relating to calculation of deferred income taxes), the correct figure for the net deferred income taxes at December 31, 2011 is $78,075 (credit).

SUGGESTED SOLUTION: (1) IFRS CITATIONS

The table below gives the IAS or IFRS citation for each of the 10 information items. It also shows citations for many of the items from the following two intermediate accounting textbooks:

Nikolai, L. A., J. D. Bazely and J. P. Jones. 2010. *Intermediate Accounting* (11th edition). Mason, OH: South-Western Cengage Learning.

Kieso, D. E., J. J. Weygandt and T. D. Warfield. 2012. *Intermediate Accounting* (14th edition). Hoboken, NJ: John Wiley & Sons, Inc.

Citations for IFRS Guidance			
Information Item	**IAS or IFRS**	**Nikolai, Bazley & Jones (11th ed.)**	**Kieso, Weygandt & Warfield (14th ed.)**
1	IAS 16 ¶¶ 29 & 39 IFRS 1 ¶ 11	Page 489	Pages 657-659
2	IFRS 5 ¶ 32	Page 214	Page 204
3	IAS 2 ¶ 25 IFRS 1 ¶ 11	Page 398	Page 545
4	IAS 1 ¶¶ 7,12 & 81	Page 214	Page 204
5	IAS 7 ¶ 8	Page 1171	Page 428
6	IAS 39 ¶ 65	Page 740	Page 430
7	IAS 1 ¶ 87	Pages 214-215	Page 204
8	IAS 2 ¶ 28	Page 433	Pages 545-548
9	IAS 1 ¶ 56 IAS 12 ¶ 74	Page 991	Pages 1200 & 1202
10	–	–	–

SUGGESTED SOLUTION: (2) US GAAP-TO-IFRS CONVERSION WORKSHEET

Peyton, Inc.
December 31, 2011 (all amounts in 000s)

	US GAAP Balances			Adjustments			IFRS Balances	
Line Items	**Dr.**	**Cr.**		**Dr.**		**Cr.**	**Dr.**	**Cr.**
Cash and equivalents	55,240				5	8,500	46,740	
Accounts receivable	164,700						164,700	
Allowance for bad debts		9,900						9,900
Inventories	181,400		3A	25,800			265,900	
			3B	58,700				
Allowance to reduce inventory to market		7,100	8A	7,100	8B	16,800		16,800
Deferred income tax assets (current)	21,600				9	21,600	0	
Prepaid expenses	10,900						10,900	
Long-term investments	132,700						132,700	
Land	32,000		1A	23,000			70,000	
			1B	15,000				
Buildings	319,400						319,400	
Accumulated depreciation-buildings		126,300						126,300
Equipment	171,900						171,900	
Accumulated depreciation-equipment		108,200						108,200
Goodwill	52,000						52,000	
Licenses	34,600						34,600	
Long-term notes receivable	61,300		6	15,700			77,000	
Accounts payable		87,100						87,100
Accrued expenses		35,400						35,400
Customer deposits		26,900						26,900
Bank overdraft		8,500	5	8,500				0
Bonds payable		120,000						120,000
Long-term notes payable		113,200						113,200
Long-term lease obligations		91,600						91,600
Deferred income tax liabilities (noncurrent)		54,700	8B	5,880	1A	8,050		78,075
			9	21,600	1B	5,250		
					3A	9,030		
					3B	20,545		
					6	5,495		
					8A	2,485		

Common stock		75,000						75,000
Additional paid-in capital		138,400						138,400
Retained earnings, 1/1/11		175,647			3A	16,770		192,417
Accumulated other comprehensive income, 1/1/11		20,810			1A	14,950		35,760
Dividends	22,000						22,000	
Net sales		731,600			2A	49,670		781,270
Cost of goods sold	405,800		2A	22,500	3B	58,700	369,600	
Salaries expense	98,300		2A	6,600			104,900	
Utilities expense	27,400		2A	1,800			29,200	
Advertising expense	23,700		2A	1,100			24,800	
Repairs & maintenance expense	21,200						21,200	
Depreciation expense	16,900		2A	750			17,650	
Bad debts expense	9,800						9,800	
Amortization expense	4,300						4,300	
Dividend revenue		7,400						7,400
Gain on sale of investments		27,100						27,100
Recovery of prior write-down on notes receivable <new>					6	15,700		15,700
Interest expense	9,600						9,600	
Loss on inventory write-down	7,100		8B	16,800	8A	7,100	16,800	
Loss on retirement of debt	11,800						11,800	
Loss on sale of Florida stores <new>			2B	45,000			45,000	
Income tax expense	45,570		2A	5,922	2B	15,750	50,372	
			3B	20,545	7	8,015		
			6	5,495	8B	5,880		
			8A	2,485				
Loss from discontinued operations	18,252		2A	10,998	2B	29,250	0	
Loss from earthquake damage	14,885		7	8,015			22,900	
Unrealized gain on available-for-sale securities		9,490						9,490
Unrealized gain on revaluation of land <new>					1B	9,750		9,750
Total	1,974,347	1,974,347		329,290		329,290	2,105,762	2,105,762
Net income		51,493						93,548
Comprehensive income		60,983						112,788
Retained earnings, 12/31/11		205,140						263,965
Accumulated other comprehensive income, 12/31/11		30,300						55,000

SUGGESTED SOLUTION: (2) IFRS FINANCIAL STATEMENTS

Peyton, Inc.
Statement of Earnings
For the Year Ended December 31, 2011
(*all amounts in 000s*)

Net sales <2>		$781,270
Cost of goods sold <2 & 3>		369,600
Gross margin		411,670
Operating expenses:		
Salaries expense <2>	$104,900	
Utilities expense <2>	29,200	
Advertising expense <2>	24,800	
Repairs & maintenance expense	21,200	
Depreciation expense <2>	17,650	
Bad debts expense	9,800	
Amortization expense	4,300	211,850
Income from operations		199,820
Other revenues and gains:		
Dividend revenue	7,400	
Gain on sale of investments	27,100	
Recovery of prior write-down on notes receivable <6>	15,700	50,200
		250,020
Other expenses and losses:		
Interest expense	9,600	
Loss on inventory write-down <8>	16,800	
Loss on retirement of debt	11,800	
Loss on sale of Florida stores <2>	45,000	
Loss from earthquake damage <7>	22,900	106,100
Income before income taxes		143,920
Income tax expense (35%)		50,372
Net income		93,548

Peyton, Inc.
Statement of Comprehensive Income
For the Year Ended December 31, 2011
(*all amounts in 000s*)

Net income		$93,548
Other comprehensive income:		
Unrealized gain on available-for-sale securities (net of tax charge of $5,110) <4>	$9,490	
Unrealized gain on revaluation of land (net of tax charge of $5,250) <1 & 4>	9,750	19,240
Comprehensive income		$112,788

SUGGESTED SOLUTION: (2) IFRS FINANCIAL STATEMENTS (CONTINUED)

Peyton, Inc

Statement of Changes in Equity

For the Year Ended December 31, 2011

(*all amounts in 000s*)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehnsive Income	Total
January 1, 2011 balance	$75,000	$138,400	$175,647	$20,810	$409,857
Effect of change from LIFO to average cost (net of tax charge of $9,030) <3>			16,770		16,770
Effect of election of fair value option for land (net of tax charge of $8,050) <1>				14,950	14,950
January 1, 2011 balance (adjusted)	75,000	138,400	192,417	35,760	441,577
2011 net income			93,548		93,548
2011 other comprehensive income				19,240	19,240
2011 dividends declared			(22,000)		(22,000)
December 31, 2011 balance	$75,000	$138,400	$263,965	$55,000	$532,365

SUGGESTED SOLUTION: (2) IFRS FINANCIAL STATEMENTS (CONTINUED)

Peyton, Inc.
Statement of Financial Position
As of December 31, 2011
(*all amounts in 000s*)

Assets

Current assets			
Cash and equivalents <5>		$46,740	
Accounts receivable	$164,700		
Less: Allowance for bad debts	9,900	154,800	
Inventories <3>	265,900		
Less: Allowance to reduce to market <8>	16,800	249,100	
Prepaid expenses		10,900	
Total current assets			$461,540
Long-term investments			132,700
Property, plant & equipment:			
Land <1>		70,000	
Buildings	319,400		
Less Accumulated depreciation	126,300	193,100	
Equipment	171,900		
Less: Accumulated depreciation	108,200	63,700	326,800
Intangible assets:			
Goodwill		52,000	
Licenses		34,600	86,600
Other assets:			
Long-term notes receivable <6>			77,000
Total assets			$1,084,640

Liabilities & Stockholders' Equity

Current liabilities:			
Accounts payable		$87,100	
Accrued expenses		35,400	
Customer deposits		26,900	
Total current liabilities			$149,400
Noncurrent liabilities:			
Bonds payable		120,000	
Long-term notes payable		113,200	
Long-term lease obligations		91,600	
Deferred income taxes <9 & 10>		78,075	402,875
Total liabilities			552,275
Stockholders' equity:			
Common stock	$75,000		
Additional paid-in capital	138,400	213,400	
Retained earnings		263,965	
Accumulated other comprehensive income		55,000	
Total stockholders' equity			532,365
Total liabilities and stockholders' equity			$1,084,640

SUGGESTED SOLUTION: (2) COMMENTS ON INFORMATION ITEMS

This section gives a brief explanation of the required treatment for each of the 10 information items. The items are addressed, in order, below.

Item 1

As permitted by IAS 16, Peyton elects to use the revaluation model for its land (¶ 29). Peyton must establish the relevant account balances at January 1, 2011 as if it had always applied the revaluation model. Any adjustment needed to move the land to its fair value on that date would have been reported as other comprehensive income (OCI) in years prior to 2011. Thus, the total increase in fair value as of that date, net of taxes, of $14,950 must be reported in the statement of changes in equity as a positive adjustment to the opening balance of accumulated OCI (see IFRS 1 ¶ 11).

The additional increase in the land's fair value during 2011 must be included in the 2011 OCI (see IAS 16 ¶ 39). Peyton must show an unrealized gain, net of taxes, of $9,750 as part of its 2011 OCI. In addition, the land must be reported at its fair value of $70,000 in the December 31, 2011 balance sheet.

Item 2

IFRS sets a tighter standard than US GAAP for defining a component of an entity that qualifies for discontinued operations reporting. The component must represent a separate major line of business or geographical area of operations (see IFRS 5 ¶ 32). The facts provided state that the Florida stores do not satisfy this requirement. Thus, the loss from discontinued operations of $18,252 reported under US GAAP must be reclassified into continuing operations. The pretax operating income of $16,920 must be decomposed and the component revenue and expense amounts added back to the like line items in the operating income section. The pretax loss on disposal of $45,000 should be reported as a separate line item in the other expenses and losses section.

Item 3

IFRS does not permit use of the LIFO method (see IAS 2 ¶ 25). So, Peyton must switch to one of the two methods IFRS does allow, FIFO or average cost. Item 3 gives data to convert the company's inventory to an average cost basis. Similar to the situation for item 1, Peyton must establish the relevant account balances at January 1, 2011 as if it had always used the average cost method.

Peyton must address three issues in converting its accounts to average cost. One, it must present a positive adjustment to the opening retained earnings in the statement of changes in equity to reflect a smaller cost of goods sold being recognized for years prior to 2011 under the new method. Two, Peyton must decrease the cost of goods sold for 2011 by $58,700 to reflect use of the new method. And three, it must increase the inventory cost figure in the December 31, 2011 balance sheet by the sum of these effects, before income taxes, of $84,500.

Item 4

IAS 1 allows the same two display options for OCI as US GAAP (¶¶ 12 & 81). So, Peyton may continue to present its OCI items in a separate statement of comprehensive income that immediately follows the statement of earnings.

Item 5

IAS 7 permits a bank overdraft that arises routinely as part of a company's cash management to be netted into cash and equivalents (¶ 8). Thus, the bank overdraft of $8,500 is removed from current liabilities and netted into cash and equivalents to yield a net balance for the latter of $46,740.

Item 6

IAS 39 permits companies to recognize a recovery of a previously recognized impairment loss on receivables (¶ 65). Peyton must present a loss recovery of $15,700 in the other revenues and gains section of the income statement. In addition, the carrying amount of the long-term notes receivable in the balance sheet must be increased to the full face value of $77,000.

Item 7

IAS 1 does not permit the presentation of gains and losses as extraordinary items (¶ 87). They may be shown as separate line items, though, within the continuing operations section. The after-tax extraordinary loss from earthquake damage of $14,885 must be reclassified into other expenses and losses and shown there on a pretax basis.

Item 8

Similar to US GAAP, IFRS requires companies to consider the need for a write-down of inventories at reporting dates if their market value has fallen below cost. IAS 2 directs companies to use net realizable value as the measure of market value for purposes of this comparison (¶ 28). From item 3 above, the new inventory cost figure according to the average cost method is $265,900. Peyton must write down its inventory to the net realizable value of $249,100. It must remove the existing write-down under US GAAP and replace it with a write-down, before taxes, of $16,800. In addition, Peyton must report an allowance for the same amount as a subtraction from the inventory cost figure in the balance sheet.

Item 9

IAS 1 states that deferred income taxes must be classified as noncurrent (¶ 56). Furthermore, IAS 12 states that deferred income tax asset and liability balances may be netted if they result from taxes levied by the same taxing authority (¶ 74). The facts given indicate that Peyton's deferred income taxes are levied by the same taxing authority, so the effects may be netted and reported as either a net noncurrent asset or noncurrent liability.

Item 10

The table below provides the calculation of the company's net deferred income tax amount of $78,075 (credit).

Information item	Description	Calculation of Temporary Difference	Deferred Income Tax Debit (+) or Credit (–)
	US GAAP current		$21,600
	US GAAP noncurrent		–54,700
1	Land (1/1/11)	$55,000 – $32,000	–8,050
1	Land (12/31/11)	$70,000 – $55,000	–5,250
3	Inventory cost (1/1/11)	$2,160,000 – $2,134,200	–9,030
3	Inventory cost (12/31/11)	$405,800 – $347,100	–20,545
6	Notes receivable	$77,000 – $61,300	–5,495
8	Inventory allowance	$7,100 – $16,800	3,395
	IFRS noncurrent		–$78,075

UNDERSTANDING DEBITS AND CREDITS: INTERPRETING "YOUR ACCOUNT HAS BEEN CREDITED" ON A BANK DEPOSIT RECEIPT

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UNDERSTANDING DEBITS AND CREDITS: INTERPRETING "YOUR ACCOUNT HAS BEEN CREDITED" ON A BANK DEPOSIT RECEIPT

INTRODUCTION

The main purpose of this teaching resource is to enable students to understand the rules for debits and credits that are summarized in Exhibit 2.

Many students are predisposed toward misunderstanding the effect of debits and credits on assets and liabilities. The reason is that they misinterpret what is meant by the words on their receipt when they make a deposit into their bank account. When depositors read, "Your account has been credited," most assume that the words indicate that *Cash* has been credited. They are inclined to think that an increase to Cash or any other asset is recorded as a debit.

Accounting instructors should address this potential impediment directly. They should clarify this potential obstacle to learning early in the explanations of double-entry accounting systems. This teaching resource enables students to overcome their initial confusion and to properly interpret the meaning of the bank deposit slip.

For a bank, receipt of a cash deposit is an increase to the *Cash* asset and an increase to a liability. Exhibit 3 presents the recording of a bank deposit in two alternative formats:

- It records of a transaction on a spreadsheet without using debits and credits on the top, and
- It presents debit and credit postings of the same deposit to general ledger T-accounts below.

The two formats are linked through the use of arrows that relate the spreadsheet amounts to their postings in the T-accounts.

The spreadsheet that is used is referred to as the *accounting equation spreadsheet (AESS*). When a company records business transactions using the AESS format, processing a transaction keeps the accounting equation (Assets = Liabilities + Owners' Equity) in balance.

BANK DEPOSIT EXAMPLE

Recording a Deposit Transaction Using the Accounting Equation Spreadsheet

When someone deposits $100 into a savings account at First Bank, the transaction affects the bank accounts in the following way. The bank records an increase in assets, specifically *Cash*, of $100. Since the bank owes the depositor an additional $100, its liability account, *Passbook Liability*, also increases by $100.

Using the accounting equation spreadsheet (AESS) format, the bank would record the transaction above as shown in *Exhibit 1: Recording a Bank Deposit (in AESS Format).*

Exhibit 1: Recording a Bank Deposit (in AESS Format)

Assets	=	Liabilities	+	Owners' Equity
Cash		Passbook Liability		
+ 100	=	+ 100		

Debit and Credit Rules Summary

Debits and credits are the means of indicating increases and decreases in account balances. Some accounts are increased by debits, others are increased by credits. *Exhibit 2: Debit and Credit Rules,* presents the effect of debit and credits on each of the five account types. Note that each account that is increased by a debit is also decreased by a credit, and each account that is increased by a credit is decreased by a debit. Enabling students to understand Exhibit 2 is the main purpose of this teaching resource.

Exhibit 2: Debit and Credit Rules

Account Type	Debit	Credit
Assets	+	-
Liabilities	-	+
Owners' Equity	-	+
Revenues	-	+
Expenses	+	-

Relationship of General Ledger to Accounting Equation Spreadsheet (AESS)

Exhibit 3: Debit & Credit Postings for a Bank Deposit, presents the debit and credit postings for the bank deposit transaction described above. The exhibit builds upon the spreadsheet transaction analysis in Exhibit 1 as the foundation for understanding general ledger T-account postings.

Exhibit 3 presents the two alternative methods to record the bank deposit transaction from the perspective of the bank, not the depositor. These alternative formats are:

- *AESS format*: The top half of the exhibit presents the transaction using an accounting equation spreadsheet. Each transaction keeps the A=L+OE accounting equation in balance.
- *General ledger format:* Alternatively, for a bank that uses a general ledger system, the bottom half of Exhibit 3 presents the debit and credit recording of the transaction into the appropriate general ledger T-accounts.

Exhibit 3 links the two formats through the use of arrows that relate the spreadsheet amounts in the top half of the exhibit to their postings in the T-accounts in the bottom half.

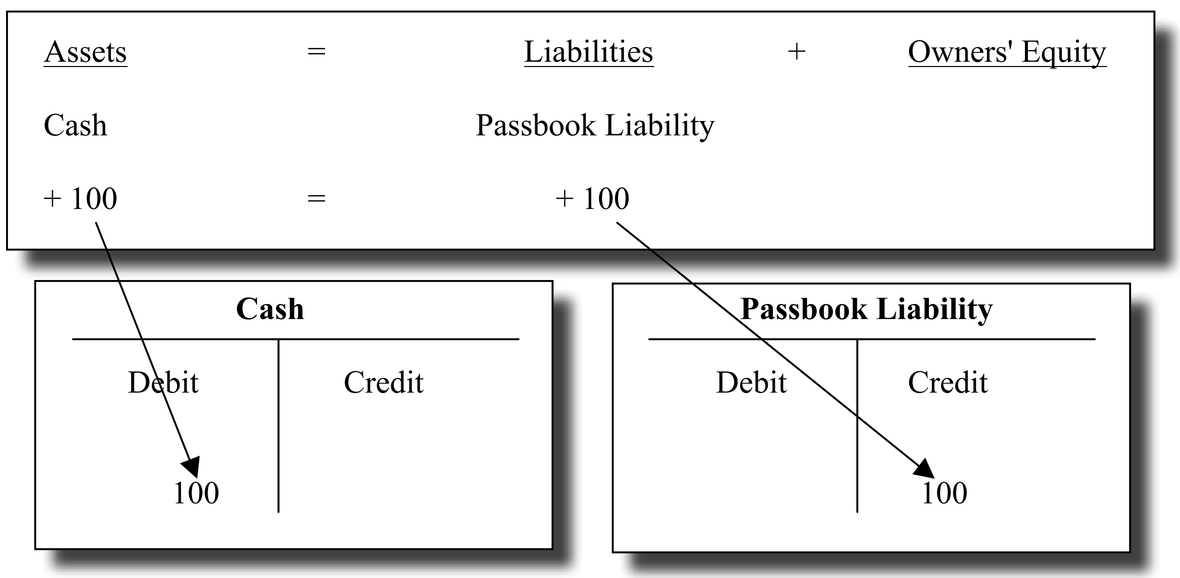
The Meaning of "Your account has been credited."

If someone deposits $100 into a savings account at First Bank, the bank's accounting equation would reflect in increase in assets, specifically Cash, of $100. Since the bank owes the depositor $100, its liability account, Passbook Liability, also increases by $100.

Reflecting this transaction as T-account postings, Cash is debited for $100 and Passbook Liability is credited for $100.

- The asset Cash is increased by a debit posting.
- The liability Passbook Liability is increased by a credit posting.

Exhibit 3: Debit & Credit Postings for a Bank Deposit



Note: When you deposit money into your bank account, the deposit slip indicates that your account has been "credited." To the bank, *your account* represents the bank's liability that is owed to you, the depositor. Although the slip does not indicate which account is debited, Cash is debited.

UNDERSTANDING DEBITS AND CREDITS: INTERPRETING "YOUR ACCOUNT HAS BEEN CREDITED" ON A BANK DEPOSIT RECEIPT

IMPLEMENTATION GUIDANCE

Instructors should remember that the main purpose of this teaching resource is to enable users to understand the rules for debits and credits that are summarized in Exhibit 2.

The author begins the discussion by writing Exhibit A on the white board. He then asks for student input how to record either part of the transaction. He informs the students that he is class secretary and that there is no penalty for wrong answers. At the conclusion of this activity, Exhibit A is transformed into Exhibit 1 on the board.

Exhibit A: Recording a $100 Bank Deposit from Bank's Perspective

Assets	=	Liabilities	+	Owners' Equity
	=			

With the author continuing to serve as class secretary, he begins the next activity by writing Exhibit B on the board.

Exhibit B: Debit and Credit Rules

Account Type	Debit	Credit
Assets		
Liabilities		
Owners' Equity		
Revenues		
Expenses		

When the activity is completed, Exhibit 2 is on the board. The author begins by asking whether an increase to an asset is recorded with a debit or credit, and then enters the "+" next to "Asset" in the Credit column. He then asks the class to determine where increases (the "+" notations) are recorded for the remaining four account types. After correctly recording the five "+" notations, he enters the minus (-) notations appropriately next to each plus (+).

The following points should be covered during this exercise.

- Assets are increased by debits. Once this is established, the other rules fall into place.
- Because the accounting equation (A=L+OE) must always be kept in balance, the rules for liabilities and owners' equity must be the opposite of the rules for assets.
- Since revenues represent increases in owners' equity from operating activities, the rules for revenues are the same as the rules for owners' equity.
- Since expenses represent decreases in owners' equity from operating activities, the rules for expenses are the opposite of the rules for owners' equity.

To tie the concepts together, the author uses the completed Exhibit A that is already on the board. He enhances the exhibit by entering the Cash and Passbook Liability T-accounts, as shown. With student assistance, he enters amounts that transform Exhibit C into Exhibit 3.

Exhibit C: Debit and Credit Postings for a Bank Deposit

Assets	=	Liabilities	+	Owners' Equity
Cash		Passbook Liability		
+ 100	=	+ 100		

Cash	
Debit	Credit

Passbook Liability	
Debit	Credit

To conclude the coverage, instructor should read the *note* below that follows Exhibit 3.

Note: When you deposit money into your bank account, the deposit slip indicates that your account has been "credited." To the bank, *your account* is their liability that is owed to you, the depositor. Although the slip does not indicate which account is debited, Cash is debited.

A Simple and Fun Approach to an Effective Class Communication

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INTRODUCTION

We are offering a simple and fun approach that can be easily applied by course instructors to provide effective feedback to students. We are inspired by the online video games (e.g., X-BOX) to come up with this approach. For the current generation of students, it is natural for them to see fake names of other online players while playing such video games. They admire those people who scored the highest and have a little fun looking at the profiles of other players. Most importantly, when they understand what the other players have achieved in playing the games they will stop complaining and keep playing the game until they pass the checkpoints. Also, they want the other people to join and/or see what they have achieved and injecting a little peer pressure as well as providing encouragement will be helpful for them to excel in playing games.

It is challenging for many accounting instructors to maintain effective communication in the classroom and provide feedback to their students in a timely manner. The problem for most instructors is that it takes time to keep track of students' performance record, investigate the patterns of common mistakes and communicate their concerns with students. Although typical course management systems such as WileyPlus and Connect have standardized the process of grading homework assignments and providing instant feedback to students regarding the result of their individual homework, many students have individual concerns and want to know whether or not they are on the right track in terms of their learning relative to their peer group or class averages. Also, students may feel sense of pride of their achievement when they receive feedback with personalized genuine insight and comments on their performance from their instructors rather than only a mechanical feedback from an online system (Riccomini, 2002; Gallien and Oomen-Early, 2008; Lipnevich and Smith, 2009). For example, Gallien and Oomen-Early (2008) investigate the effect of personalized versus collective Instructor Feedback on student performance in the Online Courseroom settings. They find that "students who received personalized feedback were more satisfied and performed academically better than students who received only collective feedback.," (p.463). Lipnevich and Smith (2009) examined students' perspectives on the effectiveness of the feedback messages. They find that "detailed comments are the most important feedbacks based on students' perspectives" (p347), and unfavorable comments as well as grades provided by the computer are "deemed to be unnecessary if the goal of an activity was to learn," (p.347). For instructors, it is also relevant to identify those students who deviate from the right track and communicate his or her thought to the students as soon as possible for early remediation. This is especially important for introductory accounting courses and will be critical in helping students to succeed.

[Insert Table 1 here]

METHODOLOGY

We apply the same idea to class learning (see Table 1). The required skill is very simple. At the beginning of semester, we ask every student to give a fake name that they only know and we will keep using these fake names for future communication. When a student receives the performance report from the instructor, he or she will see the comments from the instructor for him or her as well as the comments for the other students in class. They will understand what they need to improve on; what they should avoid by looking at other students' mistakes; and why some other students have been improving. In addition, they will stop complaining about their grades and instead will actively look for solutions to improve their learning. The fake names of students and the real names are listed on an excel spreadsheet.

The advantages of using such a spreadsheet is to keep track of student performance where the instructor can type-in the necessary comments for each student and then email the spreadsheet to all students with **only** the fake names, grades and specific comments for each student. This spreadsheet is continually expanded as more course materials covered and quizzes and exams are given until the end of semester so students can receive continual feedback on a timely and effective manner. Our comments for students must be brief and effective. For example, Ackerman and Gross (2010) investigate the association between instructors' feedbacks and reactions of marketing students. Their results suggest that "when an instructor provides a lot of feedback, as opposed to a small amount of feedback on an assignment, students receive it negatively." (p.172)

The advantage of our approach over the use of traditional Student ID approach is that it is fun for giving students freedom to choose their own identities and enjoy their learning achievement more like the players in the video games. Also, they will feel less intimidated by the instructor's comments as the fake names are only remotely associated with their real-identities unlike their student IDs. According to prior literature, it is important to provide feedback for students in a non-threatening way. For example, Witt and Kerssen-Griep (2011) find that "Instructors routinely provide feedback for students concerning the work the students produce as part of a classroom course. Although such information is required of instructors and expected by students, the communication of feedback creates a potentially face-threatening interaction in which the student's self-esteem may be diminished and/or the instructor-student relationship may be strained." (p.75)

RESULTS

We applied this approach in the fall semester of 2011 after the first midterm exam and found that this approach is extremely useful in improving communication and feedback from instructors to students. The summary results, based on the Course Opinion Survey (COS), show a wide margin of improvement. Question #12 on the COS that ask students if "The Instructor's Feedback on My Work is Helpful" is used to document the students' level of satisfaction on instructor's feedback. Results show that there is an increase in the level of students' satisfaction (strongly agree) by 19% in fall semester of 2011(i.e., an increase from 57% in fall 2010 to 76% in fall 2011).

[Insert Table 2 here]

Table 2 demonstrates the assessment result of student performance before and after we implement this approach in the Introductory Managerial Accounting course. Herein, the courses offered in fall 2010 and fall 2011were taught by the same instructor with exactly the same teaching plan and textbook. The instructor is an experienced teacher who had previously won a prestigious teaching award so there is no significant learning effect in teaching. During fall 2011, we noticed a five percent decline of student performance in Exam #1 from fall 2010 to fall 2011 according to the common multiple-choice questions that have been consistently used for our assessment in both years. This decline as indicated by Table 2 although is not statistically significant raised our concern regarding student learning. We noticed that the performance gap between students in fall 2011was enlarging in comparison with the gap in fall 2010. In other words, there were more students who were behind and would require early remediation before they get worse. This observation prompted us to apply the idea in Table 1 as an approach for improving communication. As shown by Table 2, the assessment results indicate significant improvements of student performance in Exam #2 and the final exam.

CONCLUSIONS

We are offering an easy-to-apply and fun approach for improving class communication. This approach has been proved for its effectiveness in our small classroom setting. This idea is also useful to provide practical implications for the designers of Course Management Systems such as *Connect* and *WileyPlus* to consider in their development of the next-generation Course Management Systems. Our approach shows that it does not need to be painful in order to maintain an effective communication channel between instructors and students. It actually could be fun to do so.

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Table 1
Spreadsheet for effective communication

Student Name	**Fake Name**	**Ch1 Quiz**	**Ch2 Quiz**	**Comments**
Student #1	Superman	8	8	Your performance is on the right track. Note: to improve your performance you need to be aware of the concepts of cost classification for production cost. Suggestion: you should do your homework assignments earlier before the deadlines.
Student #2	Big Bang	10	10	Excellent quiz performance.
Student #3	Tree Lover	10	4	Your performance is going down in the second quiz. Why? You need to improve your understanding concerning calculation of COGS and the SOX. Welcome to talk when you get a chance.
Student #4	Purple People Eater	4	10	Wow! Good improvement in the second quiz. Remember the process you just went through for preparing for quiz #2 and make it your study habits.
Student #5	Math Whiz	3	10	You finally show who you are after our conversation last time. Excellent performance in the second quiz and huge improvement from the first quiz. Keep going.
	Average	7	8.4	

Table 2
Comparison of Assessment Results from fall 2010 to fall 2011

Assessment results	Fall 2010 Mean	Fall 2011 Mean	Change from Fall 2010	t-statistic p-value
Exam #1	82%	77%	-5%	0.136
Exam #2	76%	86%	10%	0.002*
Final Exam	75%	81%	6%	0.007*
Number of students	71	70		

*significant at 0.05 level (two-tailed)

CARD-SORTING ACTIVITIES FOR INTRODUCING THEORETICAL FRAMEWORKS

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CARD-SORTING ACTIVITIES FOR INTRODUCING THEORETICAL FRAMEWORKS

INTRODUCTION

This exercise offers instructors an active learning tool useful for introducing theoretical frameworks. Frequently, accounting instructors need to relay to students the basic foundations upon which the rest of the course will build. Since the students are novices, transfer of this information can sometimes be challenging. We explain an in-class activity which engages students with the framework early in the course. We present details for three areas useful for accounting instructors:

- Objectives of financial reporting
- Objectives of the tax law
- Classical ethical theories

Students are prompted to consider their own ideas and predispositions in each of the independent exercises. It is designed for a class of approximately twenty students, but can be altered to fit the needs of any class size.

According to Magney (1990), game-based exercises offer the potential for student gains in knowledge and understanding of general principles. They also serve to generate student enthusiasm about a topic. Many games also promote participative types of learning. Kiili (2007) finds that authenticity, collaboration, learning by doing, and reflection are instrumental in effective educational games. Also, properly designed games can make theoretical knowledge more approachable. We attempt to achieve these advantages with the card-sorting games presented below.

RULES

The activity is adapted from a similar exercise presented by Berguist and Phillips (1975). The general format for each game is the same.

- Value statements from each of the theoretical foundations are created and placed on separate index cards.
- The cards are placed in random order and distributed to the students.
- Each student receives six cards. (Statements may be duplicated, depending on the number of students in the class.)
- The first step in the exercise is for each student to obtain six cards with which he identifies. Therefore, the students interact and actively trade cards with each other.
- After the initial trading period, each student finds a partner with whom his cards are compatible.
- From the set of twelve, the partners should keep at least eight cards with which they both agree.

- Finally, each pair merges with another pair of students.
- From the sixteen cards available, the group should keep at least nine cards that represent the beliefs of the group.
- Each group should then rank the statements from the most indicative of the group to the least indicative.
- Focusing on the highest ranking statements, each group should prepare a written statement that summarizes the framework of the group.

The professor should actively monitor each phase of the activity and give instructions for subsequent phases throughout the exercise. At the conclusion, the professor can give a brief overview of topic studied.

BEHAVIORAL OUTCOMES

This exercise was developed a number of years ago and has been a favorite class period of both the instructors and the students with the following outcomes:

- The students enjoy moving around the room and discussing their ideas with classmates.
- Students are more thoughtful about the tension between satisfying the different objectives after trying to come to a consensus with at least three other people during the exercise.
- Students are eager to participate in the discussion of the theoretical frameworks after the completion of the exercise. This increases interest in the more specific topics which follow the rest of the term because the students have better retention of underlying foundations.

SAMPLE ACTIVITIES

We present three examples of sets of value statements that can be used to implement this card-sorting activity into accounting courses. The exercise has been successfully used early in the course to involve students in thinking about ideas that will be useful for the rest of the course.

Objectives of Financial Reporting

This exercise introduces students to the conceptual framework for financial reporting. It encourages them to consider their own objectives and needs in reporting. In September 2010, FASB issued SFAC No. 8, Conceptual Framework for Financial Reporting. The following sentences represent information contained in the concept statement. (For faculty reference, paragraphs and topics from SFAC No. 8 are provided.) In addition, there are some sentences that represent alternative viewpoints that that the Board may have considered but did not adopt as an objective or qualitative characteristic.

At the conclusion, the professor can give a brief overview of the conceptual framework, pointing out the overall objectives and qualitative characteristics of useful financial information.

As each objective/characteristic is presented, the professor can present examples as well as identify alternatives considered by the board.

Financial Reporting Cards	
Businesses are separate legal entities from the owners; therefore, accounting for the entity and the owners should be separate.	(Reporting Entity BC1.8)
When owners have unlimited liability for the debts of a business, accounting reports should reflect both business and owners' personal transactions.	(Reporting Entity BC1.8)
Financial reporting should primarily provide information about an entity that is useful to existing and potential investors, lenders, and other creditors.	(Primary Users BC 1.15-20)
Financial reporting should primarily provide information about an entity that is useful to existing shareholders and creditors; potential investors should be of secondary concern.	(Primary Users BC 1.15-20)
Financial reporting should primarily provide information about an entity that is useful to existing and potential investors, lenders, and other creditors, as well as management.	(Primary Users BC 1.15-20)
Financial reporting should focus on maintaining financial stability in capital markets, thus focus on the needs of regulators and fiscal policy decision makers.	(Primary Users BC 1.15-20)
The objective of financial reporting should be the same regardless of size or status (publicly traded) of the entity.	(Objective for financial reporting BC 1.29)
The objective of financial reporting should differ for small entities versus larger entities.	(Objective for financial reporting BC 1.29)
The objective of financial reporting should differ for publicly traded entities versus entities that are not publicly traded.	(Objective for financial reporting BC 1.29)
Financial reporting should provide information that is useful in making decisions about providing resources to an entity.	(Objective of financial reporting BC1.34)
Financial reporting's main purpose should be to provide information about an entity's solvency.	(Objective of financial reporting BC1.34)
Information about a firm must be relevant, or capable of making a difference in the decisions made by a user.	(Relevance QC6-10)
Financial reporting should include information that can be used to predict future outcomes.	(Relevance, predictive value QC6-10)
Financial reporting should include information that can provide feedback about previous evaluations.	(Relevance, confirmatory value (QC6-10)
Entity information should be reported if omitting or misstating it could affect decisions made by financial statement users.	(Relevance, materiality QC 11)
Financial statement information must faithfully represent what it purports to represent.	(Faithful Representation QC 12-16)
Financial statement information needs to include all information necessary for a user to understand, including descriptions and explanations.	(Faithful Representation; complete QC 12-16)
Financial reporting should not be slanted, weighted, emphasized, deemphasized, or manipulated.	(Faithful Representation, Neutral QC 12-16)
When information is presented, it should be presented with prudence or conservatism.	(Faithful Representation BC 3.27)
There should be no errors or omission of information about a company in the financial reports.	(Faithful Representation, free from error QC 15)
Estimates can be faithful representations as long as it is described clearly and accurately as being an estimate, limitations are explained, and no errors have been made in the process of developing the estimate.	(Faithful Representation BC 3.27)
Information is more useful if it can be compared with similar information about other entities.	(Comparability QC20)
Firms should use the same methods for reporting from period to period.	(Consistency QC22)
Firms should be allowed to use alternative recording and reporting methods for the same economic phenomenon.	(Consistency QC22)
Information should be verifiable; i.e., different observers should reach a consensus that a particular depiction is a faithful representation.	(Verifiability QC26)
Information should be available to decision makers in time to be capable of influencing their decisions.	(Timeliness QC29)

Information should be classified, characterized, and presented clearly and concisely.	(Understandability QC30)
Users should have a reasonable degree of financial knowledge and a willingness to study the information with reasonable diligence.	(Understandability BC3.40)
Information should be omitted from financial reports if exclusion makes the reports easier to understand.	(Understandability QC31)
Cost must be a pervasive constraint on the reporting entity's ability to provide useful information.	(Cost – pervasive constraint QC3)

Objectives of the Tax Law

This exercise introduces students to the different objectives and criteria that serve as the foundation for tax law. The activity encourages students to consider their own ideas and beliefs about how the tax system should work. They represent generalized views from the various objectives of the tax law such as revenue generation, economic factors, social factors, equity factors and political factors.

At the conclusion, the professor can give a brief overview of the tax objectives commonly cited and covered in the course text. As each objective is presented, sample statements can be identified which tie to that objective. The groups can then identify which objectives most closely related to their own ideas.

Tax Law Cards
A family of four with one income is able to pay the same amount of tax as a married couple with the same income.
A married couple with the same income as a single person should pay the same amount of tax.
All citizens should pay taxes because all citizens receive public goods.
All citizens should pay the same percentage of their income in tax.
Citizens have a responsibility to understand the tax rules.
Collecting less tax revenue than government expenditures is not a problem because the federal government can borrow the difference.
Each state should have the same tax rules.
Electronic filing of income tax returns is good because it saves time for taxpayers.
Families with children should pay less tax than single people.
Family money that is used for childcare should not be taxed.
Family money that is used for food should not be taxed.
Family money that is used for healthcare should not be taxed.
Government spending should be limited to the tax revenue collected.
High taxes discourage people from working hard to earn more money.
I don't mind paying taxes.
I think Americans should pay more tax to decrease the federal debt.
I think more people would follow the tax rules if the rules were understandable.
I would increase tax revenue by eliminating special deductions (e.g. giving to charitable organizations).
Inheritances should be taxed.
It is good that the tax law subsidizes the purchase of homes.
It is impossible to create a tax that treats everyone the same.
It is not possible for an average citizen to understand the tax laws that apply to him.
It is OK to take advantage of tax loopholes.
It is unethical to avoid paying any tax by taking advantage of numerous tax breaks.
It would be convenient to be allowed to pay tax with a credit card.
Large corporations should pay higher taxes than individuals.
Low income workers should receive money from the government, not pay taxes.

Most people don't mind paying their fair share of taxes.
Older people should pay less tax because they are no longer working.
People should not be required to pay tax on necessities such as food.
People who use government services should pay higher taxes than those who do not.
People will smoke regardless of how high the taxes are on cigarettes.
People with higher income should pay a greater percentage of their income in taxes.
Politicians often promise to lower taxes in order to get elected.
Poor people should pay no tax.
Public corporations should pay tax based upon the income they report to shareholders.
Rich people avoid paying their fair share of taxes by hiring accountants and lawyers.
Small businesses should pay less of their income in tax than larger businesses.
Tax law should be used to encourage certain behavior, such as contributions to charity.
Taxes on poor people should be discouraged.
Taxes should not be used to influence social behavior, such as discouraging smoking.
Taxing income creates a disincentive for working.
The best way to increase tax revenue is to raise the tax rates.
The government should hire more tax auditors to ensure that everyone is paying their share of tax.
The government withholds taxes from individual's paychecks as a service to the taxpayers.
The reason people dislike paying taxes is that the government wastes their money.
The reason people don't pay taxes is they don't have the money.
The tax law should encourage businesses to locate in the U.S.
The tax law should encourage businesses to make socially acceptable investments, such as drug research.
The tax law should encourage businesses to provide health insurance for all employees.
The tax law should encourage investment in the stock market.
The tax law should encourage people to buy homes.
The tax law should encourage people to save for retirement.
The tax law should encourage small businesses.
The tax law should encourage the poor to work.
The tax system is an effective way to create desirable behavior (e.g., giving to charities).
The tax system should be simpler so that citizens don't have to pay to have their taxes computed.
The tax system should protect key industries such as energy and agriculture.
The wealthy provide capital investment to the economy and should not be overtaxed.
U.S. companies should not pay tax because they create jobs.
When the economy is bad, the government should lower taxes to give people a break.
Withholding of tax is good for citizens because they don't have to worry about saving to pay their taxes.

Introduction to Ethical Theories

This exercise introduces students to different classical frameworks for facing moral issues. The statements represent generalized views from classical ethical theories such as utilitarianism, rights theory, justice theory and virtue theory.

At the conclusion, the instructor can give a brief overview of ethical theories commonly studied. As each theory is presented, sample statements can be identified which tie to that theory. The groups can then identify which traditional theory or combination of theories is most closely related to their own. To direct the interaction, the professor can provide a scenario. For example, should politicians accept bribes? How will each group of students respond, based on their ethical approach?

Ethical Theory Cards
A person can learn to make an ethical decision.
A person should define right and wrong based upon his own conscience.
A person should define right and wrong based upon religious beliefs.
A person should define right and wrong based upon societal norms.
A person who values integrity will make ethical decisions.
Act so that you treat yourself and others always as an end and never merely as a means.
Always act in such a way that you desire others to also act.
An ethical decision produces the outcome desired by the most individuals affected.
An ethical decision results in the least harm to those affected.
An ethical decision will always respect a person's right to free speech.
An ethical person makes choices that benefit the most people even if his own happiness is sacrificed.
An ethical person must keep his word.
An ethical person primarily considers the consequences of his actions on all others affected.
Certain circumstances justify dishonesty or withholding the truth.
Certain stakeholders should be considered more important than others in evaluating ethical problems.
Citizens are reasonable when they offer one another fair terms of social cooperation.
Deep truths about right and wrong exist that are beyond the grasp of the unaided human mind.
Dishonesty is wrong in all circumstances.
Each person is to have an equal right to the basic liberties available to others.
Equality is not to be achieved by worsening the position of the worst-off.
Equality of rights is a basic liberty that cannot be violated.
Ethical decisions should be evaluated systematically weighing the harms and benefits to those affected.
Ethical decisions usually require some party to make a sacrifice.
Ethical dilemmas usually require trade-offs to be made between the individuals affected.
Everyone should have reasonable opportunity to acquire the skills for which merit is assessed.
Furthering the ends of others is sometimes the best means of furthering one's own ends.
Individuals should always to act in their own best interest.
It is important to consider the effects of a decision on all relevant stakeholders.
It is most important that all people are treated equally.
It is not possible to develop ethical principles that apply to all situations.
It is possible to develop a systematic approach to apply to ethical decisions.
It is right to maximize individual self interest as long as the impact on others is minimized.
It is wrong to make a decision that violates another person's right to privacy.
It is wrong to trespass on another person's property.
It is wrong to use power to repress views that are different from one's own, but not unreasonable.
Respect for others leads to ethical decisions.
Right actions are most often guided by religious beliefs.
Right and wrong cannot be established until the facts of the situation are known.
Social and economic inequalities can be justified as long as each person's position is based on merit.
The greater social good is of higher value than individual needs.
The most ethical actions vary according to the situation and surroundings.
The most ethical decision is one which follows universal principles of right and wrong.
The most ethical decision is one which values others more highly than self.
There are certain ethical principles that should never be violated.
There are situations in which a favorable outcome justifies questionable actions.
There are standards of right and wrong which can be applied to all people in making decisions.
Those who do wrong should be punished.
True morality should not depend on our individual likes and dislikes or on our abilities and opportunities.
When given alternatives, an ethical person will choose the option that produces the best results for the most people.
When someone has been wronged, the other party must recompense the situation.

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