

OPERATIONALIZING THE ACCOUNTING THEORY COURSE: AN ILLUSTRATION INVOLVING COMPARATIVE FINANCIAL STATEMENT EFFECTS

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ABSTRACT

The pedagogical challenges to the accounting theory course instructor are formidable ones indeed. Particularly critical is the instructional methodology needed to effectively link the conceptual foundation used in the accounting standards setting process to the end users of financial statement information. Since most accounting theory textbooks do a satisfactory job of explaining the deductive relationship between the FASB's Conceptual Framework and accounting policy making, this paper focuses on the linkage between generally accepted accounting principles and the account balances contained in the primary financial statements. An example highlighting the different accounting rules governing equity securities investments is presented.

BACKGROUND

When teaching a financial accounting theory course, the instructor is faced with the difficult task of linking the conceptual foundation of accounting standards setting to the users of financial statements. The content in the first half of most theory books focuses on the relationship between accounting theory, especially the Financial Accounting Standards Board's (FASB's) Conceptual Framework, and the accounting policy making process. The second half of these texts usually includes separate chapters covering the composition of the basic financial statements, followed by individual chapters devoted to a critical review and analysis of the Generally Accepted Accounting Principles (GAAP) underlying selected subject matter, e.g., interperiod income tax allocation, and the economic consequences these rules have on financial statement users. However, the direct effects the accounting standards have upon the financial statements, or, more specifically, on the account balances, are typically not addressed. Furthermore, where these relationships are included in the discussion, they are not supplemented by any visual presentation, i.e., a table or figure, which, if used as a frame of reference, would enhance the students' understanding of their implications to the users.

RECOMMENDATION

To best reinforce the linkage between accounting rules and their impact on the account balances shown in the primary financial statements, the examples to be presented in a theory text should utilize GAAP scenarios where alternative methods of accounting would be used depending on the relevant circumstances existing. These illustrations might include purchase vs. pooling of interest (although the latter method is now proscribed by FASB Statement (SFAS) 141 for consolidation reporting, or capitalization vs. non-capitalization of leases. Still another example could be discounting vs. non-discounting of deferred taxes, even though the former is not currently allowable.