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The Central Florida Emphysema Foundation Audit: A Case Study of Personal and Professional Responsibility

Patrick J. Knipe and Michael E. Bitter

ABSTRACT: The in-charge accountant (ICA) for the Central Florida Emphysema Foundation (CFEF) audit engagement is left to wrap up the audit while the audit manager is away on vacation and the audit partner unexpectedly leaves for an out-of-state family funeral. Only one outstanding issue remains—accounting for a $5,000,000 cash bequest that CFEF received in the mail shortly after year-end. What is the appropriate accounting? After working through the issue, the ICA ends up on the opposite side of the fence from the client and even an audit partner from an associated firm. What should the ICA do?

This instructional case, based on a real-life experience, provides students the opportunity to gain a better understanding of an auditor's professional responsibilities through examination of the issues that arise in the audit of a not-for-profit entity. The case focuses students on important attributes one needs to be a successful CPA—ethics and integrity, perseverance, sound judgment, and decision-making and professional skepticism. Applying their knowledge of GAAP, auditing standards and the American Institute of Certified Public Accountants' [AICPA] (2010) *Code of Professional Conduct*, students will gain a better understanding of the types of situations that arise in practice and will confront the personal and professional choices that auditors must make.

Keywords: instructional case; professional responsibility; auditor judgment; integrity; professional skepticism; SFAS No. 116.

CASE STUDY

You are the in-charge (senior) accountant (ICA) on the June 30, 2010, audit of Central Florida Emphysema Foundation (CFEF), an affiliated, local chapter of the National Emphysema Foundation (NEF). CFEF is a significant client of K&B, a large, local accounting firm located in Orlando, your employer. K&B is a member of The U.S.A. Group of

Patrick J. Knipe is a retired partner from PricewaterhouseCoopers and an Adjunct Professor and Michael E. Bitter is a Professor, both at Stetson University.

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CPA Firms, commonly referred to as "TUSAG." TUSAG, with a membership of 40 local firms nationwide, was organized to encourage and enhance the open exchange of technical, financial, and practice management information among its member firms. TUSAG firms pool resources for purposes of presenting continuing professional education courses, preparing member operating and other statistical surveys, promoting the TUSAG brand, and hiring a staff to oversee joint TUSAG activities. All of the participating firms of TUSAG operate autonomously in their respective, mutually exclusive, geographic areas; there is no centralized management in the group and no profit sharing among the group members. Because they are geographically dispersed, the TUSAG member firms do not compete among themselves for clients or personnel.

NEF, headquartered in Washington, D.C., is a major client of L&M, the TUSAG member firm located in the same city. NEF requires all of its 120 nationwide chapters to have their financial statements audited annually. The local chapters of NEF are encouraged to use a TUSAG firm, if one is located nearby, but the Board of Trustees of each chapter has the final say in the auditor selection process. Annually, NEF "rolls up" the audited financial statements of its chapters into consolidated financial statements. NEF and all of its affiliated entities are incorporated as not-for-profit organizations. Last year, total fees for audit, tax, and consulting work amounted to $200,000 for CFEF and over $3,000,000 for NEF.

NEF is under pressure from its Board to get its audit completed quickly after the end of the fiscal year (also June 30). This pressure is passed on by the NEF management to its auditors, L&M, and to the local chapters and their auditors.

THIS YEAR'S AUDIT

The audit of CFEF has gone exceptionally well this year, the best in the three years that you have acted as ICA on the engagement. To this point, there have been no significant audit issues. Although relations between the entity's Executive Director and your firm historically have been strained, the client's accounting staff has been very cooperative and it looks as if you might beat the tight engagement time budget approved by your manager. If you do, there is a good chance that you will be recommended for promotion to manager this September, a full year ahead of your peer group. In fact, your audit manager is away on a week's vacation in the Caribbean and asked you to manage the job in her absence. She participated in the first two weeks of year-end fieldwork and has thoroughly reviewed the work completed during that time. She does not expect any problems and has expressed every confidence you are ready for the increased responsibility. While gone, in order to get some much-needed rest and to recharge her batteries, she has asked for no office contact unless there is an emergency.

Tragically, shortly after your manager leaves for vacation, and near the end of the job, the CFEF audit partner, who is also K&B's managing partner, received word of a death in his family and leaves suddenly for an out-of-state funeral. He, too, requests no nonemergency contact until he returns so he can attend to pressing family financial and personal issues. He instructs you to review the client's draft copy financial statements and approve sending them to the NEF for national consolidation as soon as you are comfortable with the numbers. The audit partner expects to return in time to complete his review of the audit, sign the report, and meet the final delivery deadline. Being alone now and in charge, you are a bit nervous, but at the same time anxious to prove that you can perform at the manager level and that you really deserve an early promotion.

THE AUDIT ISSUE

As the audit begins to wrap up, one of the two staff accountants on the job sends you an email message about a possible issue. Earlier in the engagement, while scanning the client's records for large, post year-end transactions, he had noticed a deposit entry of $5,000,000 posted on July 9. He wrote a "to do" note to himself to follow up on this transaction with client personnel. Caught up in the usual time pressures of the job and not really anticipating the deposit entry would be an issue, the staff accountant had simply moved on to other matters. As the audit was winding down, the staff accountant noticed the outstanding issue on his "to do" list and investigated. The amount did not appear as a reconciling item (i.e., a deposit-in-transit) on the June 30 bank reconciliation prepared by the client, thus indicating the amount presumably was received by CFEF subsequent to year-end, in July. It was common for CFEF to receive large grants early in its fiscal year, but this amount was exceptionally large in comparison to amounts received in previous years.

You reprimand the staff accountant for his failure to follow up on the item in a timely manner and for bringing this matter to your attention so late in the engagement. You ask him to determine the nature and source of the $5,000,000 deposit and report back to you as soon as possible, as you have received word that the audit partner on the NEF (national) engagement was getting anxious to receive a "draft copy" of CFEF's audited financial statements.

Later that day, the staff accountant consults briefly with CFEF personnel regarding the nature and source of the transaction, and reports back to you the entire $5,000,000 in question represented a bequest made to CFEF in the will of a local philanthropist whose wife had died several years ago from emphysema. He further reports that the client was in the process of pulling documentation for the staff accountant to review. Based on what the client had told him, the staff accountant indicates he believes the amount should be recorded in the next fiscal year (when it was received by CFEF) and perhaps footnote disclosure in the current year financial statements would be appropriate given the materiality of the amount.

A timeline of various audit-related events is provided in Exhibit 1.

Requirement 1

Based on the information you have been provided to this point, answer the following questions:

A. Did the staff accountant's explanation of the facts seem complete and accurate?
B. Do you concur with the staff accountant's "conclusion" to record the $5,000,000 amount in the next fiscal year and perhaps include a footnote disclosure in this year's financial statements?

DO NOT PROCEED TO THE NEXT SECTION UNTIL YOU HAVE COMPLETED REQUIREMENT 1

After further consideration, you decide to discuss the matter with the CFEF Executive Director yourself. You find that the philanthropist who made the bequest had died shortly after the completion of last year's audit. At that time, the CFEF Executive Director had learned from the law firm representing the estate that CFEF was designated as a residual beneficiary in the will. The amount ultimately to be received by CFEF was not immediately known because the estate had liabilities of an indeterminate amount that had to be paid out of the estate's assets and because the will had been contested by the children of the philanthropist. Ultimately, the Executive Director did not learn of the amount of the bequest until she received the check in July.

The CFEF Executive Director also mentioned in passing that receiving the $5,000,000 in July was very good luck, indeed. CFEF had already surpassed its contributions goal for the year ended June 30, 2010, and simply did not need the additional revenue. But receiving the bequest in July

EXHIBIT 1

Event Time-Line
June 30, 2010 CFEF

Date	Event
October 6, 2009	Philanthropist dies
October 23	Attorney for the philanthropist's estate informs the CFEF Executive Director that CFEF was named a residual beneficiary in the will
Early April, 2010	Audit planning
May 10–14	Interim audit work—control testing
June 28	Will adjudicated and final court order issued
June 30	CFEF's fiscal year ends
July 9	Bequest check deposited and recorded by CFEF
August 9	Year-end audit fieldwork begins
August 13	Staff accountant scans journals and ledgers for large and/or unusual transactions posted to-date after year-end
August 21	Audit manager departs for Caribbean island vacation
August 24	Audit partner unexpectedly departs for out-of-state funeral
August 25	Staff accountant contacts the ICA about the $5,000,000 bequest
August 27	Year-end audit fieldwork scheduled for completion; CFEF draft audited financial statements due to NEF and L&M
September 3	Deadline for submission of CFEF audited financial statements to NEF and L&M

was great timing because it gave CFEF a real "kick start" toward meeting next year's aggressive contributions goal that had been set by its local Board.

You ask the Executive Director if the check had actually been received by CFEF in June and simply held until July for deposit. The Executive Director *assures* you the money had been received in July and shows you the letter of transmittal from the estate's attorney dated July 7, 2010, and an envelope from the law firm postmarked July 8, 2010. She provides you with a copy of all correspondence from the attorney representing the estate, including the letter of transmittal and the postmarked envelope. The Executive Director further states she had specifically asked your staff accountant for his opinion as to when the $5,000,000 should be recorded. The staff accountant had agreed with the Executive Director that distributions from estates, in circumstances like this, should be recorded in the year received. In effect, the staff accountant had sided with the Executive Director in her strong desire to recognize the bequest in the following fiscal year.

Requirement 2

Based on the information you have been provided to this point, answer the following questions:

A. Why does the Executive Director want the $5,000,000 to be recognized in the following fiscal year?
B. Was the staff accountant's conversation with the Executive Director appropriate?
C. What would you next discuss with the Executive Director?
D. What would you later discuss with the staff accountant?

DO NOT PROCEED TO THE NEXT SECTION UNTIL YOU HAVE COMPLETED REQUIREMENT 2

As your discussion with the Executive Director continues, you tell her you would like to speak with the attorney representing the estate. The Executive Director becomes a bit agitated by your continuing pursuit of a matter she believes to be a "nonissue." She is frustrated the audit is not complete and the phone is now ringing off the hook from executives at the NEF asking for CFEF's draft audited financial statements right away. The Executive Director asks you to hurry up and finish the audit and *not* to waste time calling the estate attorney.

As you drive back to your office, you think about your predicament and your options. Excluding the $5,000,000 from the fiscal year 2010 financial statements is more conservative, for sure. And, thinking back to your study of auditor litigation in college, you cannot recall any cases where auditing firms got sued for issuing unqualified opinions on *understated* operating results and net assets. Overstatements were the issue. Right? You think about the engagement economics (your time budget), your opportunity for an early promotion, and, in addition to the pressure you are receiving from your client, the heat you are now feeling from the L&M audit partner running the NEF engagement in Washington, D.C., to get the job wrapped up. It's a lot to consider, so you circle the block a few times before pulling into the office parking lot.

Requirement 3

Based on the information you have been provided to this point, answer the following questions:

A. What is the Executive Director's "agenda"?
B. Rethink your position on the implications of overstating versus understating an entity's assets and revenues. Were your initial thoughts correct? Be sure to consider the impact of the financial statements and the audit opinion on third-party users.
C. Why is an engagement time budget so important? What, if anything, is *more* important than meeting or beating the time budget?
D. Do you need the client's permission to call the estate's attorney? Would you call the estate's attorney against the Executive Director's wishes?

DO NOT PROCEED TO THE NEXT SECTION UNTIL YOU HAVE COMPLETED REQUIREMENT 3

Once back in your office, you close the door and, against the wishes of the Executive Director, you call the estate's attorney. The attorney is in a meeting, so you leave a detailed message with his associate. The next afternoon, the attorney returns your call after having confirmed your identity with CFEF and obtaining written permission to speak to you about the specifics of the bequest. The attorney indicates the will had been adjudicated and the final court order was entered on June 28, 2010. The attorney states the matter had been concluded while he was out of the office on a long 4th of July break. When the attorney returned to his office and read the court order, he immediately dictated a letter and enclosed a check to CFEF for its share of the estate, $5,000,000.

Requirement 4

Based on the information you have been provided to this point, answer the following questions:

A. What is meant by "adjudicated?"
B. What were the "contingencies" in this estate matter?
C. What would you do to confirm the estate attorney's statement about the date of the final court order?

DO NOT PROCEED TO THE NEXT SECTION UNTIL YOU HAVE COMPLETED REQUIREMENT 4

You could probably use some help at this point, but you are determined to resolve this matter by yourself without disturbing your audit manager or partner. "This is not an emergency," you tell yourself; the situation is not out of control. Besides, to get that early promotion, you believe you must prove you are capable of handling difficult client and professional situations.

So, with your audit manager and audit partner still out of the office, you decide to call the NEF audit partner at L&M in Washington, D.C., directly and discuss the situation with him. The NEF audit partner informs you he has many years of experience auditing not-for-profit organizations. He tells you that you do not recognize a contingent asset (i.e., a gain contingency) until the amount to be received is known. The residual beneficiary of an estate usually does not know how much will be received until the estate debts are paid and any contesting litigation is settled. In this case, he says, CFEF did not know how much it would receive until July 9, 2010, the date it got the estate attorney's letter and the $5,000,000 check.

The NEF audit partner also indicates that the $5,000,000 would be material to this year's NEF "consolidated" financial statements and, under pressure from his client, he had already approved the release of a "draft copy" of the NEF audited financial statements to the NEF Board earlier that morning. You learn the NEF statements included unaudited financial information provided directly by CFEF, and did *not* include any accrual for the estate distribution.

Requirement 5

Based on the information you have been provided to this point, answer the following questions:

A. Was the NEF audit partner correct in his explanation of when to record the gain contingency?
B. How, if at all, should CFEF report the $5,000,000 estate distribution in its 2010 financial statements?
C. Assume that the $5,000,000 bequest should have been recognized in fiscal year 2010. Does it matter that the NEF Board had already received a "draft copy" of the entity's consolidated financial statements that did not include the $5,000,000 accrual?
D. Was the NEF audit partner trying to persuade you to give up on your investigation of the matter?
E. Would you drop the matter at this point?
F. Should you contact your audit manager or audit partner on an "emergency" basis or seek help from other available K&B office personnel?

DO NOT PROCEED TO THE NEXT SECTION UNTIL YOU HAVE COMPLETED REQUIREMENT 5

After speaking to the NEF audit partner and giving the situation some more thought, you decide to have another discussion with CFEF's Executive Director. Before you can say anything, the Executive Director gives you a good tongue-lashing for calling the estate's attorney "behind my back." She explains the attorney had called her to get permission to discuss the nature of the bequest to CFEF with you. She had reluctantly agreed to grant the permission, but was angry you called the attorney despite her request that you not. The Executive Director also tells you she had contacted her counterpart at NEF, the National Executive Director, yesterday. The National Director considers himself to be quite experienced with not-for-profit accounting matters. He and the NEF audit partner are fairly close personal friends. Both had independently reviewed SFAS No. 116, "*Accounting for Contributions Received and Contributions Made*,"[1] and the related literature, and both had concluded the $5,000,000 should be recorded in fiscal year 2011, when notification of the amount was received by CFEF. You then learn the National Executive Director had *directed* the CFEF Executive Director to close the CFEF books at June 30 without the $5,000,000 recorded and to submit the financial statements to NEF immediately for inclusion in the "draft copy" national consolidation. Now it becomes clear to you how the NEF audit partner had received unaudited financial information from CFEF.

Requirement 6

Based on the information you have been provided to this point, answer the following questions:

A. Whose financial statements are they? Can you "dictate" how or when a particular transaction is or is not recorded?
B. Do you think an audit adjustment should be proposed for the $5,000,000 distribution?
C. If yes, what should the entry be?
D. Is this beginning to feel like a bit of a conspiracy?
E. Is it time to "throw in the towel" and just walk away from the issue?

DO NOT PROCEED TO THE NEXT SECTION UNTIL YOU HAVE COMPLETED REQUIREMENT 6

You are really feeling the heat now. The job is going over the time budget for sure, the draft audit report is going to be late, and you begin to worry that K&B may now be at risk of losing the $200,000 CFEF audit. In addition, there could be a risk of L&M, the TUSAG firm in Washington, D.C., losing the NEF national audit ($3,000,000 in total annual fees—remember?). From what you have heard, if the NEF job is lost, the audit partner at L&M will likely get a poor annual review and might face a forced, early retirement. You decide to call the NEF audit partner one last time.

Requirement 7

Based on the information you have been provided to this point, answer the following questions:

A. How does the potential loss of audit fees by both K&B and L&M impact your thought process?
B. Should you be concerned about the NEF audit partner's situation?
C. What would you discuss on your anticipated call to the NEF audit partner?

[1] Now part of FASB's Accounting Standards Codification (ASC) 958–605 (FASB 2010).

DO NOT PROCEED TO THE NEXT SECTION UNTIL YOU HAVE COMPLETED REQUIREMENT 7

Coincidentally, your audit manager and audit partner are both due back in the office on Monday. You know they both expect, based on their experiences with prior year CFEF audits and the status of this year's audit when they left the office, to see a finished CFEF audit, tied up "neatly in a bow," with an unqualified opinion on the financial statements ready for signing. They will, of course, complete their review of the engagement, but you know they really do not expect to see any problems. In spite of ongoing shaky relations with the Executive Director, CFEF has been a good client over the years and audit issues have been minor and minimal.

As you now know from discussions with the NEF audit partner and the local Executive Director, CFEF did not record the $5,000,000 at June 30, 2010. However, it did disclose the matter in a subsequent events footnote to the financial statements. This, of course, is contrary to your conclusion that the $5,000,000 bequest should have been accrued at June 30, 2010. The statements were sent to the NEF without your final review.

Requirement 8

Based on the information you have been provided to this point, answer the following question:

A. How would you prepare for your meeting with your audit manager and audit partner?

DO NOT PROCEED TO THE NEXT SECTION UNTIL YOU HAVE COMPLETED REQUIREMENT 8

Your audit manager arrives in the office early the next morning and sees the CFEF audit ready for review. She reads your review notes first, including those documenting your discussions with the CFEF Executive Director and the NEF audit partner. She is shocked to see such differences of opinion on a major accounting issue. She quickly understands the CFEF Executive Director's position of wanting to "save" the $5,000,000 bequest until the next budget year. But she wonders and worries about the NEF audit partner's agreement with this position. After all, he is a well-respected partner at L&M and among the TUSAG firms and is widely reputed to have expertise in the not-for-profit area. She calls the audit partner, who is also back in the office, to schedule a conference and invites you to join the discussion. After thoroughly reviewing the matter, both the audit manager and audit partner agree with your position.

Requirement 9

A. At this point, what are the options available to K&B relative to the CFEF audit?
B. What, if any, type of leverage can K&B employ to reinforce its position on accounting for the bequest?

Requirement 10

A. What course of action do you think was finally taken by K&B's CFEF audit team?
B. What course of action do you think was taken by the CFEF Executive Director?

Requirement 11

In your estimation, what was the ultimate impact of the events that transpired on the following:

A. The NEF national audit engagement
B. The CFEF local audit engagement
C. The NEF audit partner
D. The CFEF Executive Director
E. You

CASE LEARNING OBJECTIVES AND IMPLEMENTATION GUIDANCE

Learning Objectives

This case is largely based on the actual experiences of the first author. It describes a situation where an in-charge accountant is being pressured by the client and a partner practicing in an affiliated CPA firm to accept an accounting treatment that the accountant believes may be contrary to generally accepted accounting principles (GAAP). The accounting issues are the proper application of SFAS No. 116, "*Accounting for Contributions Received and Contributions Made*" (now part of ASC 958-605), and standards for accounting for gain contingencies (ASC 450-30); however, the case is really about much more. The requirements of the case are intended to put students in the place of a young accounting professional facing a difficult predicament in practice—one that requires careful consideration of alternatives and then appropriate decisions. The case scenario focuses on some of the attributes one needs to be a successful CPA—professional responsibility, integrity, perseverance, sound judgment and decision-making, and professional skepticism.

Applying their knowledge of GAAP, auditing standards, and the AICPA's (2010) *Code of Professional Conduct* to a real-world situation, students will gain a better understanding of the types of situations that can arise in practice and will confront the personal and professional choices auditors must make. In order to successfully complete the case, students must do the following:

- Demonstrate the proper application of SFAS No. 116;
- Demonstrate the proper application of ASC 450-30;
- Identify ethical issues and address them based on an understanding of the Principles of Professional Conduct and Rule 102 of the AICPA's (2010) *Code of Professional Conduct*;
- Demonstrate professional skepticism;
- Display sound auditor judgment and decision-making;
- Demonstrate critical thinking as they identify alternatives and contemplate what to do next; and
- Communicate effectively orally and/or in writing, depending on how the case is implemented by the instructor.

The American Institute of Certified Public Accountants (AIPCA), in its *AICPA Core Competency Framework for Entry into the Accounting Profession* (AICPA 1999), has identified a skills-based set of competencies it believes are needed by those entering the accounting profession. The competencies are arranged in three categories—functional, personal, and broad business perspective. The case addresses several of the core competencies as follows:

- Decision Modeling (functional category)—as students work through the first nine sections of the case, they must consider the issues, identify alternatives, and make choices.
- Measurement (functional category)—students are required to apply SFAS No. 116 in determining the proper accounting for the $5,000,000 bequest.
- Reporting (functional category)—students communicate their answers to case requirements orally and/or in writing, depending upon how the instructor utilizes the case.
- Research (functional category)—to adequately complete case requirements, students may need to consult GAAP, auditing standards, and the *Code of Professional Conduct*.
- Industry/Sector Perspective (broad business perspective category)—the case provides students exposure to an issue in a not-for-profit entity (i.e., proper accounting for a contribution).
- Professional Demeanor (personal category)—the case focuses students on the importance of professional responsibility, integrity, and ethical behavior.

- Communication (personal category)—students discuss their responses to case requirements in class and/or submit them in writing. At the option of the instructor, written submissions could be graded for organization, conciseness, clarity, and grammar, in addition to content.
- Interaction (personal category)—students working in groups/teams (at the option of the instructor) will interact when formulating responses to the case requirements. Discussion of the case requirements in class also allows for student interaction.
- Problem-Solving/Decision-Making (personal category)—to successfully complete the case requirements, students must display effective analysis, insight, and professional judgment.

Implementation Guidance

This case can be successfully utilized in an accounting course that includes a not-for-profit component or in an auditing course, either at the advanced undergraduate or graduate level.[2] Prior to undertaking this case, students should have an understanding of the financial statement audit process, as well as of the AICPA's (2010) *Code of Professional Conduct*, particularly Sections 50 and 100. Thus, if the case will be completed in an accounting course that includes a not-for-profit component, the students should have already completed an introductory audit course. Alternatively, while the audit issue in the case centers on SFAS No. 116, we do not believe it is necessary for students to have studied not-for-profit accounting prior to completing this case. Students could independently research SFAS No. 116 as part of the case assignment.

Given that the case includes 11 requirements, it could be completed in one or two class periods (this is the approach one of the authors has used) or over a series of class periods. The requirements can be completed by students individually or in small groups, either during class or as a homework assignment.

If the case is to be completed in class (regardless of how many class sessions will be used), the case should be distributed one section at a time. Students, individually or in small groups, should read the section and document their responses to the case requirement. After about five minutes, class discussion commences. Following thorough class discussion, the next section of the case is distributed and the process is repeated until the case is completed.

If the case is to be completed outside of class, the assigned sections of the case should be distributed to the students with the instruction to answer the assigned questions at the end of each section of the case *before* moving to the next section and based solely on the information that has been provided in the case to that point. This will serve as a reminder to students that auditors and consultants typically do not perform their work with the benefit of hindsight. For example, if the students are asked to complete case Requirements 1 through 3 for the following class period, the students should be given the case sections relating to Requirements 1, 2, and 3 with the instruction that the assigned questions be completed before moving to the next section.

Evidence of Efficacy and Student Feedback

This case has been field-tested on multiple occasions in a graduate-level governmental/not-for-profit accounting (hereafter, "GOV/NFP") class and, on one occasion, in a graduate-level advanced auditing course at a small, AACSB accounting-accredited, private university located in the southeast AAA region. Both courses are required for students enrolled in the Master of Accountancy program. All students taking these courses had previously completed an undergraduate auditing course. Several students in the not-for-profit course had also completed the graduate auditing course. Formal and informal feedback indicates that the case has been very positively received by the students.

[2] While we have primarily utilized the case in a governmental/not-for-profit accounting course, we acknowledge that for most, it would make more sense to utilize this case in an auditing course.

TABLE 1

Summary of Student Survey Responses

Statement	Response Means	Std. Dev.
1. I found the case interesting.	4.69	0.48
2. I found this case to be more relevant (than other cases I've completed) because it involves an auditor making real-life decisions related to a client entity.	4.63	0.62
3. The case provided real-world applicability of what I learned in class about SFAS No. 116.	4.56	0.63
4. The case helped me better understand the type of "real-world" issues faced by auditors.	4.69	0.70
5. The case helped me better understand the importance of professional skepticism in auditing.	4.63	0.50
6. The case helped me better understand the time budget pressures that are often associated with conducting audits.	4.44	0.81
7. The case helped me better understand the importance of maintaining integrity when conducting an audit.	4.88	0.34
8. The case helped me better understand the importance of professional judgment when conducting an audit.	4.69	0.48
9. The case helped me better understand the importance of not subordinating your professional judgment to others when conducting an audit.	4.69	0.48
10. Overall, the case provided a beneficial learning experience.	4.81	0.40

Response Scale: 5 = strongly agree; 4 = agree; 3 = neither agree nor disagree; 2 = disagree; 1 = strongly disagree.

The case was presented during the not-for-profit accounting portion of the GOV/NFP course after SFAS No. 116 had been covered. The course instructor previewed the case and then distributed the first section, including Requirement 1. Students, working individually, were given approximately five minutes to read the section and consider the related questions. Class discussion then ensued. This process was repeated until the case was completed. The case was covered over two class periods, for approximately 90 minutes in total.[3]

Since students did not prepare formal written responses to the requirements, the case itself was not graded. However, the instructor bases 20 percent of each student's grade on class participation. Thus, participation in the class discussion of the case impacted each student's class participation grade.

The case was used once in a graduate-level advanced auditing course. The case was administered in the same manner noted above about midway through the semester, right before the midterm examination. Again, the case itself was not graded. However, there were case-related questions included on the midterm examination.

While we have never used the case as a graded assignment, the case could, at an instructor's option, be assigned for homework, with written responses subsequently graded. The responses could be graded for the quality and thoughtfulness, with the exception of the questions that relate specifically to the accounting issue, which would be graded for accuracy based on SFAS No. 116 and related literature.

After completion of the case in the GOV/NFP course in summer 2009, students were administered a brief survey consisting of ten statements regarding the experience. Using a five-

[3] The amount of class time necessary to cover the case could be substantially reduced if the questions were completed outside of class as a homework assignment.

TABLE 2

Sampling of Written Case Comments

Comments about the Case Itself

"Incredibly realistic case"

"It was very beneficial because a majority of students in this class will be faced with these types of issues at some point in their life."

Comments about what the Students Learned

"Stick to your guns. This can be a challenge because one has to deal with confrontation, but makes that person much stronger."

"[The case] showed me that accounting isn't just about accounting, it also has a lot to do with building relationships."

"I also learned that knowing all of the accounting rules means nothing if a CPA has no strong moral backbone."

"Our business is selling a service of integrity and when that is compromised our business . . . is compromised."

"You can't put a price on reputation or integrity."

"If you know that you are right, stick to your guns."

point, Likert-type scale (ranging from 1 = "strongly disagree" to 5 = "strongly agree"), students were asked to identify the extent of their agreement with each of the ten statements. The survey was completed by all 16 students enrolled in the class. The statements and the mean response score for each are provided in Table 1. Overall, student responses were very favorable. The mean response score for all of the 10 statements exceeded 4 ("agree"). The highest mean responses (4.88 and 4.81, respectively) came from the statements relating to the importance of maintaining integrity in conducting an audit and the overall learning experience provided by the case. Students were also given the opportunity to make open-ended comments on the case. Overall, these comments were also favorable. A sampling of the comments is provided in Table 2.

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