# GOAL-BASED SCENARIOS IN TEACHING ACCOUNTING

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## ABSTRACT

This paper provides a framework for using role-playing in the accounting classroom. Using two scenarios ---one for an intermediate accounting course and the other involving ethical decision making-- the authors provide a template for applying role-playing exercises. Further, this paper describes how these exercises can be augmented with writing assignments to qualify for writing-intensive or writing-across-the-curriculum designations.

## INTRODUCTION

Goal-based scenarios are simulations in which learners become participants in real-world problem-solving. In essence, the learner's "goal" is to accomplish this mission within a given scenario. Although these types of learning exercises have found their way into social sciences such as history and psychology, this teaching technique has only recently made its way into the accounting classroom, usually in the form of case study. This paper provides a framework for using goal-based scenarios in accounting courses. Using two scenarios – one for an intermediate accounting course and the other involving ethical accounting decision making – the authors provide step-by-step explanations of how goal-based scenario exercises can be used to provide students with a deeper appreciation of the complexities encountered in formulating accounting policies. In addition, this paper demonstrates how these exercises can be supported by writing assignments that may qualify a course for a writing-across-the curriculum designation.

## A GOAL-BASED SCENARIO TEMPLATE

Implementing a goal-based scenario exercise requires five steps: picking a scenario or issue, identifying the role of participants, establishing a forum, arriving at a resolution – or not, and concluding the exercise. Deciding on an issue is the most important step. In general, controversy should be embraced rather than avoided. One potential topic for an intermediate accounting course involves American and international pension accounting rules. Financial Accounting Standard (FAS) 87, Employers' Accounting for Pensions, has been criticized for allowing companies to manipulate earnings through the use of unrealistic expected rates of return and through the amortization of pension plan gains and losses (MacDonald 2003). In addition, critics claim that U.S. pension rules interfere with transparency by allowing off-balance sheet financing of certain pension liabilities. International accounting standards promulgated by the International Accounting Standards Board (IASB) as well as standards issued in the United Kingdom address some of these problems (Kwan 2003).

Once an issue has been selected, step two involves assigning students' roles in the scenario. In this instance, students can be divided into three groups. The first group represents corporate interests who do not want any fundamental changes. Financial Executives International (FEI) is one such interest group. The second group can consist of representatives from the Big 4 accounting firms. After being raked over the coals by the media, Congress, and the public, because of recent accounting scandals, this group has mixed feelings about changes. On one hand, they want to see changes made that bring the pension rules in line with basic accounting principles of full disclosure, specifically, revenue realization and matching. On the other hand, they understand the concerns of corporate executives who fear new rules will create more earnings volatility and affect stock prices. The third group consists of analysts from the investing community who want to put a stop to the earnings manipulation and increase transparency by incorporating the best aspects of the IASB's standard, IAS 19, or the United Kingdom's standard FRS 17. All groups will have to research the recent controversy surrounding U.S. pension accounting as well as the accounting approaches favored by the IASB and in the U.K.

In goal-based exercises, the third step involves establishing a setting for examining the issue at hand. In this example, we will assume that the Financial Accounting Standards Board (FASB) is engaged in a project designed to increase the international comparability and quality of standards used in U.S.

pension accounting. The forum for this scenario is a FASB public meeting designed to solicit comments on the need for changes in U.S. pension accounting rules. At this meeting, students present the research and analysis relevant to their positions. For example, the group representing corporate interests may defend the use of expected return instead of actual return on pension plan assets in the computation of pension expense. Of course, other groups at the forum would respond by challenging these assertions. Independent analysts from the investment community might argue with the expected returns cited by the fund managers using historical data from financial markets (thereby drawing on their finance courses). Further, they may generate examples of how different amortization approaches or no amortization affect the bottom line. Perhaps, representatives from the Big 4 accounting firms would propose a middle way through the issue by offering suggestions on accounting changes that would improve financial disclosure while moderating earnings volatility.

While some students may play more explicit roles (e.g., those presenting a position), other members of a given team will be involved in the research, writing, and presentation. Typically, a presentation involves handouts and PowerPoint slides. Hence, students are required to use the skills developed in their writing and business communication courses. To maintain interest and to give students a stake in the outcome, a decision or resolution should be enacted. In our example, this may involve one group making the decision. A possible way of structuring the outcome is to have several accounting professors attend the presentation and assume the role of FASB officials. Based on the strength of the presentations, professors might vote to adopt some, none, or all of the points advocated by a particular group. Remind students that compromise should not be viewed as failure. In fact, they often mirror real-world outcomes.

As a last step, instructors may require students to write a report, position paper, or executive summary as the topic permits. Students may be permitted to modify their arguments or provide more factual support for their positions. Depending on class size, these papers may be individual or team-written. A useful method of obtaining feedback for the instructor is to have students use reflective journals. Here, students may log their difficulties, surprises, and disappointments. Taken together, these writing assignments should easily qualify a course for a writing-across-the curriculum designation.

## AN ETHICAL ACCOUNTING EXAMPLE

The previous example demonstrated five steps in developing a goal-based scenario for an intermediate accounting course. In this section, a realistic example of how ethical problems can be encountered when formulating accounting policies is presented. The scenario involves the XYZ Corporation which has experienced several years of declining earning due, in part, to foreign competition for their consumer products. In May, the Board of Directors hired a new CEO from outside the company who has a reputation for rapid earnings improvement. On July 1, she notified the CFO, Audit Committee, and the company's outside auditors that she would like to see the following policies and changes instituted:

- Increase the useful life of factory equipment from 8 to 12 years. XYZ has historically taken a conservative approach to asset depreciation and depreciated equipment over 8 years even though about 20 percent of the equipment lasts longer than 8 years. Some equipment has lasted as long as 12 years.

- Ask customers to place their usual first quarter orders early in December. These orders will be shipped in mid December as opposed to January and February of next year unless customers do not have sufficient storage space. In that case, XYZ will warehouse the orders for the customers until the new fiscal year which begins with the calendar year.

- Increase production between now and the end of the fiscal year by 20 percent. This increase in production will result in a reduction in product unit cost. The sales department is not aware of any increase in demand.

- Effective at the beginning of the fourth quarter, delay until January issuing authorization numbers to customers who want to return merchandise. The company has a policy of not accepting returns without an authorization number.

- Capitalize all forthcoming promotional and advertising expenditures and amortize them over a two year period. The CEO reasoned that these expenditures will most likely benefit the company into next year.

Of course, the instructor can add to or subtract from this list as time allows.

Once a scenario has been established, step two requires identifying and assigning roles. In this instance, three groups can represent the CFO's department, the Audit Committee, and the outside auditors. The CFO and his department are charged with analyzing the proposals and determining whether or not each can be justified under accounting rules. As backstory, it is useful to add that the CFO was hired by the CEO. Hence, there may be a loyalty issue for the CFO when determining support for the CEO's more aggressive accounting approach. Like the CFO's department, the outside auditors must consider the theoretical soundness of the proposals. The instructor should point out potential conflicts for the auditors, such as, trying to maintain a long-term (and potentially lucrative) relationship with the corporation without jeopardizing their credibility and honesty. The role of the Audit Committee becomes apparent in step three, establishing a forum.
The setting for this scenario is an Audit Committee meeting. To enrich the debate, one might note that some individuals on the committee are friends with the CEO and were instrumental in bringing her on board. At the meeting, the Audit Committee will hear from the CFO's group and the outside auditors in order to decide whether to implement all, part, or none of the CEO's proposed changes. Students, including those on the Audit Committee, must determine the general effect each of these measures will have on reported earnings. To develop their recommendations, they must research and analyze rules on revenue and expense recognition, changes in accounting estimates, as well as the effect on income when production is increased. A clear consensus among members of the Audit Committee may or may not occur. However, ambiguous endings in these type of exercises are often the most interesting and realistic. Either way, the Audit Committee must issue some recommendations (step 4).

At the end of the exercise, each team may be required to submit a position paper. The Audit Committee may be given the task of summarizing its recommendations and including justifications for its decisions. Having students maintain a journal of the process reinforces the lessons learned. If desired, the professor may offer some guide questions, such as: What pressures did your group encounter when developing its position? From where did these pressures emanate? In your opinion, were any of the issues clear cut in terms of right or wrong?

## CONCLUSIONS

This paper shows how goal-based scenarios can be used in the accounting classroom. A flexible, five-step process is developed which can be adopted for most accounting courses. Goal-based learning is predicated on the idea that students learn more effectively through “cognitive conflict” or disagreement (Savery and Duffy, 1995). By requiring students to explain and defend their positions in a scenario, they are required to draw upon both theory and facts in order to support their stance. As a result, they acquire a more realistic view of how accounting policies are developed.

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