



Communicator

American Accounting Association

Two-Year College Section

Spring 2003

Message from the Chairperson

Aloha Colleagues:

Here we are at the end of another academic year and hopefully many of you will spend time relaxing, renewing, researching, and preparing in anticipation of the next year. The AAA's Annual Meeting will be held in Honolulu, Hawaii August 3–6, 2003, during which time we will have an opportunity to learn, research and relax. I certainly hope that all of you will attend this meeting and take some additional time to enjoy paradise. While it can be costly to travel to this meeting, realize that it is an opportunity to combine scholarly activities and relaxation in a beautiful setting. The officers of the Two-Year College section invite you to join us at our Monday luncheon/business meeting where we hope to give out two awards: Educator of the Year and a Lifetime Achievement in Accounting Education. In addition, the section is sponsoring three panel discussions, all of which give information about enhancing the class-

room experience for our students by integrating technology and emerging topics into our courses. The times and details of these discussions are given in an article in this edition of the *Communicator*. Please join us for all three of these panel presentations.

An issue near and dear to me is that of articulation of courses between the two-year and four-year colleges. As students become more mobile and more likely to come back to the educational system several times during their lives for retraining, this issue becomes much more pressing. This semester I am teaching Cost Accounting during the evening at my school, Santa Rosa Junior College, and have observed some interesting student demographics. Of the 22 students enrolled, 11 have baccalaureate degrees and one has a graduate degree. The students range in age from 20 to about 50, with an equal split between men and women. Those with baccalaureate degrees have majors

in geology, biology, chemistry, education, engineering, meteorology, information systems, computer science, and business. One student has an M.B.A. and is taking classes to prepare for the CPA exam. With the exception of one student who is a winemaker for a local vineyard and is taking the class to better understand the cost of producing wine, the rest of the students have identified becoming a professional accountant as their career goal. Some seek to enter public accounting, some want to enter industry, and a few want to advance in their government careers. My students also bring a delightful multicultural aspect to the class, as they are from China, Korea, India, Egypt, France, Brazil, and the Ukraine. Most surprising to me is that all the students have A or B averages with no one even close to receiving a C in this demanding class. So what is my point?

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Message from the Chairperson

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I find the “traditional” students at my college to lack the interest, work habits, and motivation to pursue accounting as a career. Very few students taking the first two classes in accounting intend to major in accounting once they transfer to a four-year college. The majority of students say accounting is too hard and demands too much time to learn and they are unwilling to make the necessary commitment. So how will our profession attract candidates for future positions? I believe that the “nontraditional” or reentry students are our best hope for successful entry to our profession. These students have discovered the recession-proof nature of the profession and are looking for a challenging career that offers opportunity for advancement, financial rewards, and flexibility. So how will our educational institutions meet the needs of these students? The best way to help the nontraditional or reentry student is for two-year and four-year colleges to work in partnership to allow easier access to courses and flexibility in transfer of units between colleges.

While transferability and articulation have been topics of heated discussion between two-year and four-year schools, for the benefit of our profession and students, I hope we can continue our dialogue and find ways to improve student access to education. To that end I invite our colleagues at the four-year colleges to join the Two-Year College section. I also ask our members of the Two-Year College section to invite faculty you know from other two-year colleges to join the AAA and especially the Two-Year College section. I also encourage you to ask four-year college faculty to partner with us by joining our Section and participating in

or attending our panels, by writing articles for the *Communicator*, and by entering into dialogue about how to meet the needs of our students and profession.

Have a wonderful summer and I hope to see all of you at our Annual Meeting in Honolulu.

Mahalo!

Barbara A. Croteau

Upcoming AAA Annual Meetings

2003	Honolulu, Hawaii	August 3–6
2004	Orlando, Florida	August 8–11
2005	San Francisco, California	August 7–10
2006	Washington, D.C.	August 6–9

Regional AAA Meetings for the Spring 2004 will be announced in the Fall issue of the *Communicator*.



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There is still time to come to Hawaii!!

There is still time to register and attend the AAA Annual Meeting in Honolulu, Hawaii August 3–6. Even if you decide at the last minute you can always do an on-site registration. Make it a family vacation with your expense possibly a tax deductible expense (contact your accountant!!).



TYC Panel Discussions

This year the Two-Year section will present three panel sessions. The Section needs your support to show the value our Section provides to the American Accounting Association. The Two-Year Section Business Meeting will take place on Monday, August 4 at noon. We will present the new members of the board, discuss our newsgroup, conduct any new business, and eat a nice lunch together while exchanging ideas.

The Monday luncheon will be followed at 2:00 pm by a panel discussion led by Carol Yacht, “What Software Fits My Accounting Course? Peachtree, Quickbooks, Great Plains or Business Works?” The last session of the day will end at 5:30 pm with the Welcome Reception at 6:30 pm—a good time to meet and exchange ideas with your colleagues.

Tuesday, August 5 our panel discussion take place at 4:00 pm with Tim Nygaard and his panel discussing “Do’s and Don’ts of Online Classes.” Wednesday, August 6 at 10:15 Belverd Needles and his panel

will discuss Balance Scorecard, Statement of Cash Flow, and Financial Ratio Analysis in the First Accounting Course.

Current program information, registration, and travel reservations can be found at <http://aaahq.org/AM2003/program.cfm>

Ideas for Travel Arrangements

If the cost of the Hilton Hotel (the conference location) is deterring you from attending, here are a few other options:

1. Other less expensive hotels in the area of the conference hotel are:
 - a. Holiday Inn Waikiki (1.800.holiday)
 - b. Renaissance Ilikai Waikiki (1.800.245.4524)
 - c. Aston Hotel Kai (1.800.922.7866)
 - d. The Double Tree Alana Hotel (1.877.655.5697)

Many of these hotels have substantial discounts for AARP and Auto Club members.

2. Consider sharing a room with a colleague from your school or a neighboring college.

The TYC Board is looking forward to seeing you in Honolulu!



Two-Year College Section NEWSGROUP Is Up and Running

Tim Nygaard, our Webmaster, has completed TYC newsgroup. It can be reached by going to the AAA home page at <http://www.aaahq.org>, select Sections/Regions, then Two-Year College Section. Select Web Board Posting under “CONTENTS.” Give us your comments.

Please be patient when logging onto the Two-Year College section home page.

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Some Implications of Accounting Scandals for Educators

Paul Kimmel — University of Wisconsin–Milwaukee

Terry Warfield — University of Wisconsin–Madison

What are the implications of recent accounting scandals for accounting and business educators? The collapse of Enron and WorldCom, along with reports of numerous other accounting scandals, has contributed to an avalanche of accounting restatements and shareholder lawsuits. All of this has resulted in a general malaise of investor confidence in our capital markets and financial reporting processes—a crisis of confidence, which is still gripping markets today.

With Enron, all the elements of the financial reporting infrastructure, which are designed to ensure that bad accounting is rooted out, did not work. For example, we observed:

- Weak corporate governance—the board at Enron overrode its own code of ethics to allow the transactions.
- External auditors and their review process caved in to management’s position.
- Potentially deficient accounting and audit standards.

The publicity that surrounded these scandals, while very detrimental to the public’s perception of the accounting profession, actually heightened the public’s awareness of the important role that accounting plays in society. That is, the failure of some accountants to act professionally caused a general decline in public confidence, but a broader appreciation of the importance of accounting. This actually reinforced a message that we as instructors have preached to our students for years—accounting really matters.

One impact of the accounting scandals on accounting instructors is that it is likely that we will see a flurry of new accounting standards in coming years dealing with such important topics as pensions, consolidations, and financial instruments. The nature of these standards is likely to be different than previous standards. The FASB has stated a commitment toward employing a “principles based” approach when writing new accounting standards.

Principles based, as opposed to rules-based standards, will put more responsibility on the accountant to evaluate whether financial statements capture the economics of transactions, rather than just meet the requirements of the rule. To implement these new standards students may need to be more firmly grounded in accounting concepts, and be better able to analyze the economic substance of complicated transactions. This will likely require new teaching methodologies.

A second impact of the accounting scandals on accounting instruction concerns how we weave realism into our curriculum. Students are more interested in a subject if they believe that it has relevance for their lives or future careers. The accounting scandals provide rich material that can help instructors bring real-world situations into the classroom. One vehicle for doing this is through the use of cases, and in particular, ethics cases.

A successful case has a number of characteristics. First, it should compel students to engage in discussion. By their nature, ethics cases are frequently controversial, thus they capture the student’s attention. A second attribute of a good case is that the answer should not be obvious. Instead, a good case will have more than one defensible solution. Since multiple correct solutions are possible, evaluation can be tricky. The instructor should evaluate student responses based on whether the arguments used to defend the solution are well reasoned, rather than just focusing on the final answer. Third, cases should relate directly to the primary learning objectives of the course.

That is, good cases do not engage students in a separate and unrelated activity but instead reinforce basic content knowledge. For example, an ethics case on WorldCom can be used to demonstrate the difference between capitalizing and expensing costs; Enron can be used to demonstrate the roles and relationships of managers, shareholders, and the board of directors, or it can be used to discuss consolidation issues; and most recently, Ahold can be used to demonstrate revenue recognition issues.

Many instructors are hesitant to use ethics cases in class because they feel they will take too much time. This need not be an obstacle to case use. One way to integrate ethics cases into a class is to use them as an efficient device to introduce a topic for class discussion. Students can be asked to read a one or two paragraph mini-ethics case and then the instructor can lead a short discussion that leads into the discussion of that day’s topic.

In order to increase student participation, the instructor might first assign students to groups so that each student has a better chance to participate in a discussion of the issues in advance of the full-class

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Teaching a User Approach to the Operating Activities Section of the Statement of Cash Flows: Focus on the Cash Flow Yield Ratio

by

Belverd E. Needles, Jr., Ph.D., CPA — DePaul University
Marian Powers, Ph.D. — Northwestern University

The statement of cash flows has been required for about fifteen years, but our experience in teaching executives is that many managers and even some financial analysts often do not understand the significance of the statement. This lack of understanding links back, in part, to the fact that accounting instructors tend to focus on the construction of the statement and give insufficient attention to its analysis and interpretation. In our view, too many users fail to understand the significance of the operating section of the statement of cash flows and its value as a key financial scorecard. Our purpose is to demonstrate how the teaching of the statement of cash flows, especially the operating activities section, can be made more meaningful at the introductory level.

Why is there a statement of cash flows?

Some instructors will remember that before the statement of cash flows there was the statement of changes in financial position, in which the first section focused on the overall change in working capital. However, the measure of working capital is a misleading measure of liquidity because it focuses on a level of resources, that may or may not be good, and it does not evaluate the management of receivables and inventories. Good managers today have goals of reducing days sales outstanding and days inventory held as a means of increasing the cash flows that form the basis of the company's valuation. The cash flows from operating activities section gives much better information about the ability of a company's operations to generate cash.

A good example of this fact is the Stirling Homex case, an early "accounting scandal" case. In the old format, represented in Table 1, it may be seen that Stirling Homex reported a 60% increase of net income and more than 100% increases in working capital from 1970 to 1971. Stirling Homex seems to be a very healthy company. However, the picture is entirely different when the cash flows from operating activities, as shown in Table 2 are considered. Here, the "good" levels of net income produce enormous negative levels of cash used by operations. These negative levels are caused primarily by large increases in receivables, which have a negative effect on cash flows from operating activities. In fact, it would later come to light that these levels of receivables were caused by the recording of fictitious revenue with a corresponding debit to receivables. Although these changes in receivables may be inferred from the balance sheet, their appearance is much more positive there because of the tendency to view increases in working capital favorably. On the statement of cash flows, however, the increases in receivables should immediately raise questions.

TABLE 1
Stirling Homex
Partial Statement of Changes in Financial Position
for the Years Ending July 31, 1971 and 1970

	1971	1970
Sources and Uses of Working Capital:		
Net Income	\$3,252,663	\$2,035,189
Expenses not requiring outlay of working capital:		
Depreciation and amortization	529,116	220,227
Amortization of deferred charges	432,117	133,288
Deferred income taxes (non-current)	1,511,502	184,776
Undistributed net income of finance sub	(134,579)	—
Working Capital Provided from Operations	\$ 5,590,819	\$ 2,573,480

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Teaching a User Approach to the Operating Activities Section of the Statement of Cash Flows: Focus on the Cash Flow Yield Ratio

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TABLE 2
Stirling Homex
Partial Statement of Cash Flows
For the Years Ending July 31, 1971 and 1970

	1971	1970
Cash Flow Operating Activities:		
Net Income	\$3,252,663	\$2,035,189
Expenses not requiring outlay of cash:		
Depreciation and amortization	529,116	220,227
Amortization of deferred charges	432,117	133,288
Deferred income taxes (non-current)	1,511,502	184,776
Undistributed net income of finance sub.	(134,579)	—
Working Capital Provided from Operations	\$5,590,819	\$2,573,480
Increase in receivables	(22,359,453)	(12,286,631)
Increase in inventory	(741,319)	(1,236,215)
Increase in prepaid expenses & other current assets	(101,765)	(34,973)
Increase in accounts payable & accrued expenses	1,888,978	2,155,635
Increase in current & deferred income taxes	2,140,787	1,004,347
Cash Flows from (Used by) Operating Activities	(\$17,276,178)	(\$7,824,357)

Should you teach the direct or indirect method?

Some instructors still debate whether or not the direct method should be taught. Despite its intuitive appeal, the direct-method approach to cash flows from operating activities provides no explanatory insight as to why cash flows from operations are different than reported net income. For instance, if the direct method were used in Table 2 for Stirling Homex, it would show that the company had large negative cash flows from operating activities, but it is impossible to discuss why the large negatives occurred. The cash generated by revenues and paid for expenses would be meaningless numbers. The essence of the user approach to accounting is for students to gain insights into why results are good or bad. The indirect method does not have this disadvantage. By starting with net income and reconciling to cash flows from operating activities the company provides a list of reasons why the two measures are different. The indirect method clearly highlights the problem of Stirling Homex's receivables.

Second, the direct method does not reflect current practice. According to *Accounting Trends & Techniques* (AICPA 2002), 98.7 percent of a sample of 600 U.S. companies used the indirect method. This is one of the highest, if not the highest, percentage usage of all accounting techniques recorded where an alternate is allowed. Students have enough to learn, without being required to learn a technique that virtually no one uses. Third, when the direct method is used, the reconciliation of net income to cash flows from operating actions must also be provided. Thus, in practice, when the direct method is taught, students must also learn the indirect method. This is extremely confusing to students because the algebraic signs are different under the two methods when they are used to adjust for changes in working capital items. These reasons lead us to teach only the indirect method to our students.

What is the most important cash flow ratio?

Probably the most important cash flow ratio is what we call the cash flow yield, which is computed by dividing cash flows from operating activities by net income. One reason for this conclusion is that the long-run survival of a business depends on its ability to generate cash flows from its operations, and it begins with profitable operations that enable it to generate these cash flows. The cash flow yield measures whether net income has underlying cash flows from operations. A second reason for favoring the cash flow yield is that the ratio is very sensitive to changes in a company's ability to generate cash from its operations.

Let's look at an example. Lucent Technologies is one of the companies that rode the wave of the telecommunications boom in the late 1990s and early 2000s. Table 3 shows the net income, cash flows from operating activities, and cash flow

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Teaching a User Approach to the Operating Activities Section of the Statement of Cash Flows: Focus on the Cash Flow Yield Ratio

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yield from 1997 to 1999. The focus of the analyst community was on Lucent's earnings. The price of its stock peaked in 1999 at \$85. However, the cash flow yield tells an entirely different story. It was declining from 1997 to 1998 and turned negative in 1999. When the 1999 cash flow statement was disclosed, the market price decreased to about \$50. Net income finally tumbled in 2000 and in 2001, and Lucent's stock fell to a low of less than \$1 as cash flows from operations continued to be less than net income. An examination of the detail of Lucent's cash flows from operations from 1997 to 1999 shows that the company's receivables were increasing dramatically over the entire period as Lucent continued to sell to telecom companies who could not pay for the equipment they were ordering, and its inventories were growing as it continued to produce products that could not be sold. Further, in 1999, other working capital items (mainly increases in prepaid assets) began to contribute significantly to the negative cash flows.

TABLE 3
Lucent Technologies, Inc.
Condensed Cash Flows from Operations and Cash Flow Yield (in millions)

	1999	1998	1997
Net income	\$4,766	\$1,035	\$ 449
Various non-cash deductions including depreciation	2,245	3,470	2,837
Increase in receivables – net	(3,183)	(2,163)	(484)
Increase in inventories	(1,612)	(403)	(316)
Other working capital changes (415)	(1,652)		386
Other adjustments	(840)	(465)	58
Net Cash Flows from (Used by)			
Operating Activities	(\$276)	\$1,860	\$2,129
Cash Flow Yield	negative	1.8	4.7

Does cash flow yield have any limitations?

All ratios have limitations and the cash flow yield is no exception. When net income is low due to special items such as impairment and restructuring charges, the cash flow yield can give a false positive signal. For instance, from 2000 to 2001, Abbott Laboratories cash flow yield goes from 1.1 to 2.2. This apparently positive result happened because, while net income dropped from \$2,786 million to \$1,550 million, net cash flows from operating activities increased from \$3,100 million to \$3,567 million. An examination of the operating section reveals that an acquisition resulted in a one-time write-off of purchased research and development. This write-off reduced net income but did not use cash. It is for this reason that it is always important to examine the details of the operating section when interpreting the cash flow yield.

What about the free cash flows?

Free cash flows are probably the most popular cash flow performance measure used among financial analysts. Free cash flows should be taught because these measures are used in practice, but this is a cautionary endorsement. First, there is no accepted definition as to what free cash flows are. Different analysts include in free cash flows whatever they want to include. The most basic measure of free cash flows is the amount of cash flows from operating activities left over after paying for net capital expenditures, but many analysts also deduct dividends. Further, how should the purchase of treasury stock, as opposed to payment of cash dividends, be handled? Consider the comparison of Abbott Laboratories and Dell Computer for the year 2001 in Table 4. If we use the basic definition of free cash flows, Dell has about \$1.3 billion more free cash flows than Abbott (\$3,713,000,000 to \$2,399,000,000). If we use a second level of free cash flows that excludes dividends, the amount is even more pronounced in favor of Dell (\$3,713,000,000 to \$1,129,000,000) because Dell does not pay dividends and Abbott does. However, we may consider, as finance policy does, that stock buybacks (purchases of treasury stock) are a return of cash to stockholders similar in nature to cash dividends. Under this approach, the free cash flows measure (level 3) now shows that Dell has almost the same free cash flows as Abbott (\$1,107,000,000 versus \$1,112,000,000) because of its large repurchase of its own stock.

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Teaching a User Approach to the Operating Activities Section of the Statement of Cash Flows: Focus on the Cash Flow Yield Ratio

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TABLE 4
Abbott Laboratories and Dell Computer
Free Cash Flow, 2001 (in millions)

	<u>Abbott</u>	<u>Dell</u>
Net cash flows from operating activities	\$3,562	\$4,195
Less Net Capital Expenditures	<u>1,163</u>	<u>482</u>
Free cash flow (Level 1)	\$2,399	\$3,713
Less Cash Dividends	<u>1,270</u>	<u>0</u>
Free Cash Flow (Level 2)	\$1,129	\$3,713
Less Purchases of Treasury Stock	<u>17</u>	<u>2,606</u>
Free Cash Flow (Level 3)	<u>\$1,112</u>	<u>\$1,107</u>

Second, free cash flows are not a ratio; they represent an absolute amount. Thus, interpretation is difficult because comparison to benchmarks and to other companies is almost impossible. At level 3 in Table 4, both Abbott and Dell have about the same amount of free cash flows but we do not know which is relatively larger in relation to the size of the firms.

Third, it is not even clear that large free cash flows are good and that small or negative ones are bad. Large free cash flows may mean the company is not investing sufficiently. Negative free cash flow may mean the company is making large capital expenditures that are expected to produce increased future cash flows. No benchmark exists to compare or judge free cash flows. If one wants to know whether a company is investing enough to grow the assets, it can be measured directly by the ratio of net capital expenditures to depreciation and amortization. There is no need to use free cash flows as a surrogate.

Finally, the only truly “free” cash flows are cash flows from operations because management is “free” to use them in a variety of ways:

1. To invest for future cash flows: net capital expenditures or acquisitions
2. To save for future use: Investments in securities
3. To reduce financial risk: paying down short-term or long-term debt
4. To reduce the size of the business: pay dividends or buyback stock
5. How management chooses to use the cash flows from operating activities will affect the future cash flows from operating activities and hence the value of the company. Free cash flows in the traditional sense do not give information about the value of the company. It is cash flows from operating activities that represent the cash flow stream that should be discounted. Since cash flows from operating activities stem from profitable operations, the cash flow yield is the fulcrum or leverage that a company uses to create value.

Are there other ratios that should be considered?

The long-term value of a business depends on its ability to generate cash flow returns on investment that exceed its cost of capital. Thus, it is important to consider how cash flow returns relate to income-based returns. In fact, they are closely related and it is the cash flow yield that provides the direct link between profitability and cash flow returns. For example, in Table 5, which again shows the year 2001 for Dell Computer, it may be seen that profit margin times cash flow yield equals cash flow return on sales. Also, return on assets times cash flow yield equals cash flow return on assets. From this analysis, we can see that Dell’s traditionally high valuation in the market is related to its ability to generate high cash returns in relation to its profitability. Its cash flow returns are almost double its profitability returns due to a cash flow yield of almost 2.0 (1.93) times. The relationship of these ratios clearly shows that the relationship of profitable operations to the cash flow generation (cash flow yield) is essential to a company’s success or failure in creating value for its stockholders.

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Teaching a User Approach to the Operating Activities Section of the Statement of Cash Flows: Focus on the Cash Flow Yield Ratio

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TABLE 5
Relationship of Profitability Ratios to Cash Flow Returns:
Role of Cash Flow Yield
Dell Computer, 2001 (in millions)

Cash Flow Return on Sales:			
Profit Margin	×	Cash Flow Yield	= Cash Flow Return on Sales
<u>Net Income</u>	×	<u>Cash Flows from OA</u>	= <u>Cash Flows from OA</u>
Net Sales		Net Income	Net Sales
\$2,177	×	\$4,195	= \$4,195
\$31,888		\$2,177	\$31,888
6.82%	×	1.93 times	= 13.2%
 Cash Flow Return on Assets:			
Return on Assets	×	Cash Flow Yield	= Cash Flow Return on Assets
<u>Net income</u>	×	<u>Cash Flows from OA</u>	= <u>Cash Flows from OA</u>
Average Total Assets		Net Income	Average Total Assets
\$2,177	×	\$4,195	= \$4,195
\$9,174		\$2,177	\$9,174
23.7%	×	1.93 times	= 45.7%

What conclusion can be drawn?

The conclusion we draw is that cash flow yield is the most important cash flow performance measure. Free cash flows may be taught as a concept because of its use in practice, but it has severe limitations as a measure of performance. The underlying driver of free cash flows is cash flows from operating activities, which in part is driven by profitable operations, the relationship of which is expressed by cash flow yield.

To summarize the assessment of cash flow yield, we emphasize to students to look for these red flags:

- Negative trends in cash flow yields
- Positive earnings but negative cash flows from operating activities (negative cash flow yield)
- High cash flow yields when net income is low
- Cash flows from operating activities that are less than earnings
- Three-year trend comparison that indicates rising earnings but declining operating cash flows from operating activities
- The existence of special items such as the effects of acquisitions, restructurings, or other unusual items.

If you incorporate these insights into your teaching of the operating section statement of cash flows, we believe you will not only demystify the statement for your students but will help to train a better generation of business professionals.

ACCOUNTING EDUCATOR AWARDS

We are waiting for nominations for two awards that will be presented at the Two-Year College Section luncheon on August 4, 2003 in Hawaii.

- The *Educator of the Year Award* will be presented to someone who has “distinguished him/herself in the field of accounting education.”
- The *Lifetime Achievement Award* will be presented to someone who has given him/herself unselfishly to the profession of accounting education and has also served the Two-Year College Section of AAA.

PLEASE PLAN TO JOIN US FOR THIS IMPORTANT EVENT.

TWO-YEAR COLLEGE SECTION REPRESENTATIVES

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Some Implications of Accounting Scandals for Educators

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discussion. Alternatively, a case can be assigned as a writing assignment, with a follow-up discussion in class.

In fact, some cases can be used on the very first day of the course. These cases, which require no background in accounting, highlight the important role of financial reporting to society. In addition, they demonstrate why ethics is so important to the practice of accounting. If investors and creditors do not think that reported numbers can be relied on, then accounting has not fulfilled its role. Recent events clearly demonstrated how that role can be undermined by unethical behavior by those who prepare financial reports.

In summary, ethics cases are an instructional device that can meet many of the teaching challenges we currently face. These cases can be used to bring

focus to important issues raised by recent accounting scandals and can be drawn from many sources. Most textbooks include short ethics cases within their end-of-chapter materials. In addition, many cases provided by the AICPA, the Trueblood cases, or cases provided in *Issues in Accounting Education* and other journals integrate technical and ethical issues. These cases provide an opportunity to generate lively classroom discussion, while still focusing on and reinforcing basic financial accounting concepts. Finally, an ethics case should not be perceived as a side trip that deviates from core concepts and instructional objectives. We hope that instructors will take advantage of ethics cases to expand and/or enhance their instructional methodologies.

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