Case Studies as an Effective Teaching Tool in Governmental and Not-For-Profit Accounting

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ABSTRACT

This paper extends the current research on teaching Governmental and Not-for-Profit accounting using case analyses. Three cases are used to analyze the Comprehensive Annual Financial Report of state and local governments, the operating efficiency of governments, and financial reporting of public college and universities. Students are expected to master more knowledge from case analyses as supplemental materials to traditional lectures.

Keywords: Non-Profit Accounting, Governmental and Not-For-Profit Accounting, Case Studies, Accounting Education

INTRODUCTION

Many undergraduate accounting students enter their first course in governmental and not-for-profit accounting (GNP) without much interest about the subject. This is due, in part, to the fact that, after several courses in “accounting,” students are not familiar with the methods and procedures that the governmental accounting course presents and feel not-for-profit accounting materials are more demanding. Moreover, GNP is normally offered as an elective course at many institutions because the coverage of governmental materials has been reduced in the Certified Public Accounts (CPA) exams. Therefore, most students choose to take the course with a simple aim of getting enough course credits for graduation.

However, the importance of GNP is underestimated by many accounting programs as well as students. In fact, GNP is the largest “business” in the world. Job opportunities in public sectors have been rising as more governments are recovering from the financial hardship (Patton, 2013). Moreover, not-for-profit organizations continue to show strong trends of growing in terms of numbers and coverage of services, especially in the greater Houston area (Nonprofit HR Solutions LLC. 2013, Bernasek, 2014). If business schools don’t provide adequate coverage of GNP accounting materials, it may limit students’ choice when getting into the job market. For example, a graduate informed the professor that she had been able to find a job offer in a grant awarding organization. Without the fund accounting she had learned from the GNP class, she would not have qualified for the position.

Based on the literature, simply using traditional approach to teach GNP accounting proves to be less effective in retaining student interests and communicating knowledge (Lowensohn and Reck, 2005, Muphy, 2005, Reck et al. 2015). Most students would struggle with the transition from for-profit accounting to not-for-profit accounting in terms of terminology, basis of accounting, journal entries and presentation of the financial statements, etc. For example, the two layer reporting system adopted by GASB 34 (i.e., government-wide financial statements and fund financial statements) presents a continuous challenge for instructors. Also, many students struggle with transaction analysis and financial reporting for multiple funds that are based upon different accounting principles.
CASE DEVELOPMENT

This paper extends the pedagogical research related to GNP accounting with a focus on case analyses, which has been used in prior research as an effective tool to teach governmental accounting. Case analyses could provide complementary materials to the students to master new reporting models, develop analytical skills, and improve communication skills (Campbell and Lewis, 1991; Chaney, 2005; Ariail, Durden, Leathart, and Chapman-Vasill, 2012). In this study, cases were developed as supplementary materials for three important topics in GNP accounting, namely Comprehensive Annual Financial Reports (CAFR) of state and local governments, operating efficiency and effectiveness of governments, and management of governmental and not-for-profit organizations, respectively.

Case #1 City of Sugar Land

An important feature of the financial statements of state and local governments is the two layer reporting system. In addition to the traditional fund financial statements, the Governmental Accounting Standard Board (GASB) issued Statement No. 34 to add a new layer of reporting, the government-wide financial statements. The government-wide statements are presented using the full accrual basis of accounting and with the economic resources measurement focus. Combined with the fund level statements, the financial overview of the government-wide financial statements provides a comprehensive evaluation of the overall financial condition and operating results of a government.

City of Sugar Land in Texas is selected as a good example to illustrate the two layer financial reporting system. Most students in our school are familiar with the city and its services, facilities and infrastructures. It serves as an interesting case for students in learning its activities and accounting system. The city has a population of about 90,000, and its 2014-2015 budget is $181.59 million. It is a full-service municipality engaging in both governmental activities (i.e., police and fire protection, curbside recycling, parks and recreation, public works, planning / zoning) and business-type activities (i.e. water / wastewater utilities, solid waste collection, a regional airport). But the city does not have fiduciary activities. During the past years, the city has seen continuous economic growth, and has been named one of the top 50 best places to live in the US.

The most recent CAFR can be obtained from the city’s website. After going over the general structure of the reports, the students are asked to focus on the financial section, including the management discussion and analyses (MD&A), government-wide financial statements and the governmental funds financial statements. Then, a written summary from each student is required to address the following questions.

1) What are the programs/functions reported in the Government-wide Statement of Activities? By how much has the city’s Net Position increased from the last fiscal year?
2) Why is fund accounting used in governmental accounting? Which types of governmental funds and enterprise funds does the city have?
3) What are the major revenues for the city’s governmental funds? What are the three major revenue sources for the city? How is sales tax collected by the city? What is franchise tax?
4) What is the revenue recognition policy for the city’s governmental funds? How is the policy different from revenue recognition in for-profit companies?
5) In which situation will the city issue bond? What sources can the city rely upon to make payments for the premium and interest related to the bond?
6) What is restricted fund? What are the examples of restricted fund in the city?
7) How does the city balance its budget, especially when the projected expenditures exceed the projected revenues?
8) What is an interfund transfer? Why are interfund transfers closely monitored by the government?
9) Why is reconciliation needed between the fund financial statements and government-wide financial statements? Please give one or two example(s).

In addition to City of Sugar Land, each student is also required to select a city of his/her own interest and obtain a copy of its financial statements. During the introduction of each topic, students will compare the course materials with their real city financial reports and make connections. This approach has helped students to relate the course contents to his/her own experience, and trigger their interest to apply knowledge learned from class to the accounting issues in the real world.

Case #2 City of Detroit

The city of Detroit, Michigan, filed for Chapter 9 bankruptcy on July 18, 2013, which was the largest municipal bankruptcy filing in U.S. history by the amount of the debt. It caused a big turbulence in the communities involved and questions rose as to how the management and accounting system could have helped the city to prevent or alleviate the financial tragedy. From the teaching perspective, the bankruptcy serves as a realistic example to discuss debt levels, property tax collections, dysfunctional city services and other related issues.

For this purpose, two basic articles are assigned to the class for them to research the financial crisis and learn how the city has been trying to evolve from the crisis. Also, students are required to obtain copies of the 2012 and 2014 CAFR to compare the financial condition of the city before and after the bankruptcy. Other resources are allowed as they are pertinent to the research but need to be correctly cited. Finally, a research report and presentation are required to address the following questions comprehensively.

1) Describe and discuss five major factors that have led to the city’s bankruptcy. How are the problems specifically related to our class contents?
2) How much total liabilities did the city have before and after the bankruptcy? What are the major types of liabilities?
3) Describe how the federal government, local governments, and the community are trying to save and revive the city. Are these actions working?
4) Describe the recent property tax issue faced by the city and how it impacts the city’s budget and financial condition.
5) Study the 2014 financial statements carefully, then calculate the property tax revenue as a percentage of the total revenue in the governmental funds. What is the largest and second largest revenue sources for the city’s general fund?
6) For fiscal year 2014, what are the three largest expenditures in the governmental funds? Calculate their percentages to the total expenditure of the governmental funds.
7) Both the governmental funds and enterprise funds have deficits (the difference between assets and liabilities is negative). How can you explain this, and what has the city done to improve these cumulative deficits?
8) Are there other observations and comments for the city that you would like to present?
Case # 3 Texas Southern University (TSU)

TSU is one of the leading Historically Black Colleges and Universities in the United States. It is located in the Houston metropolitan area, and currently has enrollment about 10,000 students. Financially, it reports as a special-purpose entity engaged in business-type activities. In recent years, it has experienced issues that have perplexed most of the public universities, such as tuition increase, budget reduction, and enrollment instability.

Annual financial reported of the school can be obtained from the TSU’s website under the Division of Finance. After examining its most recent financial statements that are available from the school’s website, the students are required to answer the following questions:

1) Does the institution report a Statement of Net Position? Is the statement in the classified format? What are the categories of Net Position reported on the statement? List the major restrictions appearing in restricted portion of the Net Position. Is the Unrestricted Net Position a positive or negative amount?

2) What are the major depreciable and non-depreciable assets of TSU?

3) In the Statement of Revenue, Expenses and Change in Net Position, what is the largest revenue item in the operating income section? What percent of tuition revenue is not on an accrued basis by the end of the fiscal year? How are scholarships and fellowships, for which no service is required, reported in the statement? Is the operating income a positive or negative figure? Why?

4) What are the largest three expenditure items in the operating income? Give suggestions on how the school can continue to expand revenue sources and save on spending?

5) What are the other two sections in the Statement of Revenue, Expenses and Change in Net Position? Which items are included in these two sections? How do these two sections help the university compensate for the negative operating income?

6) Explain “capital appropriation”, “capital gifts and grants”, and “addition to permanent endowments”.

7) How much outstanding bonds payable does TSU have? What is TSU’s bond rating? Has it been improving or deteriorating? What are the major comments given by the rating agency for the current bond rating of TSU? How is revenue bond different from general obligation bond?

8) Write a two-page summary report for the overall financial condition and operating results of TSU. Topics may include, but not limited to, whether you are optimistic about the school’s future development. What actions do you think the school should take when the federal and state funding keep decreasing?

CONCLUSION

In this paper, we extended the current literature on teaching governmental and not-for-profit accounting by incorporating case studies. Driving from the prior research on the effectiveness of utilizing case studies, we developed three governmental and not-for-profit cases that are very relevant to our students. As the two of the three cases are for the organizations of their community, i.e., they are the stakeholders of these organizations, we conjecture that the students will be able to relate these real world cases to class materials and develop more interest on the subject matters, and therefore, learn more from this approach than they would from the traditional lectures. After the adoption of the cases in the class, we plan to do the preliminary analysis on the effectiveness of this approach. This will add value to the accounting education literature.
REFERENCES


