

Using the Case Method Approach to Introduce Students to International Financial Reporting Standards

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Abstract

The paper provides a brief history of the probable move to International Financial Reporting Standards (IFRS) by the US. It also discusses several options that have been used by other countries in the adoption of IFRS. Given the likely move to IFRS by the US and the coverage of these standards on the CPA exam, it has become critical that our students be familiar with IFRS. Various approaches are available to provide this knowledge and the paper discusses the benefits of the case approach. An appendix to the paper includes three cases that have been successfully used to introduce students to IFRS.

IFRS in the US

The Securities and Exchange Commission (the Commission) has long supported the development of a single set of high quality accounting standards between the United States and other countries. In a 1988 Policy Statement the Commission explicitly supported the establishment of mutually acceptable international accounting standards as a critical goal to reduce regulatory impediments to cross-border capital transactions that result from disparate national accounting standards provided that investor protections were not compromised (1988).

Since 2002 the International Accounting Standards Board (IASB) and the US Financial Accounting Standards Board (FASB) have been working together to converge International Financial Reporting Standards (IFRS) and US generally accepted accounting principles (GAAP). In 2002 a Memorandum of Understanding known as the Norwalk Agreement was established. In this agreement the IASB and FASB both committed to developing high quality, compatible accounting standards that could be used for both domestic and cross-border financial reporting. Both the FASB and IASB pledged to use their best efforts to (a) make their existing financial reporting standards fully compatible as soon as is practicable and (b) to coordinate their future work programs to ensure that once achieved, compatibility was maintained.

In 2005 the Commission released a roadmap for the potential use of financial statements prepared in accordance with IFRS by US issuers. The Commission allowed for issuers whose

industry uses IFRS as the bases for financial reporting more than any other set of standards to be eligible to file without US GAAP reconciliations, beginning in 2009 or earlier. In 2008 the Commission issued an updated proposed roadmap that includes several milestones towards the US adoption of IFRS. This roadmap allows for early adoption of IFRS for some U.S. public companies that meet specific criteria. The FASB and the IASB issued and updated Memorandum of Understanding focusing both boards towards convergence of several important accounting standards and set a timetable for completing the convergence projects by mid-2011. In April of 2011 the IASB and FASB published a progress report on their joint work to improve IFRS and U.S. GAAP and continue towards convergence. This progress report extended the timetable for finalization of their convergence work beyond the original date of June 2011. The convergence projects were targeted to be completed in the second half of 2011 and the first half of 2012. Currently the earliest the SEC would allow a U.S. public company to convert their financial statement to IFRS is 2015. The SEC initially indicated its desire to complete its study on the possible move to IFRS and have a decision by the end of 2011. In December of 2011 the Chief Accountant indicated that staff will need at least a few more months to complete their study. The (expected until mid-2012.

Methods of IFRS Implementation.

There are presently more than 120 nations and reporting jurisdictions that permit or require IFRS for domestic listed companies; approximately 90 countries have adopted IFRS as issued by IASB and include a statement acknowledging such conformity in audit reports. The SEC issued a staff paper in May of 2011 discussing the many methods of incorporation of IFRS into financial reporting standards. The methods of incorporation of IFRS into these reporting systems differ across jurisdictions. Jurisdictions generally have either incorporated IFRS into the reporting requirements for listed companies by either full use of IFRS as issued by the IASB, also known as adoption, or by use of IFRS after some form of national or multinational incorporation process, which could ultimately result in the full use of IFRS as issued by the IASB or some local variation of IFRS.

Few jurisdictions have implemented the first method of adoption of IFRS. This method of incorporating IFRS into reporting requirements for listed companies would recognize or accept IFRS as issued by IASB without approval by any local regulating body. Jurisdictions that incorporate IFRS as issued by the IASB usually have no mechanism for making changes to the standards.

The second approach to incorporation of IFRS, using a national incorporation process could be divided into two categories, the Convergence Approach and the Endorsement Approach. With the Convergence Approach a jurisdiction maintains their local standards, but makes efforts to converge those bodies of standards with IFRS over time. The goal is to eliminate differences between local standards and IFRS without incorporating IFRS as issued by IASB thereby maintaining its authority and fulfilling its responsibility for investor protection. Under the Endorsement Approach jurisdictions incorporate individual IFRSs into their local standards. Standards may be adopted exactly as issued by the IASB and others may have some deviation. The degree of deviation from IFRS as issued by the IASB varies country by country. Some

() English as issued by the IASB into their local language, other modifications could be for country specific deviations or to address an industry specific regulatory issue. A significant number of jurisdictions follow the Endorsement Approach (countries within the EU and Australia are examples).

During the 2010 AICPA Conference another approach to incorporation was discussed. This new approach was referred to as Condorsement. This approach is a combination of the Endorsement Approach and the Convergence approach to address the differences existing between IFRS and U.S. GAAP and would facilitate the transition process by incorporating IFRS into GAAP over some defined period of time. The Condorsement approach would have the FASB continue to be the standard setter for U.S. GAAP. This approach would also have the FASB play a significant role in developing IFRS. The FASB would provide input and support to the IASB in developing and promoting high-quality standards.

The Importance of Students Being Familiar with IFRS

In January of 2011, the CPA exam began testing candidates on IFRS. Given what appears to be an inevitable move to some form of IFRS for financial reporting in the US and the addition of IFRS to the CPA exam, it is now imperative that our students have knowledge of IFRS. A question accounting educators need to address is what effective approaches exist to provide our students with this knowledge? The authors have elected to use the case approach. There is very little in the way of empirical or quantitative evidence of the impact of the case method of teaching on student learning outcomes. Much of what we have to guide us and substantiate benefits to the approach is anecdotal. However, interviews with instructors who advocate this approach indicate that it invites participation of students and the sharing of their experiences that elevates the level of student engagement. This can lead to improved student motivation, increased interest in the subject matter and a higher level of student achievement (Billica, 2004).

Using the Case Method to Teach IFRSs

The case method of teaching connects students with real world contexts and injects the complexity of the environment in which accountants work and make decisions. This approach goes much further than simply having students tackle the strictly technical nature of many accounting issues. The case method of teaching can facilitate deeper conceptual learning that reinforces the retention of content knowledge. Additionally, it can go beyond facilitating the acquisition of technical skills and enable students to develop complex analytical decision-making skills by getting them to step outside a narrow technical framework in which most accounting exercises are presented. This type of learning environment develops the skills necessary for life-long learning and the ability to adapt to a complex and ever changing business environment.

Types of Cases

The case method of teaching is familiar to those who have worked or studied in professional schools such as law or business and is growing as an increasing number of faculty across the

U.S. have been working to popularize it as a pedagogical option (Barnes, Christensen, & Hansen, 1994; Erskine, Leenders, & Maufette-Leenders, 1998; Lundeberg, Levin, & Harrington, 1999; Bilica, 2004). As a result there are many types of case design available. Individual cases are developed with a particular method of application and learning outcome in mind. Teaching with cases and choice of case type depends on whether the goal is to facilitate an in-depth discussion in which students develop analyses of the situation as a class, or to have students work in smaller groups and engage in collaborative work and learning. Cases can be used to initiate role-playing, or to engage students in an intensive debate, and dialogue. They can also be deployed to

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Directed cases develop specific questions with specific answers and may be more suited when the aim is to require students % & the lecture to encourage class discussion. This is ideal if one goal is to give students a number of opportunities over a semester to improve their writing skills. Problem cases tend to be more in-depth and elicit more than one acceptable answer. The challenge in problem cases is for students to build a better argument. Problem cases focus more on developing critical thinking skills and perhaps arriving at unique solutions. Whether cases or directed or problem oriented they are usually flexible in their method of implementation.

Methods of Implementing the Case Method

As mentioned earlier the desired learning outcome will dictate the type of case chosen and its implementation. Cases can be assigned on an individual bases, to small groups or tackled by the classroom as a whole. They can be incorporated into a lecture, used to devise a classroom debate or discussed in small collaborative learning groups. These choices or often dictated by the level of the course and time constraints.

Short vignettes usually avail themselves to individual write-ups and several can be assigned during a course to enable timely feedback to students which enables them to improve their writing and analytical skills over a semester. There are a number of approaches to case teaching and we will highlight three in this paper that we have used successfully.

Team Teaching

Team teaching is a method of instruction that engages students in peer collaboration and dialogue. When we employ this approach students are asked to read the case in advance and to formulate individual solutions to the case. In some instances we require answers to be written in a memo format to a client. This challenges students to adapt their responses to the sophistication of the intended audience. These memos are collected after class and graded on an individual basis. During the lecture students are broken out into small groups to share and discuss their approaches to solving the case. Each group is then asked to report back to the class as a whole and facilitate a broader class discussion of the issue.

Course Long Projects

This approach has been used in both auditing and financial statement analysis courses. We have implemented this type of case approach by requiring students to conduct an in-depth analysis of a publically traded firm. In the auditing context the students perform a preliminary analytical analysis of the firm based on identifying audit risks. It entails a thorough analysis of the documents submitted to the SEC as well as a review of recent media coverage of the firm. The goal in the audit context is to determine whether the firm is an appropriate audit risk client. When this project is assigned in a financial statement analysis course the goal is to determine whether the student would recommend an equity investment, debt investment or no investment at all in the firm.

Facilitating Learning Outside the Classroom.

We have implemented this approach primarily in accounting information systems courses where time constraints do not enable the coverage of certain software packages during lecture time. A specific example is QuickBooks. A pre-designed case can be utilized to familiarize students with the basics of QuickBooks, % & transactions that take place over an accounting period. Students work through case modules with detailed instructions. The end product is a set of year-end financial statements that are turned in at the end of the semester. An instructor can adapt this approach to create case learning modules to cover any material that lecture time does not permit. BlackBoard can be an excellent mode of delivery for these case-learning modules.

Deciding which type of case is most appropriate.

Learning objectives and content will dictate much of the decision as to what type of case is utilized and the particular form of presentation. In this section we include Blooms Taxonomy as we believe that it provides a good starting point in determining what learning goals are to be achieved and how choice of case and case implementation can achieve those goals. Generally the more complex and problem oriented the case the higher the learning achievement will be on Blooms (



Remembering: Can the student remember the information? Can the student define, duplicate, list, memorize, recall, repeat, and reproduce the facts?

Understanding: Can the student explain ideas or concepts? Can the student classify, describe, discuss, explain, identify, locate, recognize, report, select, translate, and paraphrase the issues?

Applying: Can the student use the information in a new way? Can the student make a choice, demonstrate, dramatize, employ, illustrate, interpret, operate, schedule, sketch, solve, use, and articulate the issue?

Analyzing: Can the student distinguish between the different parts of the issue? Can the student appraise, compare, contrast, criticize, differentiate, discriminate, distinguish, examine, experiment, question, and test their assumptions and opinions?

Evaluating: Can the student justify a position or decision? Can the student appraise, argue, defend, judge, select, support, value, and evaluate their position?

Creating: Can the student create new resolution to the problem or point of view? Can the student assemble, construct, create, design, develop, formulate, and articulate their unique solution? (http://www.odu.edu/educ/roverbau/Bloom/blooms_taxonomy.htm)

Cases Developed in This Paper

The appendix of this paper provides three cases that can be utilized for the purpose of familiarizing students with IFRS. These cases are short directed type cases that are meant to cover a specific application of IFRS. They align with %Evaluating& (Taxonomy. The case topics involve balance sheet offsets, investment impairments and consolidation of a foreign subsidiary. The cases are not copyrighted, so our readers are free to use them in their courses. IFRS cases are appropriate for use in intermediate and advanced accounting courses. We have found that requiring students to write a brief memo in answering the cases provides some assurance that they will have deliberated the case prior to a class discussion and provides a good exercise in enhancing their writing skills.

Conclusion

The purpose of this paper is threefold. First, we discussed IFRS and its probable adoption, in some form, by the US. Next, the importance of introducing students to IFRSs was presented. Finally, we provided an overview of the case method approach to teaching that, at least anecdotally, has proven effective in achieving student learning outcomes. In this overview, we discuss the various types of cases that can be utilized and methods of implementation.

On a final note, we would like to acknowledge perhaps the major challenge to implementing the case method of teaching in accounting. Since much of the accounting graduate curriculum is less content driven and focuses on the development of research skills it is more amenable to the implementation of the case method of teaching. The real challenge is in integrating the case method approach at the undergraduate level.

The undergraduate accounting curriculum is very content driven. But, as the knowledge base of accounting continues to grow at an ever-increasing rate, perhaps it is time to rethink our current approach of cramming as much GAAP coverage as we can into our undergraduate financial accounting courses. It might be time to admit that it is just not practical to think that we can deliver all of GAAP even in a five year accounting program at the expense of more lasting professional skills like the ability to research authoritative sources, comprehend, analyze and apply this information to solving accounting issues. GAAP will continue to change and grow and perhaps what will benefit students most are the skills to adapt to these changes.

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Biographies



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Appendix

Case 1

Use of Offsets in the Financial Statements

You are a partner with Wee Checkem CPAs and you have just signed a new client, Keaton Enterprises Inc. which is located in Germany and therefore uses IFRS for financial reporting. Debby Keaton, the president of the company, has been very successful in growing the company and she took it public about five years ago. The company is diversified and has sustained a minimum of a 25% growth per year since it went public. Much of the growth was through acquisitions and the company has a significant debt load on its balance sheet. While Debby Keaton is an astute businesswoman, she does not have a background in accounting and

This morning you saw her at a coffee shop and she indicated that she was concerned about their year-end financial statements. With all of the debt the company has outstanding, there are loan covenants that require the company to maintain a 2:1 current ratio. She has expressed concern because the company may have difficulty meeting the ratio. She indicated that the company has a sizable account payable with Hay Co. and that her company also has a slightly larger long-term receivable from Hay. Debby Keaton indicated that she has talked to the president of Hay and (She indicated that the president of Hay said he is willing to do the offset but not until after year-end (-end financial statements. While there is an informal agreement to do the offset, no legal agreement has been

signed. Debby Keaton indicated that she wants Keaton Enterprises to be permitted to offset its account payable against the long-term receivable with Hay in its year-end financial statements. She was in a hurry so she asked that you write a letter and include specific references to IFRS so that she can discuss the issue with her controller.

REQUIRED: Determine what should be done under IFRS in this situation. Your solution should give specific references to any IFRS used to develop your answers.

Case 1 - Solution:

IAS 32 Financial Instruments Presentation

Paragraph 42 indicates:

A financial asset and a financial liability shall be offset and the net amount presented in the statement of financial position when and only when, an entity:

- (a) currently has a legally enforceable right to set off the recognized amounts; and
- (b) intends either to settle on a net asset basis, or to realize the asset and settle the liability simultaneously.

Paragraph 45 indicates:

A right of set-off (legal right, by contract or otherwise, to settle or otherwise eliminate all or a portion on an amount due to a creditor by applying against that amount

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Paragraph 46 indicates:

□ settle on a net basis without the legal right to do so is not sufficient to justify offsetting because the rights and obligations associated with the individual financial asset and financial liability remain unaltered.

Conclusion:

Keaton Enterprises may not offset the receivable and liability because there is no legally established right of set-off. It would appear that the only option available to Keaton would be to get Hay Co. to enter into a binding legal contract, before year end, that establishes a legal right of set-off.

Case 2

Impairment of Investment in Bonds

You received a call from Mr. Con Fused, the controller of Pasta Co. He was on his way to a Board of Directors meeting and could not talk for long. Pasta Co. has been an audit client of your firm, Introvert & Co., CPAs, for a couple of years and you are the audit partner. The company headquarters is in Italy and it reports under IFRS. Mr. Fused indicated that his company invested in corporate bonds a little over a year ago and intended to hold the bonds until they mature. The bonds were purchased on the issue date directly from the debtor company, who also happens to be a supplier of raw materials to Pasta. The bonds are not traded on the market so there is no established market value or ability to sell the bonds. You remember that under

(Year-end is approaching and Mr. Fused indicated that he is unsure as to how these securities should be reported this year. He indicated that the company that issued the bonds is having significant financial difficulty and appears to be getting ready to file for bankruptcy. Pasta does not expect to collect the face value of the bonds at maturity, which is about three years from now. Mr.

% more than about 20% on the Euro for these. Can we still report these at amortized cost? As you may recall, we originally purchased them at a discount, which we have been amortizing. Should we continue to report these at their unamortized cost or should some other basis be used? If we have to write the bonds down will the loss be a part of net income or comprehensive income? Can we write them back up if future circumstances change? I know we adjust our investments in our other securities to fair value at the end of each year. I would really appreciate any help you can give us. Please send me a letter answering my questions. Could you also give me specific &

REQUIRED: Determine what should be done under IFRS in this situation. Your solution should give specific references to any IFRS used to develop your answers.

Case 2 - Solution:

IFRS 9 Financial Instruments

Chapter 5 paragraph 5.22

An entity shall apply the impairment requirements in paragraphs 58-65 and AG84-AG93 of IAS 39 to financial assets measured at amortized cost.

IAS 39 Financial Instruments Recognition and Measurement

Paragraph 58:

An entity shall assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets measured at amortized cost is impaired. If any such evidence exists, the entity shall apply paragraph 63 to determine the amount of any impairment loss.

Paragraph 63:

If there is objective evidence that an impairment loss on financial assets measured at amortized cost has been incurred, the amount of the loss is measured as the difference (s carrying value and the present value of estimated future cash flows

☐ amount of the asset shall be reduced either directly or through use of an allowance account. The amount of loss shall be recognized in profit or loss.

Paragraph 65:

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was

□ □ sly recognized impairment loss shall be reversed either directly or by adjusting an allowance account. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed. The amount of the reversal is recognized in profit and loss.

Conclusion:

The company must estimate a fair value for the bond investment by determining the present value of expected future cash receipts using the original effective interest rate. The difference between the estimated fair value and the carrying amount is an impairment loss to be reported in the income statement. If there should be a recovery of value in the future, a gain may be reported in the income statement, however, the financial asset may not be reported at an amount that is greater than what the amortized cost would have been had there not been an impairment.

Case 3

Consolidation of a Foreign Subsidiary

Jabco, is an oil exploration and production company with headquarters in Australia which means the company has been reporting under IFRS. It has a foreign subsidiary operating in a third world country. Farco, the subsidiary, is a separate corporate entity in which Jabco has invested \$50 million dollars. The subsidiary has been in operation for five years and has been successful in finding oil reserves. You are an audit partner with Ver E. Able CPAs and Jabco has been an audit client for years. (Justin Wally, outside a restaurant. He is an engineer and has no accounting background. You have developed a close relationship over the years. He told you the following:

While we have been successful in finding oil in the country in which we are operating, the government has been unhappy with our operations. As a result, they have placed restrictions on taking any earnings out of their country and have insisted that all available funds be used for additional exploration and for building pipelines. It appears that until they are satisfied with the pace of exploration,

development and production, this restriction will remain in place. The local government is in a hurry to maximize production so that severance and income taxes from oil production can be used to build an infrastructure that will promote economic development in non- &

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more than five years. While there is always the threat of expropriation, we feel that the probably is &

You: % &

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its operations. My question is whether we can continue to consolidate Farco when we are under these restrictions? Farco is 100% owned and has no debt. We would like to continue to consolidate it because it helps our financial picture. (report the investment? (sorry; I am late for a meeting. Please send me a letter answering my questions? &

REQUIRED: Determine what should be done under IFRS in this situation. Your solution should give specific references to any IFRS used to develop your answers.

Case 3 - Solution:

IAS 27 Consolidated and Separate Financial Statements

Paragraph 13, indicates:

Control is presumed to exist when the parent owns, directly or indirectly through subsidiaries, more than half of the voting power of an entity unless in exceptional circumstances, it can be clearly demonstrated that such ownership does not constitute control.

Paragraph 32 addresses the loss of control:

A parent can lose control of a subsidiary with or without a change in absolute or relative ownership levels. This could occur, for example, when a subsidiary becomes subject to the control of a government, court, administrator or regulator.

Since the local government has placed significant restrictions on Jabco, their ability to control the subsidiary is in question. Given these circumstances, the subsidiary should not be consolidated until the restrictions are lifted. A question arises as to the proper reporting of the Farco sub if it cannot be consolidated.

Paragraph 34 regarding loss of control:

If a parent loses control of a subsidiary, it:

- a) de-recognizes the assets (including goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost.
- d) recognizes any investment retained in the former subsidiary at its fair value at the date when control is lost.
- e) reclassifies to profit or loss, or transfers directly to retained earnings if required in accordance with other IFRS, the amounts identified in paragraph 35: and
- f) recognizes and resulting difference as a gain or loss in profit or loss attributable to the parent.

Paragraph 35 states:

If a parent loses control of a subsidiary, the parent shall account for all amounts recognized in other comprehensive income in relation to that subsidiary on the same basis as would be required if the parent had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in other comprehensive income would be reclassified to a profit or loss on the disposal of related assets or liabilities, the parent reclassifies the gain or loss from equity to profit or loss (a reclassification adjustment) when it loses control of the subsidiary. For example, if a subsidiary has cumulative exchange differences relating to a foreign operation and the parent loses control of the subsidiary, the parent shall reclassify to profit or loss the gain or loss previously recognized in other comprehensive income in relation to the foreign operation.

Conclusion:

The parent may not consolidate the subsidiary since it has lost control. The assets and liabilities of the sub will be eliminated and an investment account will reflect the fair value of the sub as of the date control is lost. Any difference between the previous carrying amount and the new fair value will be recognized in income as a gain or loss in the year control is lost. In addition, since the parent most likely has a foreign exchange adjustment in other comprehensive income, it must be reclassified as a gain or loss in the income statement.