Innovation In Teaching Award Submission

THE CASE FOR TEACHING ACCOUNTING HISTORY WITH ACCOUNTING THEORY IN THE UNDERGRADUATE CURRICULUM

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Accounting Theory & History is the second course for accounting majors at Kansas State University. This course, along with the first course, Accounting Processes and Controls, serve as the foundation for the remaining accounting curriculum. The introductory accounting classes have a user perspective and de-emphasize the mechanics of the accounting process. Accounting Processes & Controls is designed to teach students how the accounting system works both manually and electronically. Accounting Theory & History describes how accounting has evolved and examines the various accounting methods/theories that could be used or are used in accounting. By taking this approach, students understand that accounting is a living system that has evolved and continues to evolve.

The Accounting History portion of the class is taught at the beginning of the semester and spread over eight class periods (50 minutes long). The placement of the history material at the beginning of the class emphasizes that accounting theory is not an exact science and reinforces the concept that accounting evolves and changes. This length of time allows the instructor to cover the topics in depth so students can see for themselves the evolution of accounting, yet is short enough to maintain student interest and enthusiasm for the history topics.

A History of Accounting Thought by Michael Chatfield is used to cover the evolution of accounting. Study groups of 3 or 4 students are expected to prepare written answers for the assigned questions (developed by the course instructors) of each of the thirteen chapters covered in the class (see enclosed questions). Each class consists of a lecture by the instructor on the assigned topic/chapter; discussion of the assigned questions; and a short (5 minute) quiz at the end of class. The quiz forces all of the students to be familiar with chapter topics and answers to the assigned questions.

The assigned questions for each chapter are extremely important as they provide a project for the study groups to accomplish before each class. The questions also are used to provide a theme or emphasis on that particular topic. For example, the questions for the first two chapters of Chatfield establish how crude the early accounting systems were and why they existed that way. Later chapter questions focus on why those early accounting systems became more sophisticated.

Supplementary materials (maps, coins, pictures, videos, etc.) are available for students to deepen their interest in Accounting History. For example, the video, "Luca Pacioli: Unsung Hero of the Renaissance" is played during class time. An Italian coin with Luca Pacioli’s head, a map of Italy about 1494, and an interpretation of Pacioli’s works on accounting are all (Continued on page 22)
Another video, “Venice: Queen of the Adriatic”, is also available for students to watch outside of the classroom.

The historical perspective of the Accounting History & Theory course provides students with a better understanding of both: 1) accounting courses later in the curriculum and 2) accounting theory later in the class.

First, a review of accounting courses that benefit from including Accounting History in the curriculum:

#1 Managerial Reporting: Students understand that standard costing and variance analysis were developed from collaboration between engineers of the late 19th century and accountants. This knowledge helps them understand why standard costs were created and that accountants should not limit themselves to mastering accounting procedures but to look to other disciplines to enrich the accounting information they provide. For example, today, managerial accountants must understand information technology, finance, and management and be willing to collaborate with these disciplines.

#2 Financial Reporting: Before entering the Financial Reporting class, students already understand how the concepts of business entity, going concern, periodicity, historical cost, depreciation, etc. originated. They also know that the standard setting process is not perfect and its origin can be traced from the 1929 stock market crash and subsequent depression. Thus, they realize the accounting rules come from the evolving business environment and not because of some fundamental accounting rules or postulates that have always existed.

#3 Taxation: The origin and history of the various income tax laws in the United States and their impact on accounting is reviewed by students. They already know why tax law measures income differently than GAAP. Students also learn how tax law has influenced GAAP. For example, the realization principle used for determining taxable income was adopted by GAAP as an objective and verifiable criteria for revenue recognition. In order to recognize revenue, the assets received must be realized or realizable.

#4 Auditing: Students quickly see that auditing dates back to ancient civilizations where accountability was practiced. They also see that auditing in the U.S. had its origin in British auditing and evolved rapidly after 1929.

Second, a review of important concepts that make students better understand the evolution of Accounting Theory:

#1 Accounting has always been changing and will continue to change in the future. By studying several centuries of Accounting History, students clearly see that accounting will continue to change because the business environment always changes. For example, by studying the factors that led to the Italian Renaissance, students better understand why double-entry accounting took hold during this period. Then, with the beginning of the Industrial Revolution, accounting again had to make major changes because businesses had to have large amounts of fixed assets and capital in order to conduct their business. Now that we are in the Information Age, students see that accounting theory is likely to continue to change.

#2 The theoretical framework that is used to prepare financial statements will continue to change over time. Studying the gradual evolution of accounting concepts (net income/ equity,
business entity, going concern, historical cost, depreciation, etc.) that students were likely to assume always existed, allows students to see that key accounting methods/concepts can change over time. This process also gets more students to realize that there may be more than one acceptable method to account for a cost/asset. For example, historical cost may not be always the best valuation method to use for all assets on the balance sheet.

#3 Judgment often must be used in the preparation of financial statements. A review of the Chatfield chapters shows that except for the last 40 years, the accounting profession had little guidance in the preparation of financial statements. A company’s accountants could prepare financial statements using whatever method suited their needs and were not required to disclose the method selected to financial statement users. Students who study the development of the standard setting process are aware that the goal of standard setting is not to create rigid uniformity. Instead, they learn that the standards guiding the preparation of financial statements must have enough flexibility to capture the substance of the business events being captured. They also learn it is the accountant’s professional responsibility to apply the alternatives appropriately.

#4 The financial statements may not always reflect the financial condition of the firm. Numerous examples can be found in Chatfield regarding the poor quality of financial statements. First, the British Parliament had to pass a series of Company Acts to improve the quality of the financial statements and protect British investors from numerous bankruptcies. Second, during the U.S. railroad construction boom of the mid-1800’s, the replacement method for recognizing depreciation was quite popular with many railroads because little depreciation had to be recognized in the early years of the railroad. Thus, net income was high and large amounts of dividends could be paid to investors. Unfortunately, little cash was available when the equipment and tracks needed replacing and the railroads went bankrupt. Finally, several U.S. court cases greatly increased the rigor of audits that significantly improved the quality of the financial statements.

#5 The influence that government, the court system, and political forces has had in the development of accounting standards/financial statements. By studying the effects of the early income tax laws on financial accounting, students see that the changing environment brought on by the government had a significant influence on accounting theory. Similar observations can be made from the acceptability by Congress of LIFO and accelerated depreciation for income tax purposes. Also, the controversy of the accounting for the Investment Tax Credit between the APB and Congress in the 1960’s shows that good accounting theory may lose to strong political forces. The evolution of the American audit was heavily influenced by the U.S. court system through several major court cases. Indirectly, higher quality financial statements and accounting theory were the result of this process. In addition, the creation of the SEC and its oversight over CAP, APB and FASB shows students that accounting standards and theory are deeply influenced by external factors that often lead to compromise in setting accounting standards.

#6 The importance of financial accounting to the shareholders/capital (Continued on page 15)
the pedagogical case for accounting history on the basis of the intellectual skills which it imparts as well as its potential for knowledge enhancement. The increasing emphasis on skills as learning outcomes in the UK offers new opportunities for legitimating history in the curriculum. It enables accounting historians to construct courses which are attuned to developing the core intellectual and personal skills of the accounting graduate and to do so in innovative ways.

References


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markets. As the size and complexity of business grew from the beginning of the Italian Commercial World through the Industrial Revolution, the success and growth of those businesses were often dependent on the sophistication of the accounting system. The concept and determination of net income was critical in the computation of how much capital could be taken out of the business in the form of dividends. Dividends based on faulty income measures led to insolvency. The SEC’s power to set GAAP (subsequently transferred to the FASB) reflects the importance the U.S. government places on the capital market’s need for quality financial reporting. The Companies Acts in England reflect similar concerns.

SUMMARY

Accounting history is a cornerstone for both our accounting theory course and accounting curriculum at Kansas State University. Students gain a broader perspective of accounting and therefore, enhance their awareness of the interrelationship between accounting, business, and society. Equipped with this perspective, students are better prepared to understand more complex accounting issues and concepts that impact financial, managerial, systems, and tax accounting.

Probably the most important perspective that accounting history provides is that accounting is an ever changing system that evolves to meet the needs of its users. Students learn that in order to thrive in accounting’s changing environment, they must understand the origin and nature of the change process. That alone may be enough to keep teaching accounting history in our classrooms!