Using Earnings Restatements to Create Significant Learning Experiences for Business Students

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Abstract

Corporate scandals and earnings restatements erode public trust. Although the Sarbanes-Oxley Act of 2002 was intended to curb this erosion, corporate scandals and earnings restatements have persisted. Earnings restatements provide rich learning opportunities since there are a variety of business, ethical and political issues present in these cases. This paper presents a model that explores the issues of restatements suitable for use in an Intermediate Accounting class.

Introduction

On July 22, 2010, the New York Times reported that Dell Inc., a number of its former executives and its founder, Michael Dell, agreed to pay in excess of $100 million in penalties to settle charges of accounting fraud with the Securities and Exchange Commission (Wyatt, 2010). The article reported that Christopher Conte, associate director of the Security and Exchange Commission's (SEC's) enforcement division stated, "Dell manipulated its accounting over an extended period to project financial results that the company wished it had achieved but could not."

When Sarbanes-Oxley was enacted in 2002, it was intended to improve corporate governance and reduce accounting scandals. Yet, the scandal at Dell is but one example of the numerous accounting scandals and earnings restatements that continue to strain investors' trust and the accounting profession's credibility. In a speech on September 19, 2013 to the American Law Institute Continuing Legal Education, Andrew Ceresney, Co-Director of the SEC Division of Enforcement, noted that

> …Another trend we have seen over the last few years is a reduction in restatements. So for example, across all public companies, restatements fell from a peak of 1,771 in 2006 to 768 in 2012.[1] Although I should also note that the number of large companies (market capitalization over $75 million) restating their financials actually jumped from 153 in 2009 to 245 last year.[2] …Some have suggested that these reductions resulted from Sarbanes-Oxley and the improvement in financial reporting caused by related reforms. But I have my doubts about whether we have experienced such a drop in actual fraud in financial reporting as may be indicated by the numbers of investigations and cases we have filed. …In the end, our view is that we will not know

[1] Audit Analytics, 2012 Financial Restatements: A Twelve Year Comparison (March 2013).

[2] Id.

> whether there has been an overall reduction in accounting fraud until we devote the resources to find out, which is what we are doing…

During the period 1997 through September 30, 2005, the United States Government Accountability Office identified 2,309 financial statement restatements. Although there appears to be a decrease in the absolute numbers of restatements, examining restatements and determining what drives them remains an issue relevant to many parties in the business and financial communities. As such, understanding the forces that precipitate these events and the ramifications of restatements is an interesting and worthwhile academic pursuit for students. This paper presents a sequence of projects designed to encourage students to examine the forces influencing financial reporting and consider the ethical and regulatory impact of these influences.

Earnings restatements provide a topic with a myriad of ethical and regulatory implications. Thus, examining restatements provides opportunities rich in significant learning experiences for students. Each case can be examined from many facets ranging from straightforward activities such as the creation of a timeline of events to more in-depth activities requiring the application of analytical skills and judgment. These activities vary as to the types of learning objectives and teaching methodologies employed. In addition, restatements have implications for many stakeholders and, as a result, are important for all business professionals. These activities can, thus, be adapted and incorporated into to a broad range of courses.

The remainder of this paper is organized as follows: The first section explores the causes and implications of the restatements and gives foundational information useful in introducing the topic. The second section provides a teaching framework around which the pedagogy is designed. The third section of the paper presents a sample sequence of assignments designed to examine earnings restatements and explore the ethical and regulatory implications of these events. The final section discusses the conclusion and provides suggestions for future research.

Causes and Implications of Earnings Restatements

In a speech on September 19, 2013 to the American Law Institute Continuing Legal Education, Andrew Ceresney, Co-Director of the SEC Division of Enforcement, stated that

> …Comprehensive, accurate and reliable financial reporting is the bedrock upon which our markets are based because false financial information saps investor confidence and erodes the integrity of the markets. For our capital markets to thrive, investors must be able to receive an unvarnished assessment of a company's financial condition. Financial reports must provide transparency for investors, and must not obscure the truth, even if that truth is inconvenient…

Earnings restatements from accounting irregularities undermine the reliability and credibility of a financial reporting system. Yet, in spite of warnings from the SEC, earnings restatements continue to occur regularly. Consequently, it is crucial that students entering the profession understand the influences driving these restatements and how these restatements impact the economic forces underlying our capital markets.

In response to concerns by member of congress, the United States Government Accountability Office examined the trends and impact of financial statement restatements. These examinations resulted in two reports: 1) GAO-03-138, “Financial Statement Restatements: Trends, Market Impacts, Regulatory Responses, and Remaining Challenges” issued in October 2002, and 2) GAO-06-678, “Financial Restatements: Update of Public Company Trends, Market Impacts, and Regulatory Enforcement

Activities" issued in July 2006. Both the October 2002 and the July 2006 GAO reports defined financial statement restatements as occurring when

> …a company, either voluntarily or prompted by auditors or regulators, revises public financial information that was previously reported.

More recently, the Accounting Standards Codification (ASC) Master Glossary defines restatement as "[t]he process of revising previously issued financial statements to reflect the correction of an error in those financial statements." More specifically, ASC 250, *Accounting Changes and Error Corrections*, indicates that "[a]ny error in the financial statements of a prior period discovered after the financial statements are issued shall be reported as an error correction, by restating the prior-period financial statements."

Historically, several broad categories of financial information have resulted in earnings restatements. GAO-06-678 (issued in July 2006) summarized these reasons and the results are reproduced in Table 1. Each of these categories is fairly broad. Consequently, within each of these categories, the underlying cause or causes of the restatement can vary greatly. According to GAO-06-678 (i.e., the GAO 2006 report), revenue recognition issues account for approximately 20.1% of all earnings restatements during the period July 2002 through September 2005. Yet, the underlying drivers of revenue misstatements can be quite diverse. Consequently, revenue restatements can be further subdivided by underlying causes such as sales being booked before delivery is completed or the existence of significant rights of return.

Perhaps the most significant result from the GAO Reports is the empirical evidence concerning the market price reaction to financial restatement announcements. GAO-06-678 examined the stock price reaction of restating firms during the three day period surrounding an earnings restatement announcement (i.e., the trading day before through the trading day after the restatement announcement). The GAO found that, on average, the stock prices of restating companies dropped by 2% during this period. This report also estimated that the market capitalization of restating companies declined by more than $36 billion when adjusted for market movements. GAO-03-138 (issued in October 2002) presented similar findings to the 2006 report and also indicated that the market capitalization declined approximately $100 billion in the days surrounding a restatement announcement.

Other accounting researchers have observed results similar to the GAO. Using an event study approach, Wu (2002) analyzed the empirical results of earnings restatements during the period 1977 through 2001. The focus of the study is the capital market impact of such restatements indicated that "on average, the market reacts strongly negatively during a three-day price response around the restatement announcements." This research estimated that the average market value losses during the period 1995 through 2000 were approximately $13.1 billion per year and that total market losses for the same period were $78.3 billion. Table 2 reproduces a summary of the ten largest individual market losses by companies during the period 1998 through 2000 which resulted from earnings restatements (stated in billions) (Wu, 2001).

Palmrose, Richardson, and Scholz (2004) examined the market reaction to restatement announcements and observed a market decline of approximately 9% over a two day announcement period. These authors further investigated the relationship between the underlying causes and attributes of the restatement and the market impact of the restatement announcement. Their results indicate that market returns are more negatively impacted by restatements which involve fraud, restatements which affect more accounts, and restatements which reduce income.

Table 1: Reasons for Restatement[3]

Reason	Definition	Category % in 2006 GAO Report	Category% in 2003 GAO Report
Cost or Expense	Restatements due to improper accounting for costs and expenses. This category generally includes a company understating or overstating costs or expenses, improperly classifying expenses, or any other number of mistakes or improprieties that led to misreported costs. It also includes improper treatment of expenses related to tax liabilities and tax reserves. In addition, it includes improper treatment of financing arrangements, such as leases, when a related asset was improperly capitalized or expensed as part of the financing arrangement. Improperly reserved litigation restatements are also included in this category.	35.2%	15.7%
Revenue Recognition	Restatements due to improper revenue accounting. This category includes instances in which: revenue was improperly recognized, questionable revenues were recognized, or any number of other mistakes or improprieties that led to misreported revenue. Also included in this category are transactions with non-related parties that artificially inflate volume and revenues, through the simultaneous purchase and sale of products between colluding companies. These are known as round-trip transactions.	20.1%	37.9%
Securities Related	Restatements due to improper accounting for derivatives, warrants, stock options and other convertible securities.	14.1%	5.4%
Restructuring, Assets or Inventory	Restatements due to asset impairment, errors relating to accounting treatment of investments, timing and amount of asset write-downs, goodwill and other intangibles, restructuring activity and inventory valuation, and inventory quantity issues.	11.8%	8.9%
Reclassification	Restatements due to improperly classified financial statement items, i.e., current liabilities classified as long-term debt on the balance sheet, or cash flows from operating activities classified as cash flows from financing activities on the statement of cash flows.	6.8%	5.1%
Other	Any restatement not covered by the listed categories. Includes restatements due to inadequate loan-loss reserves, delinquent loans, loan write-offs, or other allowances for doubtful accounts or accounting estimates; and restatements due to fraud or accounting errors that were left unspecified.	6.5%	14.1%
Acquisition and merger	Restatements due to improper accounting for- or a complete lack of accounting for- acquisitions or mergers. These include instances in which the wrong accounting method was used, or losses or gains related to the acquisition were understated or overstated.	3.6%	5.9%
Related-Party Transaction	Restatements due to inadequate disclosure or improper accounting of revenues, expenses, debt or assets involving transactions or relationships with related parties.	1.8%	3.0%
In-Process Research and Development	Restatements resulting from instances in which improper accounting methodologies were used to value in-process research and development at the time of an acquisition.		3.6%

[3] Definitions and percentages from GAO-06-678, "Financial Restatements: Update of Public Company Trends, Market Impacts, and Regulatory Enforcement Activities."

Table 2: Top Ten Market Losses Resulting from Earnings Restatement 1998-2000[4]

Company	3 Day Value Market Value Loss (*in billions*)
Microstrategy	$11.9
Cendant	11.4
Lucent	10.9
McKesson	8.8
Yahoo	4.6
Legato Systems	2.0
Raytheon Co.	1.9
Boston Scientific	1.7
Texas Instrument	1.6
BMC Software	1.3

Gleason, Jenkins, and Johnson (2008) also determined that accounting restatements negatively impact shareholder wealth at restating firms. In addition, their results indicate that non-restating firms in the same industry also experienced share price declines following restatement announcements. These authors propose that their results reflect investors' accounting quality concerns.

These findings support the presumption that these announcements are strongly interpreted as bad news by investors and likely undermine the investors' confidence in the capital markets. Consequently, it is crucial for future business professionals to determine the accounting techniques leading to such restatements as well as the corporate governance issues driving restatements.

Another telling statistic from Wu (2002) is the number of upward and downward earnings restatements during the period studied (i.e., 1977 through 2001). During this period, 85.1% of earnings restatements resulted in a downward impact on earnings whereas only 11.8% resulted in an upward impact. These downward earnings restatements imply that prior earnings had been overstated and, thus, required a downward "correction." Consequently, since a large majority of restatements reduce earnings, it appears that a major cause of earnings restatements is aggressive accounting techniques and overly optimistic estimates. Many of these aggressive accounting approaches were driven by a desire to meet Wall Street earnings expectations.

Such significant market losses drive actions by investors. One definitive course of action is investor lawsuits. For example, in July of 2013, Barnes & Noble Inc. restated their earnings for the fiscal periods 2008 through 2012. As a result of these restatements, Barnes & Noble shares fell approximately 5% (Cheng, 2013). Then, on October 16, 2013, the SEC notified Barnes & Noble that they had started an investigation into the company's restatement of earnings (Trachtenberg, 2013). As a result, a class action lawsuit has been filed on behalf of the investors of Barnes & Noble Inc. (*Wall Street Journal Shareholder Alert 2014).* As can be noted in this case, there are numerous parties interested and involved in the implications and resolution of the accounting issues.

[4] This data is from the FEI Research Foundation: Quantitative Measures of the Quality of Financial Reporting (Wu, 2001).

Teaching Framework

Business majors face an increasingly complex environment. Business professors are challenged to prepare students for this environment and prepare them to make increasingly complex decisions. As a result of the changes in the business environment, professors must be ever more creative in preparing students to meet these challenges. One approach to prepare students for this environment is to focus on significant learning opportunities. Fink (2003) defined significant learning as a "lasting change that is important in terms of the learner's life." Fink developed a taxonomy which identified six learning outcomes necessary for significant learning. These six learning outcomes are: 1) foundational knowledge; 2) application; 3) integration; 4) human dimension; 5) caring; and 6) learning how to learn. In order for students to achieve the learning outcomes necessary for significant learning, pedagogy must be designed with intentionality. These learning goals are not hierarchical but rather relational and interactive. As noted by Fink, this taxonomy has two primary implications.

> …The first is that the learning goals for a course should include but also go beyond content mastery. Including something besides foundational knowledge will make the learning experience inherently more worthwhile and at the same time make it more interesting for learners. The second is that if teachers use a combination of significant learning goals, it will be possible to create some interaction effects and synergy that greatly enhance the achievement of significant learning by students.

While restatements provide numerous dimensions for students to examine, interactive and innovative pedagogical tools are necessary for significant learning to occur. In July 1999, AICPA Board members unanimously endorsed the development of an online competency framework for academic use, *the AICPA Core Competency Framework for Entry into the Accounting Profession* (the *Framework*). Included in this Framework are 13 teaching strategies and classroom techniques. These strategies and techniques are designed, not only to teach the technical aspects of accounting courses, but also to address the core competencies required of accounting majors. The AICPA core competencies are categorized as

> …functional (technical competencies most closely aligned with the value contributed by accounting professionals), personal (individual attributes and values) and broad business perspective competencies (relating to understanding of internal and external business contexts).

While not exactly the same, the AICPA core competencies are certainly consistent with Fink's significant learning taxonomy. The AICPA teaching strategies are presented in Table 3. As can be seen from examining the strategies, they generally involve non-traditional, very active, teaching methodologies. The teaching strategies proposed in the next section of the paper to examine earnings restatements were drawn from the techniques suggested by the AICPA report.

Table 4 uses "Fink's Taxonomy of Significant Learning" to make teaching methodology selections for teaching earnings restatements. The first two columns of the table present the types of learning objectives and descriptions of these learning objectives. The third column introduces examples of restatement learning objectives. The fourth column then presents examples of learning activities designed to achieve the objectives. These teaching methods are derived from the AICPA Sample Teaching Strategies and Classroom Techniques.

Table 3: AICPA Sample Teaching Strategies and Classroom Techniques that Address the Core Competencies

Teaching Strategy	Description
1. Enhanced (Modified) Lecture	Traditional lecture modified to include active elements including: pausing for discussion among students, including immediate mastery tests/quizzes over lecture material, using demonstrations, responding to pre-submitted student-generated questions.
2. Questioning and Discussion	Includes questioning students in a way that helps them evaluate their own thought processes by probing the thinking behind their statements and questions. Also, includes asking students different types of questions: knowledge questions, comprehension questions, analysis questions, synthesis questions, evaluation questions.
3. Writing in Class	Writing for the purpose of learning and thinking. Includes journals, one-minute papers, and responses to unstructured problems or cases.
4. Problem-Based Learning- Cases	Students use knowledge, concepts, and skills relevant to a course to solve realistic business problems.
5. Problem-Based Learning- Guided Design	A student team attacks a problem by dividing it into a series of prescribed steps (e.g., identify the problem, state the goal, list constraints, etc.) to be resolved in order; after each step, instructor provides written "expert" analysis elaborating on the various alternatives the student had available during the previous step.
6. Group Learning- Teamwork	Students work together in teams, collaborating to complete a problem or project.
7. Group Learning- Cooperative Learning	Students work together in small groups to complete a problem or project. Based on positive interdependence, individual accountability, heterogeneous teams, group processing, and social skills.
8. Debates	Students or groups of students debate controversies structured by the professor.
9. Drama	A representation of real-world event(s) in a reduced, compressed form; role-playing, simulations, games, novels, experimental market methods.
10. Technology- Visual and Computer-Based Instruction	Tutorials
11. Technology-Based Delivery	Courses delivered partially or wholly online.
12. Fieldwork- Service Learning	Accomplishment of tasks needed by the community combined with intentional learning goals, conscious reflection, and critical analysis.
13. Fieldwork- Accounting Internships	Students get academic credit and real-world experience working in industry, government, or public accounting.

Table 4: Fink's Taxonomy of Significant Learning Applied to Earnings Restatements

Type of Learning Objective	Specific Verb(s) Used to Describe	Example of Restatement Learning Objective	Examples of Teaching or Experiential Learning Activities
Foundational Knowledge	Understanding and remembering: Information, Ideas	Understand and remember the definition of an earnings restatement	• Modified class lecture • Questioning and discussion
Application	Skills; Critical, creative, and practical thinking; managing projects	Research and identify an earnings restatement appropriate for the assignment.	• Conduct research to identify an earnings restatement announcement • Group learning- teamwork • Group learning- cooperative learning • Classify restatement by type
Integration	Connecting ideas, people, and realms of life.	Students will be able to apply ethical and legal principles to the corporate financial reporting environment. Understand the stakeholders involved and the ramifications that restatements have on all parties.	• Conduct research to identify an earnings restatement announcement. • Group learning- teamwork • Group learning- cooperative learning • Identify stakeholders impacted by restatements and determine impact.
Human Dimension	Learning about oneself and others.	Students will learn about strengths and areas that need improvement when working with team members.	• Problem-based learning- Cases • Group learning- teamwork • Group learning- cooperative learning
Caring	Developing new feelings, interests, and values.	Adopt agency theory to earnings restatement data. Analyze the ethical implications of financial decisions made within the organizational environment.	• Problem-based learning- Guided design • Group learning- teamwork
Learning How to Learn	Becoming a better student; inquiring about a subject; self-directing learners.	Identify appropriate information sources, learn to be good consumers of information.	• Problem-based learning- Guided design • Debates • Discover and substantiate legitimate information sources.

Restatement Significant Learning Activities

As indicated above, Fink (2003) defined significant learning as a "lasting change that is important in terms of the learner's life." Earnings restatements provide rich learning opportunities since there are a variety of business, ethical and political issues present in these cases. Thus, developing innovative pedagogy designed to delve into these complex issues should impact, not only student's views of restatements, but also provide the student a deeper learning opportunity which transcends these specific issues addressed in this project and will carry forward into other facets of the student's life. When developing significant learning experiences for students, the initial lectures and discussions are foundational and address concrete concepts. As the projects progress and the students' understanding and engagement deepens, the assignments address increasingly abstract concepts. Thus, these earnings restatement projects are designed to start with highly concrete/factual assignments and then progress to increasingly abstract assignments as the semester progresses.

As stated previously, Table 4 builds on types of learning objectives presented in Fink's Taxonomy of Significant Learning and proposes teaching methods to accomplish the various objectives. After determining the choice of teaching method, Table 5 then introduces a specific sequence of assignments designed for use in an Intermediate Accounting course. Although the assignment sequence presented in Table 5 is designed for use in an Intermediate Accounting course, it could easily be adapted to an auditing course, MBA Introductory Financial Accounting, or an Ethics course by leaving out some of the elements requiring an understanding of accounting and by emphasizing other components. The assignments presented in the Table were chosen to be both engaging and active.

In order for the students to have the necessary foundation, they should be able to state or describe what an earnings restatement is and some potential causes of earnings restatements. In Fink's Taxonomy, this type of learning objective is "foundational knowledge" and implies a basic factual understanding by the student. Foundational knowledge is necessary before more significant learning can occur. Multiple teaching methods can accomplish this learning objective. Consequently, before proceeding with more active teaching elements, it is helpful to have the students read a pertinent article from a business journal. For example, having the class read the *New York Times* article entitled, "The S.E.C. is 'Bringin' Sexy Back' to Accounting Investigations" by P. J. Henning (*New York Time*s, June 3, 2013) sets the stage and gives some background to the broad business issues involved. Having the class read an article before lecturing engages the students and enables them to actively participate in classroom discussions of the issues which, in turn, allows a more active approach to lecturing. After reading the article, each student is required to generate and submit one question at the next class meeting.

At the next class meeting, the restatement project is formally opened with a modified lecture or interactive discussion designed to provide the necessary foundation for further, more active investigation by students. The questions submitted by the students can be incorporated into the class discussion. The lecture can progress into further interactive discussions of the business issues (e.g., stability of the U.S. capital markets and the role accounting information plays in this stability) and the inherent problems with earnings restatements (e.g., unreliable accounting information results in instability in the market). During the opening class discussion, you may also want to explain insider trading and the impact such trading has on the affected parties.

During the first *group* phase of the earnings restatement project, groups of four students are required to identify a specific restatement announcement for use in the study. To do this, they must perform a full text search of the *Wall Street Journal.* Along with data about the firm, announcement date, years (or quarters) begin restated, and financial statement category requiring restatement, they can also determine who instigated the investigation that resulted in the restatement. For example, did the company, the SEC or the auditor drive the investigation?

During the second group phase, the students prepare a timeline of the events leading up to the restatement. During this phase, students examine the audit opinions during the period(s) being restated as well as the year of the restatement announcement. They also examine the stock price reaction for the five days before the announcement date and the five days after the announcement date (see Table 5 for other specific requirements).

Table 5: Sample Assignment Sequence for Intermediate Accounting Course

Due Date	Assignment	Requirements
2/ 11/XX	Selection of Earnings Restatement for study	Summarize the factual information concerning the earnings restatement that your group plans to study. The summary should be no more than one typewritten page. Make sure to provide the following information: • Company name • *Wall Street Journal* restatement announcement date • Years (or quarters) being restated • Is the restatement causing an upward or downward change in earnings? • Cause of restatement • Stock exchange the company on which the company is traded • Party instigating the investigation (i.e., SEC, auditor, company, etc.) • Attach a copy of the restatement announcement
2/25/XX	Timeline of earnings restatement events and opinions	Each group should prepare a timeline delineating: • The periods restated • Financial information requiring restatement • Auditor and audit opinions for the periods restated • Auditor and audit opinion during the period of restatement • The stock price reaction for the five days before the announcement date and the five days after the announcement date. • Audit Committee characteristics (i.e., #, qualifications).
3/11/XX	Study of applicable Generally Accepted Accounting Principles and Consideration of the Ethics of the Accounting Alternatives	Each group should provide a three page memorandum describing: • The accounting principles underlying the financial statement transactions restated. Make a recommendation as to the appropriate accounting treatment. • Use the ethical implications of the accounting treatment alternatives to support your conclusion. This memorandum should be addressed: To: Kathryn Yeaton, Audit Manager From: Group XX, Staff Auditors
3/25/XX	Group Presentations	Dramatize fictional company discussions between management and the auditors. The presentation should involve all members of the group and last no more than five minutes. Alternatively, you may write a "fictional case" using factual elements from your case. You may expand the issues or make assumptions if necessary.
4/15/XX	Agency Theory Paper/ Final Analysis	As a group, research the concept of agency theory and write a paper applying the theory to earnings restatements in general and to your earnings restatement specifically. Be sure to address the impact auditors have on these relationships.

The third phase involves each group writing their "audit manager" (i.e., the instructor) a three page memorandum examining the underlying accounting issues and supporting the appropriate treatment with the appropriate Generally Accepted Accounting Principles. Students should research appropriate accounting pronouncements and attempt to apply the appropriate treatment. This memo should also address the ethical implications of the accounting treatment alternatives. These ethical considerations should be used to help support the chosen treatment or presentation.

The next phase requires the students to create and present a role-play demonstrating a fictional account of management / auditor interactions and discussions concerning the accounting issues. All members of the groups should be required to participate in the presentation. Each presentation should identify the issues and present the concerns (and motivations) of each party.

The last phase of the group project requires each group to research the concept of agency theory[5] and write a paper applying this theory to earnings restatements. Students address both earnings restatements in general as well as the specific earnings restatement their group studied. Each paper should consider the impact auditors have on these relationships (or how an audit committee impacts these relationships).

The final step in the project is a de-briefing session after all group phases are completed. The students can be asked to write, in class, a short paper detailing the impact on stakeholders resulting from earnings restatements. The debriefing session can also include a discussion of the technical aspects of the accounting issues addressed in the project as well as some discussion concerning group dynamics and how these impacted the "work" environment.

Student Reaction

Components of these assignments have been used in a total of nine sections of Intermediate Accounting II. The average class size of each of these sections was approximately 25 students. The components of the assignments chosen for use were varied somewhat as was whether the assignments were to be completed on an individual basis or as part of a group. When groups were utilized for the project, group size was normally three or four.

In general, student reaction to the assignments has been quite favorable. Student comments received on the end of semester teaching evaluations have included: "The [restatement project] for this class was very appropriate in applying the chapters to real-life scenarios" and "I believe the restatement project was a great feature" of the course. In other instances, students indicated that the restatement project was, in fact, the "best feature" of the course.

In an effort to gain additional insight, an effort was made to survey students from the last three semesters (i.e., 74 students). The response rate was 31%. Although the response rate was low, the results, and particularly the student comments, provide insight as to student reaction to and learning resulting from the project. Of those students responding to the survey, 91% said they found the project interesting. They stated that they gained valuable insight about the impact of information releases on corporate stakeholders and, ultimately, the political ramifications of corporate earnings releases. They also indicated that they learned a great deal from digging through company information and reading disclosures. In addition, 83% of the students found the project informative. One student (who answered "no" to the question) indicated that the project was not informative but "upsetting" because the companies had incorrectly presented their financial results initially.

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[5] Beaver (1998) summarized agency theory on page 31. He stated that

> [t]ypically, the agent is assumed to have access to superior information. In particular it is assumed that the principal cannot observe the agent's behavior. Hence there is a general concern that the agent will use the position of superior information to maximize the agent's self-interest at the expense of the principal. This is the moral hazard problem. Moral hazard not only includes such acts as fraud and shirking, but also includes other actions that are not in the best interests of the principal, such as risk-reward trade-offs made in project selection. The parallel to the management-shareholder relationship is direct and obvious…This approach, therefore, give rise to a demand for auditing services…

The survey respondents were also asked to reply, on a scale of 1 to 7 (with one being "Strongly Disagree" and 7 being "Strongly Agree"), to the following statement: My understanding of the implications of restatements was improved through this project. The average score was 5.3 with a standard deviation of 1.42 (the median and the mode were both 6). Thus, while the majority of students felt strongly that the project improved their understanding of the implications of restatements, there were two students who did not agree.

The most common criticism regarding the project was whether the project should be assigned on an individual basis or completed as part of a group. As stated previously, some semesters the project was assigned on an individual basis and, alternatively, some semesters the project was assigned as a group project. As can be expected, student reactions and responses to this varied. One student commented that the project should be have assigned as a group project whereas two other students indicated that the project should have been completed on an individual basis. In these cases, student preferences and group dynamics play a large role.

Conclusion

As business faculty, it is crucial that we prepare our students to understand and navigate an increasingly complex business environment. In order to do this, we must design and provide significant learning experiences for our students. These opportunities will allow them to develop an understanding of complex business events and prepare them for the difficult business decisions they will be facing in the future. It is only through actively engaging them in challenging activities and dialogues that significant learning can occur. Examining and delving into the complexities of earnings restatements provides one such multifaceted issue.

This paper presents a teaching framework and a sample sequence of assignments designed to examine earnings restatements and explore the ethical and regulatory implications of these events. Having utilized components of the project presented over several semesters, it has become evident that a final class discussion should be held to summarize and analyze the important issues and implications of earnings restatements. Future research should examine the impact of whether working as an individual or within a group has an impact on the level of significant learning which occurs. In addition, future research should also identify and examine alternative business complexities and ethical issues which would be beneficial for student exploration.

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Biography

Kathryn Yeaton is an associate professor of accounting at Ramapo College of New Jersey. She received her Ph.D. in accounting from the University of South Florida. Her teaching areas have included financial and managerial accounting. Her research interests include pedagogical methods as well as technical accounting issues. She has published papers in various journals such as *The CPA Journal* and *The Journal of Corporate Accounting and Finance.*