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Contemporary Issues:
Subject Matter for Accounting Courses

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CONTEMPORARY ISSUES:
SUBJECT MATTER FOR ACCOUNTING COURSES

By

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INTRODUCTION

Curriculum and course review is a common activity in accounting departments. Faculty members are aware of the expansion of knowledge, the rapid upgrading of technological capabilities, and the extension of the range of understanding students must have as they enter the workforce. All these factors influence the nature and extent of review of contemporary academic offerings.

However, there is another dimension to the learning students should experience while in college that is far too often given minimal, if any, attention. This dimension is the study of issues facing and emerging in, the accounting profession. Does the faculty have a responsibility to introduce students to the issues that engage the attention of leaders in the field? Will our students enter the profession with a better sense of their role if they study contemporary issues as part of their professional education?

The publication of a comprehensive review of issues facing the accounting profession during the period beginning in the mid 1970s and ending in the mid 1990s highlight the critical concerns that are of interest to accountants. The topics in this publication, when reviewed in the context of the typical textbooks and related materials used in many classrooms, revealed that there is far too little attention, in many cases no attention, given to issues that impact all aspects of the accounting profession.

PROPOSAL AND SCOPE

The proposal discussed herein is not an empirically based analysis. Rather, a rationale for the study of issues as a relevant component of a university education in accounting is presented. There are illustrations for introducing students to issues in accounting and auditing courses. There is assumed to be value in such a study. Further attention to the topic should involve empirical studies to assess the validity of the assumptions accepted for this discussion.

In this context, the term "issue" begins with the standard dictionary definition: "a matter in dispute or a point of debate or controversy or a matter not yet finally settled." Additionally, an "issue" is perceived to be a unique problem. For many problems, a linear sequence of steps will lead to satisfactory solutions to satisfy those affected. An issue, however, is a problem for which there are two or more seemingly viable alternatives. Each of these alternatives can be supported by well-reasoned analysis; each has good faith supporters. Comprehensive and in-depth exploration is required before a satisfactory solution is reached.

Relevant issues for accounting education deal with phenomena long accepted to those that are emerging. Relevant issues for study in accounting and auditing concern accounting principles and standards, auditing standards, professional behavior, and general professional matters, such as scope of services, maintenance of quality control, and regulatory strategies. Illustrations will be provided from the General Accounting Office's study of the accounting profession. The remaining sections of this paper are: (1) rationale for teaching issues; (2) a general structure for introducing issues in a course; (3) an overview of issues included in the

report on the accounting profession; (4) illustrations for specific courses in the field of accounting and auditing; and (5) continuing attention to issues.

RATIONAL FOR TEACHING ISSUES

While those who choose to major in accounting as college students enter the workforce in a variety of positions, the mission of many college programs is to prepare students for the accounting profession, which is not easily identified with a particular position. Instead, it is a composite, including public accounting, private accounting, and internal auditing. Each of these areas of specialization provides a certification program that highlights the extent and nature of the professional knowledge and behavior expected of practitioners. Attention to professional accounting issues is justified on the basis of the following:

1. Accounting is a dynamic field of specialization where leaders in the field must be continuously responding to changes in the business society that imposes modifications and additions to accounting principles and practices.

   At the same time, much classroom instruction fails to identify the dynamic nature of accounting, including the changing nature of generally accepted accounting principles. Students are often taught within a framework of a static set of principles. They need to understand the dynamic nature of the technical skills and knowledge they are acquiring.

2. Public accounting, like other recognized professions in the United States, is directed by practitioners. Professionals are assumed to have a high level of motivation for monitoring what is happening in their profession and to participate in the direction of the profession's efforts.

   The public accounting profession had its beginning as a practitioner-driven strategy. The success of the early leaders in the United States was reflected, for example, in the decision of the first Securities and Exchange Commission (the "SEC") to delegate to the profession the responsibility for continuing to develop standards for accounting and auditing. The early leaders in public accounting in the United States chose to be professional rather than commercial in offering their services to the public. The effective professional efforts of accountants in the United Kingdom were, of course, highly influential in the choice.

   There are always those who are self-taught. Therefore, some accountants would be intrinsically drawn to issues facing them personally. Nonetheless, there is justification, it appears, to bring issues into the classroom.

3. The progress of the profession relies on the wisdom and vision of practitioners, who must be sensitive to where the profession has been and how

> it ought to evolve. Students need to be introduced to these issues so that they understand that unreflected acceptance of "what is" as "what ought to be" is not likely to maintain a viable profession.
>
> The most effective practitioners are those who can function within a context of continuous evaluation and improvement of the profession as a whole.
>
> In a survey of the future of auditing, respondents were asked to make a judgment about the extent to which professional staff were unwilling to accept change. Although numbers were small, the survey found that respondents stated that 22 percent of their staff accountants and seniors; 30 percent of their managers; and 29 percent of their partners resisted change. (Oliverio and Newman 1996)
>
> There has been much discussion in recent years about developing the realization among students that continuous learning is expected of professional workers. The study of issues in a realistic manner supports the attitude of continuous learning. Students who study issues and who realize the constantly shifting environment in which they are likely to work may be far more responsive to active participation in considering why change is required.

The foregoing points support the consideration of accounting issues in teaching. Introducing students to real-life disputes and emerging points of controversy will reinforce the concept of a dynamic profession and the shifting relevance of knowledge accepted to date but challenged for its relevance to the future. Professionals who are as comfortable dealing with issues as they are with the established principles for recording common transactions will be invaluable both in their work and in the furtherance of the profession.

GENERAL STRUCTURE FOR TEACHING ISSUES

The content considerations related to the inclusion of issues in a course are not substantively different from other content decisions that an instructor makes. The instructor will want to deal with significant, contemporary issues. Often issues persist for an extended period. Issues that have a short life may not be appropriate for class use. However, an issue that arises in relation to a forthcoming topic may be worth considering even though resolution is likely to be reached in a reasonably short period of time.

A useful strategy for an accounting instructor is as follows:

1. Maintain a record of issues relevant for the courses taught which are noted in reading professional publications, and in reviewing the content of new books (a useful Web site for contemporary issues is www.aicpa.org/lib where new acquisitions of the American Institute of CPA's (the "AICPA") Library are listed.).

2. Identify two to six significant issues that are appropriate for the course. A review of contemporary issues will reveal that there are consistent relevant topics, such as the issue of determining what is required for auditor independence, as well as the relevance of historical cost for valuation of long-term assets on the balance sheet.

3. Schedule the introduction of a particular issue at a time when students have developed a sufficient understanding of the related topic. For example, after students understand the two methods for handling a merger, the issue of eliminating the pooling method might be introduced. After students have learned the current specification for auditor independence, the issue of the adequacy of current guidance as analyzed by the Independence Standards Board can be introduced.

4. Identify specific references for students to read and study that may be found in resources such as exposure drafts, newspaper articles, working papers, speeches, and professional newsletters. Be sure that all aspects of an issue are available or can be discovered by students.

5. Introduce students to their responsibility as they study an aspect of an issue and share information with the class. Students may need to be taught how factual information differs from opinion; students may need illustrations of bias vs. objectivity.

6. Determine the nature of classroom and out-of-class activities that will be most effective in the instruction related to the issue. For example, group assignments and group presentations may be more effective than a general discussion. Students can present positions in a panel presentation, a debate, or a role playing exercise. All students need not study every issue included in the course; however, every student should have experience in studying a limited number of issues during the semester.

7. Guide the students in their evaluation of the status of the issue, what the next steps are likely to be, and what continue to be difficulties in achieving resolution of the issue. Relate the issue to current practice and discuss possible outcomes for each of the alternatives identified.

8. Maintain the role of teacher as an objective guide in instructing about issues. However, as a conclusion to the study of a particular issue, a teacher may present a position with support and clear disclosure of how the position presented differs from other positions held by those who have voiced their positions.

9. Assess the success of the teaching/learning experience and prepare notes for use for future class sessions. Keep track of the issues studied to determine their relevance for consideration in later terms.

THE ACCOUNTING PROFESSION MAJOR ISSUES: PROGRESS AND CONCERNS (the "Report")

Issues Identified in the Report

A comprehensive review of relevant issues in the accounting and auditing professions is contained in a report completed by the General Accounting Office (the "GAO"). The two-volume report published by the GAO, *The Accounting Profession Major Issues: Progress and Concerns* (the "Report"). As Charles A. Bowsher, the Comptroller General noted in his cover letter of September 1996:

> "This… report responds to your request concerning the status of recommendations made to the accounting profession over the past two decades by major study groups. Our objectives were to identify (1) recommendations made from 1972 through 1995 to improve accounting and auditing standards and the performance of independent audits under the federal securities laws and the actions taken on those recommendations; and (2) any unresolved issues to determine their impact on the performance of independent audits, effective accounting and auditing standards setting, and efforts to expand the scope of business reporting and audit services."

Motivation for the Report

For two decades, beginning in the mid 1970s, unexpected business failures raised questions about the expectations of those who provide independent audits of public companies and the effectiveness of the audit function. Furthermore, the globalization of businesses, the marked increase in complexity of business transactions, and the powerful advances in information technology appear to be challenging the relevance and usefulness of financial reporting as presently performed and presented, as well as the role of the independent auditor. As stated in the Report:

> "[the above named challenges]. . . coupled with significant litigation involving independent auditors, prompted many studies of financial reporting and auditing over the past two decades, resulting in hundreds of recommendations and many actions by the accounting profession to address these issues." (the Report 2)

Scope of the Report

The Report presented a review of the major studies of the accounting profession from 1972 through 1995. Thirty-seven studies and documents were sponsored by 11 different groups,

the majority of which were sponsored by two specific groups: the American Institute of Public Accountants (the "AIPA") (11) and the GAO (11).

Experts consulted in the review of the Report represented a wide range of groups that participate in accounting-related matters in the United States.

Issues Identified

The reviewers identified the following issues for detailed analysis of recommendations, action taken, source of recommendation, and to whom the recommendation was directed. The five issues were:

- Auditor Independence
- Audit Quality
- Setting Accounting Standards
- Setting Auditing Standards
- Expanded Reporting and Auditor Services

There were 574 recommendations for the five issues. The number of recommendations per issues were:

Auditor Independence	100	(17.4 percent)
Audit Quality	189	(32.9 percent)
Setting Accounting Standards	130	(22.6 percent)
Setting Auditing Standards	30	(5.2 percent)
Expanded Reporting and Auditor Services	125	(21.8 percent)

Auditor Independence — The specific recommendations relating to auditor independence covered a range of topics dealing with the roles of various groups, highlighting especially that of the audit committee of publicly owned companies, the SEC, and the accounting profession.

Audit Quality — The challenge to audit quality during the two decades is highlighted in these 189 recommendations. The majority of the recommendations were directed to the accounting profession (129, 68.2 percent). Twenty-four (17.7 percent), were directed to the SEC. There were recommendations for a wider range of groups than was the case for independence. Among the others to whom recommendations were directed were: educators (6); Congress and the SEC (4); financial regulators (2); Federal government (2) and the AICPA (2).

Setting Accounting Standards — The complexity of setting standards is reflected among the 130 recommendations. Action was reported for all recommendations. Subjects of the recommendations included: the organization needed to assure independent accounting standard setting, the role of the SEC in rule setting, the adequacy of disclosures, the relationships with non U. S. counterparts and international standard setters, and the need for a longer-term focus for users' information needs.

The recommendations were directed in a majority of instances to the Financial Accounting Standards Board (the "FASB") (76, 58.5 percent) alone. However, an additional 26 (20 percent), were directed to multiple groups, including the FASB. Five recommendations were for the SEC alone, but an additional eight were directed to multiple groups, including the SEC.

Setting Auditing Standards — The nature of the task of auditing standard setting is the general topic of 30 recommendations. The recommendations were directed mostly to the accounting profession (23) and to the Federal government (5).

Expanded Reporting and Auditor Services — There is a range of concerns reflected in the recommendations related to this aspect of professional responsibility. Among the topics of the 125 recommendations were: enhanced corporate accountability, independent audits including a comment on adequacy of internal controls, auditor review of code of conduct, SEC review of MD&A, Congressional attention to legislation re insured thrifts, and a comprehensive model of business reporting. The recommendations were directed to a number of groups: the accounting profession (36, 28.8 percent); the FASB, (24, 19.2 percent); the SEC, (17, 13.6 percent); and public companies, (14, 11.2 percent).

Continuing Issues Noted

The writers of the Report concluded that there were some areas where the accounting profession has not been "totally effective in resolving several major issues." (The Report, 4) The principal findings were:

- Auditor independence: progress made but concerns remain
- Expectation gap still exists for detection of fraud and determining effectiveness of internal controls
- The accounting profession's self-regulation program has improved audit quality -- but deficiencies persist
- User participation, timeliness, and special interest pressures remain a challenge for standard setters
- The need for a comprehensive report model and expanded assurance services

Review of Findings

Written comments on a draft of the Report were received from the AICPA, the Public Oversight Board (the "POB"), the FASB, and the SEC's Chief Accountant. Their comments reflected considerable support for the comprehensiveness of the report and for the recommendations. Among some of the continuing issues identified in the written comments were:

- **Independent auditor and audit committee relationship**

  The AICPA, POB, and SEC provided comments about auditor independence and supported the POB's suggestion that there be a closer relationship

between the auditor and the audit committee, and thus emphasize the role of the audit committee as the overseer of the company's financial reporting process.

- **Independent auditor responsibility for reporting on the effectiveness of internal controls.**

  The AICPA and the POB support management and auditor reports on internal controls. While recognizing the value of such reporting, the Chief Accountant at the SEC concluded that the SEC's current attention to the matter of disclosing more information about market risk related to derivatives may be a more appropriate priority for the SEC at this time. (Summer 1996)

- **Attention to continued improvement of audit quality.**

  Both the AICPA and the POB commented on the accounting profession's efforts to improve audit quality, but they also promised to continue to seek ways to strengthen audit quality.

- **The difficulty of determining proper treatment of soft assets**

  The SEC's Chief Accountant noted the difficulty of recognizing soft assets in financial statements. The Chief Accountant stated that additional research would be beneficial. The GAO noted that the SEC should work with the FASB to ensure the adequacy of such research and to develop specific plans for considering how information on soft assets might be reported.

- **Some disagreement with the comprehensive reporting model.**

  The FASB reported that in their project to obtain additional views on the Jenkins Committee recommendations there were users who were not in agreement with the specific findings of the model. GAO noted, too, that other studies found disagreement with specific components of the comprehensive model. Reasons for opposition included: cost, competitive disadvantage, and liability concerns. The GAO believes the FASB should not be expected to resolve these issues alone. All the major players, including the leadership of the SEC, will be needed to achieve a comprehensive reporting model.

Significant Issues and Their Persistence

There were two reviewers of the Report who made interesting comments:

Carmichael provides an excellent review of the Report, identifying the key points and summarizing the underlying premises and fundamental issues. His concluding segment is entitled: Who Will Take the Initiative? His final paragraph stated:

> "The GAO does not dwell on the topic of fault for the existence of major unresolved issues. The report takes a constructive approach. While the call for increased SEC involvement is firm, there is no hint for radical change such as mandatory auditor rotation or limitations on scope of services. I hope the accounting profession will grasp the hand the GAO has extended for cooperative action by the profession and Federal regulators strengthen public accounting practice." (Carmichael 24)

It is interesting to note that Carmichael, a professor, makes no reference to the possibilities that students should study the Report and consider some of the issues.

Wyatt, too, provided an interesting review, bringing to his comments a wide background in professional experience, both domestic and international. In addition to summarizing the key components, Wyatt identified two matters that the Report might have addressed, even though they were not the focus of any major study group. They are as follows: (1) the status of the acceptability of international accounting standards, and (2) the political interventions in the FASB project on accounting for stock options. In summary, Wyatt commented:

> ". . the GAO report is an important addition to the accounting literature. . . The analysis made of the ongoing unresolved issues and the possible approaches for resolving them is a most useful contribution that far outweighs the more questionable focus on the SEC as the vehicle to implement the necessary changes. For the reviewer, the AICPA and the FASB, as well as other private sector entities, should strive for greater success in facing unresolved issues that are central to their main areas of responsibility." (Wyatt 131)

Wyatt's review ended with a comment for teachers: "Those involved in teaching financial accounting and auditing courses should find the Report to be a valuable addition to the resources available to shed light on professional reporting and auditing issues." (Wyatt 131)

The issues identified in the Report and acknowledged by both Carmichael and Wyatt still exist. Although the Report considered studies and investigations through 1995 only, the issues, unfortunately, continue to be timely as the century ends. Complex issues appear to defy quick resolution.

ILLUSTRATIONS FOR THE STUDY OF ISSUES

The following are illustrative uses of the material included in the Report.

Accounting Information Courses

Illustrative issue:

1. What is adequate internal control in banks?

Useful reference:
Internal controls in banks, Appendices, Table 11.5, Recommendations 74, 78, 79-83 of the GAO, *Thrift Failures: Costly Failures Resulted from Regulatory Violations and Unsafe Practices*, June 1989; *Failed Banks: Accounting and Audit Reforms Urgently Needed*, April 1991.

Illustrative issue:

2. What is the responsibility of managers for internal control vs. responsibility of internal auditors?

Useful references:
Design of good internal control systems, Appendices, Table 11.5, Recommendation 69, The COSO Report, *Internal Control — Integrated Framework*, September 1992.

Chapter 3 of the Report, Vol. 1.

Accounting Theory Courses

Illustrative issue:

1. Is present financial reporting sufficient?

Useful references:
The adequacy of present financial reporting, the Report, Chapter 5, pp. 109 – 124 Appendices, Table II.3 Recommendations 121 -130 of the Jenkins Committee, *Improving Business Reporting — A Customer Focus: Meeting the Information Needs of Investors and Creditors*, 1994.

Chapter 5 of the Report, Vol. 1.

Illustrative issue:

2. Booking Vs disclosure only for derivatives

Useful reference:
The adequacy of disclosure of derivatives, Appendices, Table 11.3 Recommendations 116-119 of the GAO in its study, *Financial Derivatives: Actions Needed to Protect the Financial System*, 1994.

Illustrative issue:

3. Do analysts need more financial information?

Useful references:
Adequacy of financial disclosure from the position of investment advisors and financial analysts, Appendices, Table 11.3 Recommendations 113-115 of the Association for Investment Management and Research, *Financial Reporting in the 1990s and Beyond*, 1993.

Chapter 5 of the Report, Vol. 1.

Auditing Courses

Illustrative issue:

1. Does the audit committee's role need strengthening in relation to interaction with external auditors?

Useful references:
Auditor independence and the role of the audit committee, Appendices, Table 11.1 Recommendations 82-88 of the POB, *In the Public Interest, Issues Confronting the Accounting Profession*, March 1993. Recommendations 64 - 72 of the Treadway Commission, *Report of the National Commission on Fraudulent Financial Reporting*, October 1987.

Chapter 2 of the Report, Vol. 1.

Illustrative issue:

2. Independence: Should it be a conceptually described standard or a set of rules?

Useful references:
Issues of Auditor independence, Appendices, Table 11.1 Recommendations 95 - 100, of the Kirk Panel, *Strengthening the Professionalism of the Independent Auditor*, POB, Advisory Panel on Auditor Independence, September 1994.

Chapter 2 of the Report, Vol. 1.

Illustrative issue:

3. The limits of due professional care: professional judgment or operational guidelines?

Useful references:
The auditor and responsibility for due professional care: Savings & Loans, Table 11.2 Recommendations 150-153 of the GAO, *CPA Audit Quality: Failures of CPA Audits to Identify and Report Significant Savings and Loan Problems*, February 1989.

CPA Audit Quality: Status of Actions Taken to Improve Auditing and Financial Reporting of Public Companies, March 1989

Chapter 4 of the Report, Vol. 1.

Illustrative issue:

4. Auditor involvement with related party transactions: Is it sufficient?

Useful reference:

Issues with auditing related party transactions, Table 11.2 Recommendation 159 of the GAO, *Failed Banks: Accounting and Auditing Reforms Urgently Needed*, April 1991.

The foregoing are illustrative of issues and relevant content identified in the Report. While many of the references discuss all aspects of the issue, there are many other valuable sources, including accounting and business periodicals and newspapers, that will have timely articles and news items that students can access through the Internet and library resources.

The Report is a very useful initial reference for identifying topics for courses in the history of the accounting profession and in seminars devoted to contemporary issues, such as extension of assurance services, the role of the SEC, and the responsibilities of public accountants.

CONTINUING ATTENTION TO ISSUES

Teaching and learning are not simple phenomena. There is no single strategy that assures that all the goals for learning are achieved.

Value of Study of Issues

The value of teaching issues should not be understated. While acknowledging that learning is lifelong, there persists in too many accounting classrooms the presentation of a static body of information, which in some fashion is stored in memory for use when needed. This notion of what teaching is must be supplanted. Strategies must be revised that reconcile what appears to be valuable qualities of professionals at work.

It is the position presented in this paper that students should be introduced to issues. Through studying issues in the profession, it is assumed that:

1. Students encounter the reality of the changing nature of accounting knowledge, professional standards and technical skills.

2. Students have direct experience in identifying factors related to an issue, searching for relevant information, assessing alternatives, discriminating

between fact and opinion, and learning to appreciate quality support for conclusions.

3. Students gain an understanding of the continuing need for thoughtful leadership if the mission of the public accounting profession is to be viable in the contemporary world.

4. Students develop a style of learning through studying issues that has much transfer value as the task of self-initiated continuous learning begins as formal college education ends.

THE NEED FOR EMPIRICAL STUDY

As noted initially in this paper, empirical support for what is proposed is not provided. Implicit throughout the discussion are many assumptions that could be hypotheses for determining the value of teaching issues. The professional educational literature is virtually silent about such teaching; textbooks include few, if any, references to issues; teachers' editions and teachers' manuals that accompany textbooks fail to alert teachers to opportunities to introduce issues.

Students must have a far more meaningful experience in the classroom if they are to optimize their ability to make wise judgments and thoughtful decisions. Studying these issues is perceived to be one strategy of promise.

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