

Efficacy of the User Approach to Teaching Introduction to Financial Accounting

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1. Introduction: Rejoinder to GAAE 2009

When one of our co-authors, Alan Burstein, queried the GAAE 2009 session on “Best Practices in Teaching Principles of Accounting” regarding “user versus preparer” approaches, the question was met with an awkward silence followed by several polite but disapproving comments regarding the user approach. Burstein, whose background is less pure accounting and more investment banking, finance, and statistics, was somewhat puzzled, based not just on his experience teaching accounting at Gordon College, which for several years has emphasized a user oriented approach implemented by co-author Karen McCarron, but more importantly on his experience drawn from twenty years in investment banking. Having learned accounting from a more traditional approach at the University of Chicago in the early 1980’s and then having worked in finance, Burstein found the benefits of the user approach to Gordon’s students to be obvious, yet it seemed as if virtually all the rest of Georgia eschews the approach. Hence he set out, working with McCarron, to explore the user versus preparer “issue” in more depth in order to ensure that our approach really does serve Gordon’s students well.

This paper results from that exploration. Our experience at Gordon suggests that an adaptation of the user approach not only better serves the needs of our general business majors but also provides our prospective accounting professionals with sufficient preparation for further studies. We will share our experience at Gordon College not only with regards to our pedagogic approach, but also by providing data on the post-Gordon experience of our students. It is not our intention to proselytize, but rather to open a door to more widespread discussion and exploration of approaches which better serve both our students and their prospective employers. Our aim is to show that “user versus preparer” need not be a strict dichotomy and that most courses (including our own) in reality offer something of a blended approach between the two.

2. Needs of Business Students and Employers

The primary objective of the first course in accounting is for students to learn about accounting as an information development and communication function that supports economic decision-making. The knowledge and skills provided by the first course in accounting should facilitate subsequent learning even if the student takes no additional academic work in accounting or directly related disciplines. For example, the course should help students perform financial analysis; derive information for personal or organizational decisions; and understand business, governmental, and other organizational entities. (AECC 1992)

Of the 250 or so students who enter the eight ACCT 2101 sections we offer during the course of each academic year, only a handful, perhaps a dozen at most, intend to pursue accounting as a profession. While a few of those prospective accountants may turn their interest elsewhere, they're often replaced by others who newly discover an interest in pursuing accounting. The rest of our students—the overwhelming majority—take accounting because it's required for their business major or, not infrequently, because they think accounting would be a useful subject to know something about. We

best serve these students through pursuit of two questions, both of which aim to help them understand why accounting is required for their major. First, what is it that they need to know to be successful in both their further business studies and in their careers? Second, and perhaps more interesting in a practical sense, what do we want them to take from the course that they'll remember three or four years after they leave our classroom? Bookkeeping skills, we believe, address neither need. . Evidence suggests that employers are decreasingly interested in bookkeeping "skills" and more interested not only in analytic ability, but in the problem solving, communication, and team playing skills emphasized by the pedagogic approaches advocated by the AECC.

As the team oriented approach to corporate organization has gained increased acceptance in recent years, the integration of the various disciplines within the field of business is more critical than ever. Also, other fields, such as engineering, quality control, and manufacturing technology must be integrated into the total corporate philosophy. A common ground for all these fields is accounting—most of the graduates in all these fields have taken at least one accounting class. Likewise, while many disciplines have developed their own jargon which makes communication across disciplines difficult, accounting information is standardized and represents a common language. (Steadman and Green, 1995)

The "common language" to which Steadman and Green refer, what we so often call "The Language of Business" is not the specialized jargon of bookkeeping but rather the "standardized" information inherent in financial analysis. In fifteen years working with the development of accounting systems pertaining to derivatives trading, not once did Burstein hear the terms "debit" or "credit;" he had nearly forgotten the concept of a T-account. It was the ability to analyze the cash flows of complex derivatives, the appreciation of accrual of revenues and expenses pertaining to such instruments, and most important, the ability to clearly communicate those concepts which contributed

most heavily to his success. Burstein re-learned bookkeeping concepts quickly enough when it came time to teach them in Gordon's one hour accounting cycle "lab" class but could have had a successful, productive career without detailed knowledge of them; so can our students!

3. User Approach: What It Really Means

Traditionally, accounting instruction followed the preparer approach, which emphasized (a) the teaching of debits and credits and (b) preparation of financial statements. Within this past decade, the user approach to accounting instruction has been adopted by some educators. Some...believe that for postsecondary business majors the emphasis on debits and credits and the preparation of financial statements is ill-advised; such instruction is thought to take away from the instructional time required to cultivate understanding needed by managers and other users of accounting information." (Blaszczynski and Borja, 2003)

Is the distinction really that simple? "User" versus "Preparer" is often something of a specious debate, especially when it's couched as "debits and credits" on the one hand versus "critical thinking" and "active learning" on the other. If accounting is viewed as "the language of business," then "debits and credits" are simply a variation in dialect from accounting equation based transaction entry while the various active learning approaches—the teaching students "to learn on their own" so often cited from the now nearly twenty year old AECC first position statement--address pedagogic approach which is hardly unique to accounting.

Teaching bookkeeping has little to do with the AAA 1966 definition of Accounting--"The process of identifying, measuring, and communicating economic information to permit informed judgments and decisions by users of the information." Note, by the way, appearance of the word "user." Even if one interprets "Identifying, measuring, and communicating" as somehow conveying "preparing," it's hard to see where bookkeeping fits. Once we look beyond discussions of pedagogic technique, which can apply to user

or preparer approach alike, and differences in linguistic dialect, the issue is really one of transaction analysis versus transaction entry; our own view of a transaction entry approach is well summed up as follows:

The “Preparer” approach—which focuses on learning debit and credit rules, accounting procedures, and the preparation of financial statements—is particularly ineffective in classes where the majority of students will not become accountants. Precious class time should not be devoted to teaching tasks routinely performed by software. (Diller-Haas, 2004)

In a transaction analysis approach, events are analyzed in the context of the accounting equation and their effect on financial statements. Spending a class period teaching freshmen and sophomores clever mnemonic devices for debits and credits contributes nothing to their understanding of the relationship of financial events with financial information and financial decision making.

A number of models for the user approach can be found in the American Accounting Association’s summary of the AECC Grant experiences at several institutions (Flaherty, 1998). Like Gordon College, Mesa Community College’s accounting program aims to prepare students to transfer to upper level accounting classes, in this specific case at Arizona State University. Transformation supported by an AECC grant was carried out by a number of changes to the introductory class, ACC 230, of which the following are especially illustrative of the user approach:

- Prerequisites of critical reading, English, and college algebra have been added to the new sequence to ensure that students possess basic skills necessary to succeed.
- Students do not learn bookkeeping concepts such as debits, credits, journal entries, posting to ledgers, or preparing financial statements; however, students do learn the concepts of bookkeeping through transaction analysis. The accounting equation is used throughout the course to illustrate the effects of transactions on the financial statements.

- The first five weeks of the ACC230 course are used for preliminary discussions including effective writing skills, decision making, forms of business organization, history and uses of accounting information, role of accounting organizations, transaction analysis, and accrual versus cash basis of accounting.
- To teach accounting concepts, it was decided that a corporate annual report would be the basis for the course content. Students learn about accounting by walking through an entire annual report. The last ten weeks of the ACC230 course are spent on this task.urses to illustrate the effects of transactions on the financial statements.
- The culmination of the new sequence is a course project which requires each student to analyze a company, write a report, and orally present the result of the analysis to the class.
- Throughout the entire sequence students are required to turn in a variety of writing assignments, present material orally to the class, and work in teams.
(Flaherty , 1998)

Mesa Community College is hardly alone. While Gordon's path toward a user approach appears unusual in Georgia, it is less so on a national level. One representative of a major publisher, a CPA (hence with some understanding of the issue) whose territory includes parts of the Midwest and mid-south, reports that approximately 40 per cent of the texts she sells are either user (25%) or hybrid (15%) oriented and believes that the proportion is even higher for other publishers.

Even in Mesa's model, something of an ideal, students do learn "concepts of bookkeeping," and merely switching from debits and credits hardly constitutes a user, or "transaction analysis" approach. Sometimes the accounting equation approach becomes merely an alternative for transaction entry. Indeed, Diller-Haas (2003) finds most courses that have moved away from bookkeeping are actually "blended" classes, and to some extent, Gordon's approach is clearly not immune from a "blend."

4. The User Approach at Gordon

We at Gordon believe that we better serve our students—both accounting and other—by understanding the difference between transaction entry and transaction analysis approaches and moving toward the latter. Even if our approach sometimes gives a “blended” appearance, we believe that it is critical to take the first step of moving away from a bookkeeping based linguistic dialect, that is, debits and credits.

Our text, Ingram and Albright's *Financial Accounting; Information for Decisions*, is clearly geared toward a user approach. Transactions are framed in the context of the accounting equation, while debits and credits are entirely omitted, outside of a chapter appendix which we don't cover. Nonetheless, the approach is more “blended” than a strict user approach. The text refers to “recording” transactions early on, and while we prefer, in our classrooms, to discuss “analyzing” transactions, our “analyses” sometimes look suspiciously like journal entries. The most obvious difference, though, is that in the absence of debits, credits, and T-accounts, the student necessarily focuses on the specific effect of transactions on financial statements. And, while preparation of simple financial statements is not absent from our assessments, we do try to focus on stakeholders' use of actual financial information. Hence at the end of the semester, we're most interested in our students' abilities as competent, informed consumers of financial information. For our students who choose not to pursue accounting, this emphasis addresses the needs we expressed at the outset for knowledge which would not only serve them well in both their studies and career, but would stick with them and stand the test of time.

What about students intending to further study accounting and finance? For them, we do offer a one credit “lab” class, Accounting 2103, “The Accounting Cycle,” in which we teach debits and credits and the use of T-accounts to prepare financial statements.

Since we normally offer the class just in the summer, only a handful of students take it, perhaps four to six each summer, but they give us an opportunity to see firsthand how our approach affects their ability to succeed in upper level classes. After reviewing “old ground” on the effects of different kinds of transactions on financial statements, we find they learn to handle debits and credits and T-accounts almost immediately.

As we try to stay in contact with many of our students who have continued their studies in finance and accounting, even without taking the ACCT 2103 class, we’re aware of no unusual problems that they’ve had in their upper level classes. To quantify some of this information, we have conducted a small survey of recent Gordon business graduates.

While our survey has thus far been limited in size by both time and resources, we are encouraged by a response rate to our email survey of better than 50 per cent, yielding 14 replies to 25 surveys sent out, and we are in the process of enlarging the number of respondents. In our survey, we asked our students the following questions:

1. Have you taken (or are you taking) accounting classes beyond those you took at Gordon?

Yes

No

If yes, would you say that you felt:

I was very well prepared.

I was adequately prepared

I felt that I could have been better prepared

2. If you’ve had to work with debits and credits after Gordon, would you say that:

I learned them very quickly

It took some time to learn them

It was a challenge to learn them

3. Have you taken (or are you taking) upper level finance classes?

Yes

No

If yes, would you say that you felt:

I was very well prepared.

I was adequately prepared

I felt that I could have been better prepared

4. Have you taken (or are you taking) upper level business classes other than finance or accounting?

Yes

No

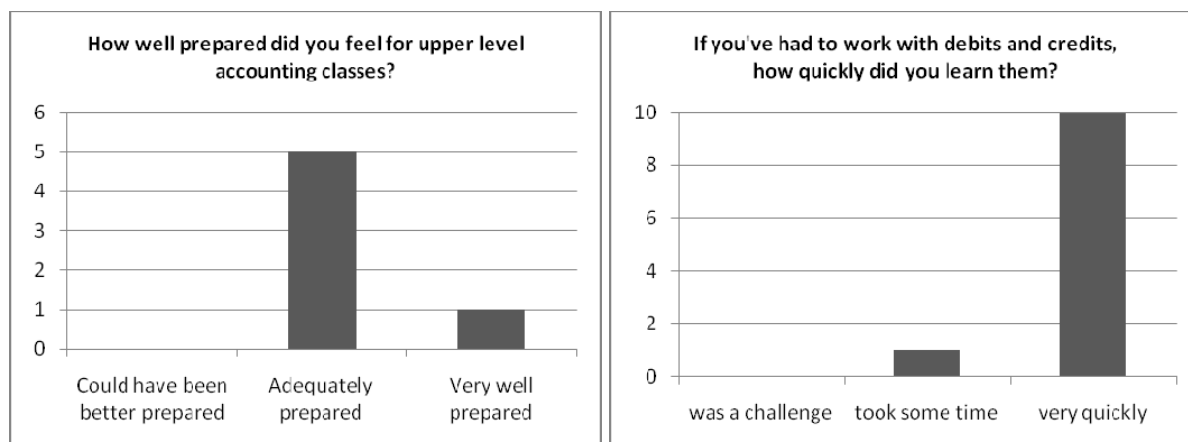
If yes, would you say that you felt:

I was very well prepared.

I was adequately prepared

I felt that I could have been better prepared

Six of the respondents have gone on to take upper level accounting classes, and all felt that they were at least “adequately prepared” by our approach. Interestingly, while only six had taken upper level accounting classes, most of the students reported having to work with debits and credits at some point in their studies, and nearly all reported



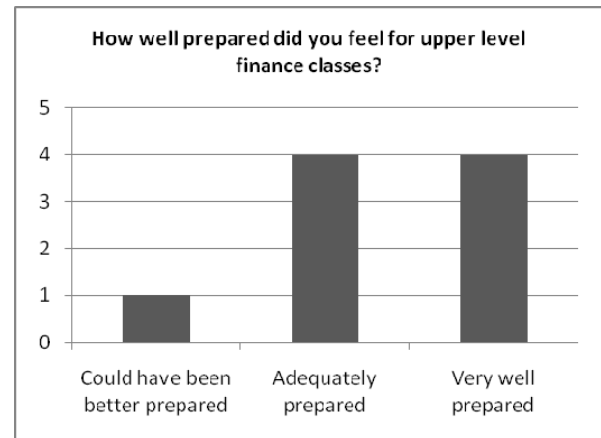
learning them “very quickly,” lending credence not only to the view that bookkeeping details follow easily from a good analytic base, but also to the notion that our students are indeed able to “learn on their own.”

Of nine students who have taken upper level finance classes, all but one felt well prepared, with four reporting having been “very well prepared.” Especially gratifying was the following comment from a student

presently majoring in Finance at Georgia

Southern:

I...have been extremely surprised at how well prepared I was for my upper-level courses. While there are new concepts that must be grasped, I feel that I have a greater understanding of the larger picture of the "why's" rather than simply the "how" and "what".



Another alumna, also at Georgia Southern wrote:

‘My understanding of the overall concepts of accounting including the accounting equation was higher than most students within the accounting program.’

Our findings regarding students’ experiences in upper level classes are consistent with others reported in the literature:

The data indicate that students who took a preparer-approach sequence did not score higher in Intermediate Accounting I and that entry status is not a factor in this performance. This finding leads to the question of whether or not a user-approach would better service those students in our introductory accounting courses who are not accounting majors. (Bernardi and Bean, 1999)



As for those students pursuing degrees outside of accounting and finance, most believe that they are “very well prepared” for their upper level studies. Taken all together, these findings suggest that we’re succeeding in our approach to accounting. An important

motivation for the user approach is to adequately address the needs of business majors not intending to specialize in accounting, and those students appear very well prepared for further studies. And, our students pursuing accounting at an advanced level not only do not appear disadvantaged by our approach, but show some indication that our approach has the advantage of promoting better assimilation of basic concepts.

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