



Communicator

American Accounting Association

Two-Year College Section

Fall/Winter 2006

Accounting as the Foundation of Engineering of Organizations¹

Shyam Sunder, Yale University
American Accounting Association President

I would like to say two things. First, the introductory course in accounting is not only the foundation of how most people in the world view accounting, but also how accountants are viewed by the population at large—an image that could benefit from some improvement. Second, AAA is, and would like to get better at being, a service organization for its members. It aims to be of assistance to the teachers of accounting achieve their own highest potential and aspirations. I would like to expand on both these themes.

Some people think that the street image of accounting and accountants could use some improvement. Why is this the case, and what can we do about it? Most people's lifetime exposure to accounting consists of that one introductory college course. Why do so many of our students find debits and credits, balance sheets and cash flow statements so puzzling, if not difficult, even though to us, the teachers, they are simple, and clear as daylight. Since I learned my accounting from my father, helping him do his accounts starting when I was in sixth grade, I would never know the answer. But let me speculate.

Most courses in college start out by asking the big questions of the field, and helping the students learn the general

answers to those questions. Economics 101 starts by asking who produces what and who consumes what in society and how is it determined. Physics 101 starts by asking questions about why apples fall to the earth, how we hear, see, light up this room, or store information on a magnetic strip on back of a credit card. The same of is true of biology, political science and psychology. Put a question about our world or society to the students—questions whose importance is immediately obvious to them—and then help them discover and understand the answers. Once they understand the question, and its significance, they never forget the answer.

In accounting, at least in most courses I know, we do something radically different. We do not start by asking a question whose significance is immediately obvious to our students. Instead we start by asking them to read and memorize *an* answer to a question that is rarely revealed to them. Let me elaborate.

I believe debits and credits and financial statements are ingenious answers developed over the past four thousand (or more) years to important and difficult questions of human society. Indeed, society may not exist, and certainly would not be civilized and prosperous, without those answers. The question is: How do we get human beings, with their inherent tendency to be generous as well as selfish, to

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¹ Luncheon Address at the Two-Year Section of the American Accounting Association's Annual Meetings Washington D.C., August 7, 2006.

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Two-Year Section Website

Tim Nygaard

Did you know that the Two-Year Section has a website? It does, and we are asking you to help us make it better. We are asking for your submissions to the AAA presentations page. If you have given any presentations that you would like to share on our website, submission is simple. Attach your presentation to an email addressed to tim.nygaard@kctcs.edu. In the Subject bar, type "two-year presentation submission." In the body of the email, please state what you would like the link to say (i.e., "Presentation on Web-Enhanced Learning" by Tom Smith, Jones University). Include a link to your college's website if you wish.

Communicator NEWS

The *Communicator* is primarily available online. If you would like a hard copy, please print it out from the website at <http://aaahq.org/TwoYear/communicator.htm>. Or, if you cannot access this document, email Naser Kamleh at nkamleh@graceba.net and he will attach a copy to a return email or mail you a hard copy.

Please share the *Communicator* with your colleagues. This issue has a message from Shyam Sunder, President of the American Accounting Association, information about the Annual Meeting in Washington, D.C., and interesting articles.

Upcoming AAA Annual Meetings

2007	Chicago, IL	August 5–8
2008	Orange County, CA	August 3–6
2009	New York, NY	August 2–5



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Accounting as the Foundation

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cooperate in generating both public as well as private wealth and prosperity. Debits and credits, balance sheets and income statements, budgets and costing, are a solution we have developed over the centuries to address this problem. The prosperity of human society today owes a great deal to the ability of human beings to find these answers. But most of the time, we rarely start out accounting courses by asking the students this basic question. The way to get them interested, and to make what we teach interesting, might be to make them see the question, and whet their appetite for the answer. We can help them learn how to find their own answers to the problem in specific situations they face, and teach examples of answers others have found. Thus debits and credits, rules of accrual and costing, become the answers, leaving room for the creativity of students to find answers of their own for situations in their experience.

In my own classes, I might start by asking them about their last summer job. So, you worked in a pizza parlor. Who was there, and why? The owner, the cook, the clerk and the customer. Why was each of them there? Each wanted something—profit, job, or pizza. What did they have to give to get what they wanted? How was the system designed so everyone will do what he or she was supposed to, so everyone could get what he or she wanted and expected to get. The answer, coming even from students who have never heard of it, ends up being an accounting system. So we can take up situations of various kinds, and begin to develop various kinds of systems that will help answer the basic question in a variety of situations for a variety of organizations. Students find it fascinating, and never forget the answers they derive for questions they find of interest to them. This is the approach I tried to develop in my book, *Theory of Accounting and Control* published in 1997. It is not a text book, but many friends tell me that they find this way of thinking about accounting a useful approach to the introductory as well as advanced classes.

Since the inception of the Securities and Exchange Commission, over the past 75 years, and especially since the creation of the FASB in 1972, there has been a tendency to have thinking in accounting replaced by memorization of standards and rules issued by authority. Our textbooks are filled with chapters which repeat the recommendations of authoritative bodies, and do not encourage students to do their own thinking. Gradually, the exams, and accounting education have come to be dominated by memorization, and are broadly seen as boring and uninteresting. This is a broader policy issue that we do not have the time to go into at present, but have done so elsewhere.

So my first theme is that we can make accounting instruction interesting, and our students interested, if we consider starting with questions whose importance our students recognize immediately, and then design our courses as ways for exploring and developing possible answers to the basic

questions of interest. This is as true in accounting as in other disciplines.

Teaching is a noble profession. What we do in the class shapes people's minds, and their lives. I have seen in the Two-Year Section's *Communicator* many excellent examples of what a great job many teachers do in their classes, bringing their own creativity to make the material and ideas interesting to the students and to themselves. I enjoyed reading the *Communicator*, and hope to use some of the suggestions made in the articles for my own classes (e.g., using the syllabus contract to ensure that the students take the responsibility to carefully read the syllabus).

The second theme I would like to touch on is the American Accounting Association. We can extend the same model of engineering of organizations to our Association too. We have about 8,000 members, most of them teachers of accounting. Each member has specific ideas, capabilities, plans, and aspirations. We come together in this Association because each of us has something to contribute to this collective, and want something from the collective. In order for this collective arrangement to work, and succeed, in any meaningful way, the collective arrangements must be such that each participant gets more than what each contributes to the collective. Members who feel that the benefits of belonging and participation do not exceed the costs will leave us. How do we make sure this does not happen? We must always remember that in an open society like ours, all associations are voluntary, and driven by cost-benefit calculus.

I believe we can sustain this organization, perhaps even grow it further, by focusing on service. Let us think of the Association, especially its governance and administrative apparatus as a means to serve its members. What is the service we can provide?

I believe the most important service of the Association is to facilitate or help each of its members achieve his or her own highest aspirations and potential in instruction, research, service and any other academic functions. These aspirations and potential are individual specific, and self-defined. Achievement of most aspirations require individual or college level effort. We have to identify areas and activities for which the AAA can be useful as a supportive service when such support is more convenient or efficient.

I have already seen in *Communicator* many excellent efforts in this direction—sharing ideas and best practices for better instruction, course design, testing, use of software, etc. As I looked at these ideas, I wondered if these articles could be cataloged and indexed, so they would be more easily available to anyone looking for ideas to improve their instruction. Further, a lot of this material is of interest not only to the members of the Two-Year Section, but also to many other members of the Association. I wonder if it would make sense to share such cataloged and indexed resources with the Teaching and Curriculum Section of the Association, and to put it on their website also. This will allow other members of the Association to benefit from the ideas that

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IMPROVING THE SYSTEM OF MEASURING ACADEMIC PERFORMANCE

By George Walendowski

In today's competitive and complex world we need to employ knowledgeable people. Where do we find them? Generally, we look towards educational institutions to provide a source of talented students who are prepared to meet new challenges.

But how can the business world make an appropriate judgment in selecting the better prepared and more knowledgeable students who are entering the job market? Presently, the only way in measuring a student's performance is the grading system. But the question that arises is: "How reliable or accurate is the grading system?" Herein lies an important challenge facing academia—how can we really know if students have learned the necessary knowledge and skills required in the business world?

Consequently, being in the education field for 30 years, I feel the one vital area that has often been neglected and not properly addressed, for whatever reasons, is measuring as accurately as possible a student's knowledge and skills of what that student has really learned in school. By establishing a more reliable criteria of measuring the necessary body of knowledge learned, the business world would have more confidence in selecting potential employees which, in turn, would give these educational institutions adopting such a system greater credibility. It becomes a win-win situation for everyone.

Therefore, the crux of the problem is to establish a meaningful performance measurement system gauging what students have learned and which can be accepted with some degree of confidence by both private industry and educational institutions. The present grading system in academia has two major flaws. First, it is highly subjective. Second, there is no way of knowing if students are taught the same basic course material by different instructors.

Because the current grading system is highly subjective, it becomes difficult, if not impossible, to appraise a student's true knowledge and potential. For example, a student who receives a "B" or "C" grade from a stricter-grading instructor in one class may really be more knowledgeable than a student who receives an "A" from a more lenient instructor in another class of the same course. However, due to a lack of a better present system of performance measurement, the student receiving the higher grade will have a better chance of being selected for employment by private industry than the student receiving the lower grade. This also creates the problem of grade inflation which leads to the decline and lack of credibility in relying on grades. Thus, higher education institutions and business organizations face a dilemma. Obviously, this definitely needs to be corrected for the mutual benefit of colleges and private industry.

In examining the second flaw, we see that there is an inherent problem in the learning process. Different instructors have different beliefs in how and what students are

taught. Consequently, not all students may be on the same playing field. In other words, some students may be placed at a disadvantage in receiving the necessary skills required by private industry. This, in turn, puts private industry in a difficult position by not being able to control the situation and relying entirely on academia.

Obviously, both flaws are long overdue for a change. By changing the present subjective grading system of measuring a student's performance to a more objective one, both the academic world and private industry will benefit. Therefore, I propose a two-option program that could be implemented by higher education which may help to alleviate some of the problems encountered under our present academic performance measurement system.

Option 1

This first option involves the regular (normal) path leading to an academic degree. However, under this option, rather than permitting each individual class in having different independent tests given by individual instructors, standardized testing would be administered instead. These standardized tests would be graded independently of the instructor teaching the class. In addition, standardized case-study projects, and the independent grading of them, would also be included in this category.

Option 1 has two important advantages. First, it would eliminate the effects of subjective grading such as grade inflation and inconsistent grading (lenient versus strict grading). Also, grades will have a greater credibility attached to them. The second advantage of this option is that it would help to insure that certain criteria (standards) of knowledge and skills are satisfied. The emphasis in this particular case would be on teaching.

On the other hand, there will always be some resistance to this type of testing and grading since standardization has an aura of stigma. However, this is not as farfetched as some would believe. Standards are necessary in order to have some meaningful form of comparison. Even our present grading system uses standards. Also, we see the use of standardized testing and independent grading in the professional business world, i.e., CMA, CPA, and CFM exams. Therefore, why cannot a similar system be applicable in higher education institutions?

Option 2

Option 2 is similar to option 1 with the exception that option 2 offers a certificate program in addition to an academic degree. Option 2 will have the additional requirement of taking a certain number of mathematics, financial analyses, and computer courses. Once these additional courses have

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Accounting as the Foundation

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originate in the Two-Year Section. Third, I could not help wondering about the innovation of instruction that the thousands of our colleagues around the world engage in every day. I have to think that we are capturing but a small fraction of these ideas in the *Communicator*. How could we persuade more of our colleagues to share their ideas and experiences so the benefits of their creativity could be multiplied?

I mentioned that we should think of AAA as a service organization that provides each of its members more than what they contribute to the collective. In assessing our value propositions, it is useful to keep in mind that the service our Association provides has some special features. Through these past 12 months of work with hundreds of our members, I have come to realize that the happiest members of the Association are those who give most to the Association—in their time and effort. It puzzled me at first. The more of their time and ideas and hard work they give to the Association, the more positive they are about their relationship with the Association. How could this be?

I think I beginning to see the answer. The essence of this association is the ideas, creativity, and the hard work of its members. Their generosity, goodwill, cooperation, and aspirations, makes us all better off. As is true in other walks of our lives, when it comes to our relationships with other human beings—family, students, and colleagues—to give is to receive. Let us work together to help one another, so each one of us can achieve his or her own personal aspirations through sharing and cooperation.

Improving the System

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been completed, a student will then be eligible to receive an academic certificate.

There are two supplemental advantages to this option over option 1. First, quantitative methods are stressed. Today, we constantly hear that students do not have sufficient analytical skills. This option will help to remedy that situation. The second additional advantage of this option is the benefit of certification analogous to certification in the professional world (it does not replace professional certification but supplements it). Therefore, students will be able to receive further recognition of their accomplished knowledge and skills.

It is obvious that an improvement is necessary to our present way of measuring student performance. We need a system that is fair, equitable, and credible. Once such a system is established, then the benefits will be greater than the costs of implementation. I believe that the two-option program that I outlined above will accomplish this objective if only given the chance.

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- Walendowski, George, “Accounting Education at Community Colleges: Preparing for the Future,” *Business Education Forum*, December 2000.

American Accounting Association Annual Meeting — Chicago, Illinois, August 2007

Imagined Worlds of Accounting

“Some men see things as they are and say why — I dream things that never were and say why not.”

George Bernard Shaw

“(t)he historic role of the scientist is to do the unthinkable, to overturn cherished beliefs, and to kill gods.”

J. B. S. Haldane

Literature imagines alternative worlds for living just as science explores alternative conceptualizations of the physical world. In *Imagined Worlds* Freeman Dyson merges story-telling with science to offer a compelling vision of how the biological and information sciences reshape the future of humanity. Accounting, an ancient discipline that arose with mathematics, writing and civilization, examines the way things were and are (as a social science), but also how they might be (as an engineering and policy science). The theme of the 2007 AAA meeting is to celebrate and explore the power of accounting in both these domains.



THE IMPORTANCE OF TEACHING AND LEARNING THE BASICS: DEBITS AND CREDITS, JOURNALIZING, AND T ACCOUNTS

By Ella McCown

Over the past decade of teaching financial accounting courses, I find that my students grasp the accounting equation with ease. But learning the basic topics of debits and credits, journalizing, and T accounts continues to provide perpetual stress both in and out of the classroom. The inability to understanding these very basic concepts is often used as the reason students avoid the field of accounting (and sometimes business in general). The lack of understanding of these basic areas will hinder student success in accounting coursework and perhaps limit their overall success in the business field.

What I have discovered in my classes is that most of the students enter the class with preconceived notions about what accounting means. I have heard everything from, “but I’m good at math” to “everything in this course is exactly opposite of what it should be” when students are expressing frustrations over their failure to quickly grasp the basic rules and concepts. Students often seek help from outside sources, and sometimes the information received is outside the scope of the class. I encourage students to verbalize their interpretation of the course material to me so that I can help to get them back on track if they swerve too far from the rules. I strive to keep a classroom environment where students feel comfortable asking questions in class. But I still find that students continue to struggle with these topics.

As faculty, we need to focus quickly on the level of understanding and seek feedback from our students in these very basic topics. If we wait until the students take their first exam to evaluate their level of understanding, it may be too late. Students often proceed through their first accounting class lacking a full understanding of the rules of debits and credits, guessing at journalizing, and failing to see the connection between journal entries and T account postings. These students might be able to “pass” the class, but they are not likely to seek further knowledge in the field of accounting. They are also likely to be the students who tell

your future students how “hard” the class is. Let’s face it, the rules of debits and credits are very easy ... once you understand them. But until then, these rules can seem unnatural and meaningless.

While I believe that it is important to teach the basic concepts as such, the faculty should strive to empathize with the students as they engage in unfamiliar territory. As a faculty member and the director of an accounting associate degree program, I have seen the positive and negative impact on the students and the program depending on the attitude of the instructor in the initial financial accounting course. The faculty for the first accounting course must have an enthusiastic, encouraging, and professional personality.

I believe the questions to be answered are:

1. Why are these topics so difficult for students to understand?
2. How can we as accounting educators provide instruction in the initial accounting courses in ways that create deep understanding within our students so they can gain better comprehension about the accounting process?

Finding solutions to these questions will impact student decisions for entering into the field of accounting and provide assistance in retaining business and accounting majors. These are two areas that I plan to devote my accounting research. I believe that the two-year colleges and associate degree programs in general have the ability to play a key role in the recruitment and retention accounting students and the profession’s future leaders. I believe we have an obligation to focus our research and teaching efforts in these areas. The topics of debits and credits, journalizing, and T accounts may be very basic, but it is essential to the future success of accounting majors that we provide our students with a true understanding in these areas.

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