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Student-authored IFRS teaching cases based on European Securities and Markets Authority reports: Experiences from case writing and subsequent classroom use

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ABSTRACT

Upper-level undergraduate and graduate financial reporting courses often rely upon teaching cases to help students refine their critical thinking, research, analysis, judgment and writing skills. This paper describes the rationale for and experience of students writing teaching cases within a graduate level International Financial Reporting Standards (IFRS) class over the past two years. The assignment relies on the reports of the European Securities and Markets Authority (ESMA), an excellent source of regulatory decisions regarding the appropriate application of IFRS. Four of the 24 cases developed in the course have now been effectively used in accounting classes. This paper details the assignment, identifies the ESMA basis for the cases, describes how students added to the enforcement decisions, and summarizes student evaluations of the case writing and case using experiences. The paper also provides suggestions for faculty planning to adopt this learning tool.

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1. Introduction

Many faculty members supplement text materials with cases appropriate to the topic under discussion. The cases may include those authored by the faculty member, those available through for-profit case disseminators (e.g., Harvard Business School Press, Ivey, Case Centre), those developed and made available by the Big-4 public accounting firms (e.g., the Deloitte Trueblood Case Studies, the EY Academic Resource Center (EYARC) materials, and the KPMG University Connection resources) (Deloitte, 2016; EY, 2016; KPMG, 2016), and those available in peer-reviewed publications. As an example of the latter, during the last seven years (2010 through 2016), the *Journal of Accounting Education* published 50 teaching cases and *Issues in Accounting Education* published 138 peer-reviewed teaching cases.¹ Combined, the 188 teaching cases represent 89% of teaching cases published by six accounting education journals. The cases cover a variety of accounting topics including accounting information systems, auditing, management accounting, and financial reporting.

The content and format of the cases change with their intended course level. For example, cases designed to help introductory students may be short stories of a business; student analysis may be limited to where, when and how the business would record the content of the story in its accounting records. Students in the intermediate accounting courses may be provided with a scenario and asked to determine the appropriate financial reporting recommendations based upon either Inter-

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¹ The number of teaching cases included in the seven-year period ending December 31, 2016 were tallied by the author from Apostolou, Dorminey, Hassell, and Rebele (2017, 2016, 2015) and Apostolou, Dorminey, Hassell, and Watson (2013). A list of journals that publish both teaching cases and instructional resources is also included in these articles.

national Financial Reporting Standards (IFRS) or national accounting standards. At this level, the focus is likely on determining the appropriate standard and applying that standard in a reasonable manner. At the graduate level, students may be provided with complex situations that require that they incorporate upper-level research, analysis, judgment and writing to appropriately complete the assignment.

There are three potential problems with assigning publicly-available cases. First, many case “solutions” are readily available on the internet. Faculty assigning widely available cases may need to disguise or otherwise modify them prior to assigning them in a course. Second, cases may not be available for topics faculty believe would be enhanced by student research and analysis. Third, some cases, particularly those focused on financial reporting issues, may be time sensitive. These cases may not be content appropriate after a few years.² Many of the problems can be avoided through an expanded set of new cases that cover a variety of timely accounting and financial reporting topics that are written at a level appropriate to a specific course. Deloitte, EY and KPMG case materials are developed either in-house or by contracted faculty to address specific, current reporting topics. A positive and negative aspect of peer-reviewed published cases is that the required evidence of classroom testing and learning efficacy delays new case publication and dissemination.³

This paper describes a classroom tested course assignment that avoids problems related to academic integrity, relevant topics and timeliness. After completing the analysis of three published financial reporting cases authored by others, students in a graduate-level International Financial Reporting Standards (IFRS) class were required to develop an IFRS-based teaching case complete with teaching notes. Each case had to be based upon a regulatory release summarized in the European Securities and Markets Authority (ESMA) reports.⁴ The assignment had two objectives. The first was to create a challenging and rewarding culminating experience for the students enrolled in the graduate IFRS class. The second was to (hopefully) generate high quality teaching cases that could be used in intermediate accounting 1.

The paper proceeds as follows. Section 2 reviews the prior literature on case writing. Section 3 provides the case writing assignment instructions, summarizes the content of the 24 cases written over the two summer classes, describes key differences between the strong and weak cases, and includes student feedback as to the learning value of the case writing assignment. Section 4 describes the use of the four “best cases” in the intermediate accounting 1 class and provides student feedback on the learning value of solving the cases. Section 5 provides implementation guidance and concluding comments.

2. Literature review

There are few prior articles that discuss the benefits and complications of integrating case writing into business courses. The few practitioner-related pieces found in the published literature focus on the use of past experiences when developing training “cases.” These cases appear to be short descriptions of work situations that could lead to appropriate or inappropriate responses (e.g., Boyd, 1980). Within an academic environment, Chu and Libby (2010) describe an assignment that requires students to write six mini-cases over a twelve-week semester. Each “case” is in the form of a multiple choice question that focuses on an accounting, auditing or tax issue. Each question must be based on an appropriate case setting and include four “plausible” solutions, only one of which is correct (Chu & Libby, 2010, 258). Students used text materials and other information as the basis for the cases and supported their preferred solution with appropriate logic and references. Of the 110 students enrolled in the three course sections, 84 provided feedback on the assignment. Most students recommended the assignment be used again. Seventy-six percent of students viewed the assignment as an effective learning tool. Students also reported the assignment made them think more critically.

Forman (2006) describes case writing as a way of improving student communication skills and developing their research skills as they connect with “real” business issues. The cases in his marketing courses are based on interviews with target company personnel. Reddy and Agrawal (2012) identify cases developed through such field work as Type I cases, differing from Type 2 cases based on published materials. The authors note that type 2 cases are better suited for student development as they do not require confidentiality agreements and may be more likely to lead to publication.

A wider search across discipline was conducted through Science Direct. That search identified one article that describes the use of student-authored cases by second year pharmacy students at the University of Washington. The 132 group cases authored over the past 12 years focused on an observed example of an ethical dilemma related to pharmacy practice (Karwaki & Hazlet, 2017).

Academics and practitioners who have not authored published teaching cases and supporting teaching notes may perceive them as relatively easy to develop. Academics who have authored cases and teaching notes, been through the rigorous peer review process, and ultimately seen their work in print have very different perceptions. Published work on why accounting cases and instructional resources are rejected for publication provides useful insight about the content of “good”

² An example of the temporal nature of financial reporting cases is seen in the annual changes to Deloitte's Trueblood cases (www.deloitte.com/us/truebloodcases). Each year new cases are added and some cases from prior years are dropped or modified to reflect current financial reporting standards. For example, 11 cases were added in 2015, Cases 12–4 and 12–6 (and others) are omitted from the original lists.

³ The three primary case outlets in the US, the *IMA Case Journal* ([http://www.imanet.org/resources-publications/ima-educational-case-journal-\(iecj\)/editorial-policy](http://www.imanet.org/resources-publications/ima-educational-case-journal-(iecj)/editorial-policy)), *Issues in Accounting Education* (http://aaajournals.org/userimages/ContentEditor/1432243473094/Issues_Editorial_Policy.pdf) and *Journal of Accounting Education* (http://www.elsevier.com/wps/find/journaldescription.cws_home/840?generatepdf=true) all require evidence of classroom testing and efficacy.

⁴ As further explained in Section 2, prior to 2010 the enforcement decisions were published by the Committee of European Securities Regulators (CESR). In this paper, ESMA incorporates decisions reported by CESR.

instructional resources. Howard and Stout collectively served for six years as editors of *Issues in Accounting Education*. During this time period, 156 submitted teaching cases were rejected (Howard & Stout, 2006). Of these, 51 were rejected for “problems specific to case submission.” “Case material not rich enough” ranked second of four reasons cases were rejected (Howard & Stout, 2006, 7). Comments pertaining to the richness of the case include the following:

“... A case must present students not just with an issue but with enough contextual material to address the issue. This example does neither.” “The case study has proved to be very hard to review because of the lack of detail. The case, as written, is too generalized and not realistic. The authors need to develop the richness and context to make this a more interesting and compelling story line”.

[Howard & Stout, 2006, 8–9]

Given the difficulty with producing realistic case material, case authors may want to develop IFRS cases based on EU regulatory reports. Hodgdon, Hughes, and Street (2011) provide numerous examples of European regulatory enforcement decisions within their discussion of framework-based decision making in accordance with IFRS. The authors provide a three-step process that first asks students to determine if a concept is consistent with the conceptual framework. The second step is to determine if the concept is described in a specific IFRS. Third, students must determine if “judgement is required and how it should be applied” (Hodgdon et al., 2011, 418). After working through various examples supported by financial statement presentation and disclosures, the authors suggest that accounting educators use enforcement decision examples formerly published by CESR, since 2010 published by the ESMA. Hodgdon et al. (2011, 420) emphasize that “for all ESMA examples ... the enforcement decision and rationale thereof give more detail to assist students in appreciating the judgements of the enforcer.” For those interested in similar real-life company examples that rely on US generally accepted accounting principles (GAAP), the US Securities and Exchange Commission “Litigation Releases” and “Accounting and Auditing Enforcement Releases” provide a wealth of material about improperly prepared financial statements and the SEC’s rationale in finding against the issuer.⁵

Subsequent to the publication of Hodgdon et al. (2011), the ESMA and European enforcers “evaluated the level of compliance with International Financial Reporting Standards ... in the areas identified as common enforcement priorities” (ESMA, 2015c, 4). Its reports in that and other years include extracts from its “confidential database of enforcement decisions on financial statements with the aim of providing issuers and users of financial statements with relevant information on the appropriate application of the ... IFRS” (European Securities, 2014a). A review of the 15th through 19th extracts from the EECS’s Database of Enforcement⁶ reveals such topics as the determination of the fair value of land, allocation of goodwill on the sale of an operation, the presentation of the statement of cash flows, key assumptions in goodwill impairment testing, and accounting for claims in construction contracts (ESMA, 2014a, 2014b, 2015a, 2015b, 2016). In addition, the ESMA annually publishes a public statement setting forth the European common enforcement priorities for the current year. In 2013, these priorities included the following specific applications of IFRS (among others): “impairment of non-financial assets”; fair value measurement and disclosure”; and “disclosures related to significant accounting policies, judgements and estimates” (ESMA, 2013, 1).

The case writing assignment detailed in the following sections of this paper relies on both the ESMA Public Statements of European enforcers’ common enforcement priorities and the cases described in the ESMA confidential database.

3. Case writing assignments

Unique attributes of the ESMA confidential database of enforcement decisions make it ideal for a case writing assignment. The reports extract those enforcement decisions that contribute to the consistent application of IFRS. Each decision focuses on the appropriate application of technical guidance; as such, each provides an example of the outcome of inappropriate or ineffective preparer and auditor professional judgment. However, and germane to this assignment, the confidential nature of the reports precludes identifying the actual issuer and financial statements that prompted the regulatory review. To develop a teaching case from the extracts, students must create both an appropriate setting and industry as the basis for their case content. This results in hypothetical cases that lead to the reporting problem identified in the database. It is also possible to construct a hypothetical case from the public statements of enforcement priorities. As these result from the review of a broad cross section of public company filers, the examples are broader and provide more general guidance than do the confidential extracts.

3.1. Course design and case writing assignment

The case writing assignment was first used in a three-credit hour four-week summer session graduate course on IFRS at a US university. The assignment was again used the following summer. During both years, students attended class in person for the first week; the following three weeks were conducted online. During the four weeks, students explored the IFRS standard setting process, and then completed stand-alone modules on the recently adopted revenue recognition standard, fair

⁵ In fact, Cullinan and Wright (2002) developed a book of cases from the SEC Files. The releases can be found at <https://www.sec.gov/litigation.shtml>.

⁶ “EECS Database of Enforcement” is the actual title of the releases. EECS stands for the European Enforcers Coordination Sessions.

value reporting, property, plant and equipment, segments and other topics. Readings included various journal articles, and materials developed by the Big-4 public accounting firms.

During the first three weeks of the course students completed two short cases included in the EY Academic Resource Center (EY, 2016) materials and one longer, more complicated case, “Livestock Valuation in a Dairy Business” (Ashraf, Ahhmad, & Chaudhry, 2013). The case writing assignment was the final course assignment. The assignment was reviewed on the first day of class to encourage students to begin their case writing work as early as possible. The case was worth 18% of the total points available in the course. The course syllabus contained the following information:

Final project: develop a teaching case

You have all used cases somewhere in your educational experience. It's time you wrote one. The European Securities and Markets Authority (ESMA) website summarizes current, interesting financial reporting cases that were reviewed by a specific country's securities regulator. The summaries are brief, generally a few paragraphs in length. Your assignment is to develop a teaching case that “fits” around one of the summaries. You will have to form some logical conclusions as to the appropriate country (if necessary) and build a scenario that results in the treatment the regulator reviewed. You also need to develop teaching notes to the case. The teaching notes will focus on the appropriate IFRS and its application to the case you develop. I hope this is an interesting and enjoyable way to complete the course.

The course material posted on the class Blackboard contains specific instructions for the case writing assignment. These instructions are reproduced in Appendix A.

Students enrolled in the summer courses had the basic content from the enforcement decision, including the contextual material, the original financial reporting, and the enforcer's rationale as to why or why not that the presentation was in accordance with IFRS. Students faced the challenge of excluding the specifics of the enforcement decision from the case material and focusing on developing the “case story” that provided both decision critical and extraneous information so that future students would be required to use their professional judgment to effectively solve the case. The case content needed to be creative (i.e., not replicate the context included in the ESMA extract), logical within the identified business context, and likely result in a material financial reporting situation. A well thought-out case would also lead to the possibility of alternative reporting outcomes.

Table 1 summarizes the 24 cases developed over the two summers. The table includes the CESR or ESMA citation for the case, the regulator's topic description, and the relevant IFRS/IAS, followed by the student's determination of the country and industry of the hypothetical case company. Some students developed financial statements for the case. As shown on the table, the 24 cases were written based on 18 different decision references and two published public statements.

The 24 teaching cases and notes ranged from two ($n = 2$) to 11 single-spaced pages ($n = 3$). The mean case, note and total pages are 3.3, 2.3, and 5.6, respectively. On a percentage basis, the grades range from 100% ($n = 3$) to 78% ($n = 1$). The mean score is 90%; the median score is 91%. A regression analysis of the number of pages and scores results in the model $\text{Scores} = 128.96 + 1.32 \text{ Pages}$, when the score is based on the 150 points possible for the assignment. The model is significant at $p = 4.6\%$. The case content varies with the nature of the enforcement topic included in the decision reference. Some topics allow for short, interesting cases; other topics require more supporting materials and a more complex narrative. As a result, the grading rubric provided in Table 2 was more broadly interpreted than a rubric that would be used to grade assignments based on a single set of facts.

Critical to a content rich case is the case author's understanding of the operating environment in which the reporting issue could occur within a business organization. Without this understanding, it is difficult to embed possible differences of opinion either between the management team itself and/or management and the auditors as to the appropriate accounting treatment. These aspects are key components of an original (rather than replicated) case.

Students with a clear understanding of the reporting issues identified in the confidential extract should score well on the “clarity of the accounting issue” included in the case, as well as on the appropriate references, calculations and potential alternative solutions included in the notes. The grading results included in Table 2 indicate that most students clearly described the accounting issue (mean = 22 of 25; range 15–25 points), provided appropriate references (mean = 17.7 of 20; range 10–20); included appropriate calculations (mean = 18 of 20; range 14–20), and identified potential alternatives (mean = 9.3 of 10; range 5–10). The average points earned for writing quality (9.1 of 10) indicate that the important learning objective of effective written communication was achieved.

3.2. Case examples

Section 3.2.1 highlights the four “best” cases developed over the two summers. Each clearly illustrates the author had a clear understanding of the reporting issues and was able to develop that understanding into an effective teaching case that includes both an appropriate business situation and differing points of view as to the solution of the reporting problem. The teaching notes in each case provide multiple references and alternative reporting outcomes. Section 3.2.2 compares strong and weak cases developed from specific confidential extracts. The comparison also highlights the importance of understanding the accounting issue and the business context.

Table 1

EECS enforcement decisions used in case development.

Extracts from the EECS's Database of Enforcement. 1st – 10th extracts issued by CESR; 11th–19th issued by ESMA). All available at https://www.esma.europa.eu/ .	Topic	IFRS/IAS Standard	Country	Industry	Classroom tested?
1st Extract EECS/0407-05 (2007a)	Impairment of trade receivable	IAS 39, IAS 16	France	Hospitality	
2nd Extract EECS/1207-08 (2007b)	Appropriate amortization method	IAS 38	UK	Software	
8th Extract EECS/0610-07 (2010a)	Revenue recognition	IAS 18	France	Online gaming	
8th Extract EECS/0809-07 (2010a)	Contingent liabilities	IFRS 15 IAS 37	France	Property management	
9th Extract EECS/0910-03 (2010b)	Revenue recognition	IAS 18, IFRS 15	Canada	Professional sports	Revenue Recognition Green Energy
10th Extract EECS/0111-04 (2011a)	Government Grants	IAS 20	Canada	Energy	
11th Extract EECS 0211-04 (2011b)	Reporting segments	IFRS 8	UK	Food and beverage	
15th Extract EECS/0114-02 (2014a)	Determination of goodwill in acquired cash generating units	IAS 36	Not identified	Energy	
15th Extract EECS/0114-05 (2014a)	Investment property under construction and the application of fair value measurement	IAS 40	UK	Professional sports club	
15th Extract EECS/0114-05 (2014a)	Fair value of land held as investment property	IAS 40, IAS 16	Ireland	Agriculture	
15th Extract EECS/0114-05 (2014a)	Fair value of land held as investment property	IAS 40, IAS 16	Australia	Agriculture	
15th Extract EECS/0114-05 (2014a)	Fair value of land	IAS 16, IAS 40	Generic	Agriculture	
16th Extract EECS/0214-04 (2014b)	Cash flows related to rental assets held for sale	IAS 7, IAS 16, IAS 18	Portugal	Lessor and seller of autos	
16th Extract EECS/0214-04 (2014b)	Cash flows related to rental assets held for sale	IAS 7, IAS 16, IAS 18	UK	Lessor of outdoor power equipment	
16th Extract EECS/0214-04 (2014b)	Cash flows related to rental assets held for sale	IAS 7, IAS 16, IAS 18	Canada	Automotive rentals and sales	
16th Extract EECS/0214-06 (2014b)	Non-current assets held for sale near balance sheet date	IFRS 5	Czech Republic	Automobile manufacturer	
16th Extract EECS/0214-11 (2014b)	Disclosures of major customers	IFRS 8	Chile	Produce company	
16th Extract EECS/0214-11 (2014b)	Disclosure of major customers	IFRS 8	UK	Energy Production	Segments
17th Extract EECS/0115-01 (2015a)	Extinguishment of debt	IAS 27 (now IFRS 10)	UK	Financial services	
17th Extract EECS/0115-02 (2015a)	Impairment of available-for-sale investments	IAS 39	Canada	Financial services	
17th Extract EECS/0115-05 (2015a)	Presentation of financial statements	IAS 1, IAS 28	Canada	Agriculture and agricultural equipment	
18th Extract EECS/0215-04 (2015b)	Going concern disclosures	IAS 1, IAS 34, IFRS 7	Various	Athletic equipment	
18th Extract EECS/0215-07 (2015b)	Impairment of goodwill cash generating units	IAS 36	Sweden/EU	Financial services	
ESMA PUBLIC STATEMENT European common priorities for 2013 financial statements. (2013), REPORT ESMA (2015c)	Fair value estimates	IAS 16 fair value option, IAS 40	Switzerland	Food products	Fair Value

3.2.1. Best cases

Case 1 (Segments) developed from the 16th Extract EECS/0214-11 (ESMA, 2014b), focuses on the identification of operating segments and the possible disclosure of a key customer. The decision is reproduced in Appendix B. In the decision, the issuer is a listed company with one operating segment. The issuer omitted any information about major customers, even though two customers each accounted for more than 10% of the issuer's sales revenue. The issuer defended the omission

Table 2

Grading rubric and assigned points Grades were assigned on the rubric below. Mean points and the point range are based on 24 cases.

Case content	Maximum Points	Mean points earned (n = 24)	Actual point range
Identification of the EECS or ESMA report used	10	9.2	0–10
Originality	20	18.3	10–20
Clarity of the accounting issue	25	22.0	15–25
Supporting citations	10	9.1	5–10
Relevance	10	10.0	10–10
Writing	10	9.1	6–10
Assignment questions	15	13.5	8–15
Total case points	100	91.1	75–100
Teaching notes			
References to appropriate IFRS and regulatory report	20	17.7	10–20
Appropriate calculations	20	18.0	14–20
Potential alternative solutions	10	9.3	5–10
Total teaching notes points	50	45.0	35–50
Total points available	150	136.1	119–150

on the basis of “commercially sensitive information.” The enforcer disagreed. Paragraph 89 of the decision notes that “paragraphs BC43 to 45 of IFRS 8 do not include any exemption for disclosure on the grounds that it is commercially sensitive information that could cause competitive damage.”

The student case author extended the story reported in the decision. In addition to the issuers’ decision to omit any disclosure about the major customer, the case includes information about possible segments, including two potentially key segments not now material to the entity’s current financial condition. The case relies on a conversation between the CFO and CEO who have different opinions as to the need to disclose a key customer, as well as the disclosure of an immaterial segment. The case includes hypothetical potential segments, segment operating data, mock financial statements, and very detailed teaching notes.

Case 2 (Fair Value) was developed from the Public Statement of 2013 priorities (ESMA, 2013) and the ESMA Report on Enforcement and Regulatory Activities of Accounting Enforcers in 2014 (ESMA, 2015c). The statement and report are reproduced in Appendix C. The public statement reminds issuers that IFRS applies to assets in addition to those included in IAS 39 – Financial Instruments and Measurement. The ESMA Report is based on a review of 100 financial and non-financial issuers’ annual reports. The report finds that the majority of issuers appropriately disclosed accounting policies in accordance with the instructions of IFRS 13, and provided adequate disclosures pertaining to the fair value hierarchy. European enforcers required 19 of the issuers to make corrections in future financial statements; three were required to make public corrections.

The student case author created a story about a Swiss company that produces high-energy bars. The private company experienced early commercial success that attracted possible outside investors. Management hired an external accounting firm to audit its 2015 financial statements. During 2015, the company elected the IAS 16 property, plant and equipment revaluation option (IFRS, 2016). The revalued assets’ fair values were determined using level 2 and 3 estimates. The level 3 estimates for a piece of production equipment were based on the income approach discounted at the company’s weighted average cost of capital. Just to make the case a bit more interesting, the company decided to grow the tropical plants that produce a key ingredient for its product in its greenhouses located in Switzerland. The case includes mock financial statements, projected cash flow information to develop a discounted cash flow (DCF) analysis, and capitalized operating costs to date. The teaching notes make multiple references to IFRS 13 including the basis for conclusion. The notes also include a revised DCF that incorporates an asset specific discount rate and revised statement of comprehensive income.

Case 3 (Revenue Recognition) is based on EECS/0910-03: Revenue Recognition (Committee of European Securities Regulators, 2010b) (Appendix D). In the actual enforcement decision, a football club entered into a sponsorship contract that allowed the sponsor to access the web and e-mail based marketing, as well as admission to matches, food, and other events in exchange for a cash payment. The club policy was to recognize revenue for all sponsorship agreements of less than 12 months at the time the contract was signed. The enforcer disagreed, citing IAS 18 Revenue, Appendix A, paragraph 15 that requires income from events to be recognised as the services are performed.

The student case author embellished the story line to include the monetary amount of the sponsorship contact, the per-game ticket price, and the cost of food items expected to be provided at each match. Rather than IAS 18, those completing the case were expected to rely on IFRS 15 Revenue from Contracts with Customers. The case required students to: (1) complete a written contract between the two parties that clearly defines the contract details; (2) determine the performance obligations (two); and (3) allocate the revenue to the performance obligations. The residual method is preferable as no fair value information is provided for one of the two performance obligations. The teaching notes provide step-by-step analysis of the revenue recognition process required by IFRS 15, and clear supporting calculations of the revenue associated with each performance obligation.

Case 4 (Green Energy) was developed from EECS/0111-04 (ESMA, 2011a) (Appendix E) that deals with the appropriate reporting of government grants. In the enforcement decision, the issuer’s revenues are derived from the sale of electricity and “green” certificates. The issuer recognised revenue from the sale of green certificates in accordance with IAS 18; it

neither recorded the acquisition of the certificates nor disclosed the green certificates not sold at the end of the period. After extended discussion, the enforcer agreed that the green certificates can be recognised in accordance with IAS 20 Government Grants. IAS 20 requires the green certificates be reported in the income statement either as a separate line item or as part of other income. The issuer must disclose its accounting policies in regard to the green certificates.

The student authored case asks students to determine the appropriate reporting treatment of green certificates earned by a Canadian hydro-electric producer under IFRS and US generally accepted accounting procedures (GAAP). The latter is more difficult than the former, as US GAAP is silent on the treatment of government grants. Conflict is clear between the long-time CEO and the newly hired CFO. Prior financial statements made no reference to the green certificates; amounts were simply included in “other revenue”. Supporting material includes sales revenue information, net income and year-end assets, and information on potential operating segments. The teaching notes are extensive, including references to the IAS 1 and 20, and IFRS 8 and 10.

3.2.2. Comparison of context rich and less developed cases

ESMA decision ref EECS/0214-04 (2014b) – Presentation of statement of cash flows is an example of an enforcement decision that focuses on content students studied in multiple accounting courses. The case deals with an automobile lessor that subsequently sells vehicles it previously rented. Because the autos are leased and then later sold, there is confusion as to both the balance sheet valuation and statement of cash flow treatment of the cash outflows related to auto purchases and inflows from the sale of autos as investing activities.

Three students developed cases from this extract. Two cases focus on automobiles, one on home garden equipment. Two of the cases provide detailed information as well as possible reporting treatments that add to the richness of their cases. One of these includes a mock statement of cash flows. The third relies solely on narrative to pit a young, questioning accountant against the opinions of the brash company CEO. All three are effective at presenting the case material and providing appropriate solutions. The teaching notes clearly explain why inflows and outflows related to the leased/sold assets should be reported as operating cash flows.

Four other cases were based Decision ref EECS/0114-05 – Determination of the fair value of the land (2014a). This is a potentially challenging reporting problem as it focuses on IAS 40 *Investment Property*, specifically “investment property under construction”. The land in question was used for agricultural purposes, but later classified as investment property when crop production was halted. The issuer claimed an unclear legal status prevented a fair value determination and treated the land as “property under construction”. The title was later resolved and the land was carried at fair value. The enforcer determined the land was not under construction, that the fair value could be determined, and the gain or loss should have been reported as “a revaluation in accordance with IAS 16.” When reading the cases, it is obvious the students had little knowledge of either the reporting treatment or the operating aspects of reclassifying land as being held for investment. Investment property was included as a course topic. However, it is likely none of the students were familiar with the concept of “under construction” or the complications resulting from an uncertain legal status of land ownership.

The strongest of these four cases relies on the details shown above but adds complicating information as to lawyer fees, taxes, land clearing costs, and advertising expenses. The teaching notes refer to IAS 40, 53 and IAS 40, 65 in determining the fair value and reported gain. The author adds a question, “was the owner correct in accounting for the land as ‘investment property under construction’” after she was unable to find that specific term in IAS 40. The other three cases all rely heavily on the information in the extract. Changes are limited to identifying the land as either family owned property, the location of a sports arena, or an Irish farm. None include possible alternative treatments, or authoritative references other than that cited by the regulator.

3.3. Student feedback on the case writing assignment

A review of Outlook email folders for the two summer classes finds only six students asked clarifying questions about the assignment. Three of these students asked if they could use the same industry as cited in the extract; three asked questions about the appropriate application of IFRS to an expanded case situation. Another five students sent an email in response to comments and questions on their graded case. One student devoted more than a single-spaced page of details as to how he approached each aspect of the case. An excerpt of this email appears below.

As stated in a few emails I sent you before submission, in forming the case I really wanted to use the ESMA citation (8th Extract EECS/0809-07, 2010a) as a springboard for a deeper case because I felt the original was pretty cut and dry. I wanted the nature of the disclosure to have a very material effect on the financial statements in a way that was not so obvious. The only way I could think of where that would happen was through a violation of a debt covenant that would cause debt (or at least half of it) to become due instantly.

I wanted to make the covenant more believable, so I developed the back story of rushing projects and multiple accidents. These accidents are what would lead the loan entity to include this covenant in the debenture. At the end of the “Safety Concerns” section, I included the line, “consequently, investors began shying away from funding future projects.” as a hint that debt terms may be more extreme for future projects. Exhibit 1 (the debenture) was a copy of a debenture created by JP Morgan. I tweaked it to more accurately reflect Dubois Airports.

Another student explained he developed the financial information himself, and chose to devote more efforts to developing the teaching notes rather than expanding the case materials. Three students explained they included financial statements that were derived from public filings. One student wrote, “I developed my financial statements by taking a look at the annual reports of a company similar to the fictitious company I used in the case. Since my case described a car company and its subsidiary, I used Nissan’s annual report for a benchmark and analyzed how it reported its subsidiary, Infiniti.”

Anecdotal student feedback reveals students who began their work early in the compressed semester were better able to avoid the pitfalls identified with case development. These cases have interesting story lines and provide sufficient details for others to work through. A few students who struggled with the case assignment acknowledged that they did not believe it would take as much time as it did (or perhaps should have taken).

The students were surveyed about the perceived learning value of the case writing assignment and their views as to whether the assignment should be used in future classes. Students were asked to rate, on a scale of one (low) to five (high) (1) the value of developing the teaching case and notes, and (2) the extent to which the student would recommend this assignment be used in future classes. Ten students responded to the survey. The case grades of the respondents range from 128 to 150; the mean score is 138 (92%), one percentage point higher than that for all cases. The 42% response rate is somewhat lower than the response rate to the University administered online course evaluations for each of the two summers (53% and 67%). Nine of the ten students rated both the case writing learning experience and the use of the assignment in future years as a five. One student responded to both questions with fours. Extracts of their explanatory comments are helpful in understanding the student perceptions of the learning value of the assignment.

- Developing this case tested my ability to thoroughly research the standards and apply them to what could have been a real world example. It also tested my creative writing ability.
- Researching the [standards] and developing questions really made me dig into the accounting treatment and gain a deeper understanding of the topic I chose.
- Writing a teaching case was extremely helpful because it made me think outside of the box . . . it was not something I had ever done before, and at first I thought, how can I write such a thing!?! The challenge faced in becoming comfortable and brave enough to write this case is important and helps students realize that they CAN tackle assignments that they are unfamiliar with, which relates to all future duties in the workplace.
- Teaching cases are extremely valuable because they apply the accounting I learn in class to real-world situations. I was required to provide relevant data and examine various aspects of a problem. I included multiple questions and solutions. It was interesting creating the questions and developing the case when I already knew the solution. This provided me with a new perspective.
- By requiring us to develop our own teaching case, we are forced to develop a full understanding of the material. In my opinion, having the ability to explain information to someone has much greater value than memorizing material just to pass a test.
- The process of developing the teaching case . . . opened an opportunity for us to dig deeper into a concept that we thought was interesting and definitely bettered my understanding of my subject . . . It was very interesting developing the case as I had always been on the other side solving the cases.
- I was able to have a better understanding of the topic by working through a problem and finding a solution through use of my own research.
- Since graduating and starting work at an audit firm, I’ve been on a few audits of companies that have business segments, and I feel comfortable with the financial reporting considerations because of the work I did on this assignment. Performing research on a topic I got to choose somehow made the information stick with me better than if I’d been tested on it.
- When you are developing a case and notes you are forced to really understand the topic and explain your answers.

The student responses about the use of the assignment in future classes are very favorable.

- I believe very much in the value of applying what we learn, and case development is a type of application.
- The assignment allowed for analytical thinking and for exploration of a topic that was of interest to me. This is valuable when starting to consider industry specializations when embarking on a career in public accounting.
- We do not have assignments like this in other courses, and I think it’s really important to get students doing things other than what they are used to. There’s also a factor of creativity in writing the case, which is another skill that isn’t widely exercised in other courses. This is a great way for students to learn and stretch their boundaries.
- I think this assignment allowed the student to have freedom in their research, but also required strong effort and understanding of the subject we chose.
- [I recommend this assignment] because being creative is often hard for accounting students and I found that the assignment really pushed me out of my comfort zone.
- Absolutely! I loved the creative aspect to it – getting to pick my own topic from a variety of real-life examples and write a narrative, including dialogue, was super fun. It was so different than what I was used to in accounting school, and I think it’s likely a good way to get students who are used to the routine of learning, doing homework, and being tested, get out of their comfort zone.
- I think that giving this type of assignment in future classes would be beneficial.

Some students provided additional, concluding comments on the assignment's impact. The following comment provided the most insight into the learning value of the case.

I think that developing these cases and teaching notes was a very valuable experience. Solving the cases and finding the best, and correct, treatment of the cases was definitely a useful experience in [intermediate accounting I], but developing the case in [this graduate class] was an entirely different experience that let us have the freedom to gain a deeper understanding on a specific topic. While developing my case I was able to look into different topics before choosing the final one, which allowed me to have an understanding of what I enjoyed working with more. Overall, it was a great experience and it was a very rewarding experience once completed. I would recommend using this assignment in other classes in the future, as I would enjoy doing this assignment again.

4. Classroom use of student-authored cases

A second objective of the assignment was to develop new cases that could be used in the intermediate accounting 1 class. Classroom testing of some of the student-authored cases provides a means of assessing the perceived learning value of solving the cases. The four best cases were assigned in the Intermediate Accounting I class during fall 2015 and 2016. The student author's name was included on each of these cases.

4.1. Results of classroom testing

Following the completion of the case assignment, classroom discussion, and faculty feedback, students were asked to complete an anonymous survey that assessed the learning value of the case. For all questions, one (1) indicates the student strongly disagrees with the statement; five (5) indicates the student strongly agrees with the statement.

Table 3 summarizes the student feedback on the three cases used during fall 2015. In addition to the Segment Reporting and Fair Value cases, students completed a case from the Deloitte Trueblood series as their second case assignment (Trueblood). The inclusion of the Trueblood case provides an interesting comparison as to the perception of the student-authored cases compared with that of a highly-regarded case publisher. Bold type is used to highlight the maximum mean responses for each question.

As shown in Table 3, all mean responses are above the value of 3, the median value. The mean responses are greater than 4.0 for all three cases in response to the questions, "This assignment helped me learn how to research an IFRS reporting issue." The Fair Value case received mean responses of 4.10 on two questions: "Compared to other assignments, this allowed me to think more analytically", and "Overall, to what extent did this case expose you to the complexities of financial reporting?" The reported "ANOVA sig." column responses of greater than 5% indicate there is no statistically significant difference in the responses from the three cases. Student responses differed only on the final question, "How satisfied are you with your completed assignment?" Students were most satisfied with their analysis of the Trueblood case.

Table 4 provides the student feedback for the three cases assigned in the fall 2016: Revenue Recognition, Green Energy and Fair Value. Consistent with the presentation of Table 3, bold type is used to highlight the maximum mean responses. The ANOVA sig. column reveals students differed in their perceptions of the three cases. For those questions in which the significance is less than 5%, the significant differences between cases 1 and 2, cases 1 and 3, and cases 2 and 3 are shown in the far right columns.

The feedback responses are higher for Revenue Recognition and Fair Value, as compared with Green Energy. The mean responses for all three cases are above 4.0 for the questions "This assignment allows me to show my analytical abilities" and "Overall, this case exposed me to the need to carefully read the case facts and reporting standards." The Revenue Recognition mean responses are greater than 4.0 (agree) for eight of the 11 questions; the Fair Value mean responses are greater than 4.0 for seven of the questions. There is no statistically significant difference in the means to the question, "This case required me to think more critically".

Formal and informal student feedback on the three cases provides insight into the mean responses. After completing the Revenue Recognition case, students provided the following written feedback.

- I liked this case. It exposed me to revenue issues as well as how to conduct research using IFRS and US GAAP. I think it was a good learning resource.
- Appreciated initial guidance on where to focus and look at the standards as I am familiarizing myself with (PwC) Inform.
- It's a great case [at the beginning of the course]. Also, it connects with the knowledge we learned in class closely.
- This assignment forced me to learn about different revenue recognition. The research portion was difficult because I haven't done that sort of research before. Future students would benefit from practice with research.
- Reinforced classroom topics/discussion in "real life" example.
- After this assignment, I thought revenue recognition really hit home and stuck with me. It made sense and I could easily relate the two.
- I may prefer traditional forms of accounting assignments, however it was very beneficial in learning about revenue recognition and performance obligations.

Table 3
Summary of fall 2015 student feedback.

	Case #	N	Minimum Max = 5 for all	Mean	Std. Deviation	Std. Error	ANOVASig.
I like this type of assignment more than traditional assignments	1	48	1	3.25	1.082	0.156	0.597
	2	49	2	3.45	0.867	0.124	
	3	48	1	3.40	1.026	0.148	
The case should be used again in the future	1	48	1	3.71	0.798	0.115	0.806
	2	49	2	3.82	0.727	0.104	
	3	48	1	3.77	0.905	0.131	
This assignment helped me learn how to research an IFRS reporting issue	1	48	1	4.27	0.844	0.122	0.516
	2	47	2	4.09	0.747	0.109	
	3	48	1	4.21	0.798	0.115	
This assignment helped me understand the case concept	1	48	1	4.04	0.874	0.126	0.162
	2	49	2	3.71	0.842	0.120	
	3	48	1	3.90	0.805	0.116	
Compared to other assignments, this allowed me to show my analytical skills	1	48	1	3.79	0.743	0.107	0.833
	2	49	2	3.88	0.781	0.112	
	3	47	1	3.79	0.954	0.139	
Compared to other assignments, this allowed me to think more analytically	1	47	1	3.87	0.797	0.116	0.361
	2	49	2	4.04	0.789	0.113	
	3	48	1	4.10	0.857	0.124	
Overall, to what extent did this case expose you to the complexities of financial reporting?	1	46	2	3.85	0.631	0.093	0.172
	2	49	2	3.88	0.696	0.099	
	3	48	1	4.10	0.831	0.120	
Overall, this case was a good learning experience	1	47	2	3.96	0.658	0.096	0.534
	2	48	2	4.08	0.613	0.088	
	3	47	1	3.94	0.791	0.115	
How satisfied are you with your completed assignment?	1	46	1	3.54	0.959	0.141	0.038 (1–2 p=0.0)
	2	47	3	3.98	0.642	0.094	
	3	45	1	3.67	0.879	0.131	

Feedback presented chronologically from the beginning of the semester.

Reponses: 1 = Strongly Disagree through 5 = Strongly Agree; Bold rows indicate highest mean response.

Case Legend:

Case #1 = Segments.

Case #2 = Case developed by Deloitte Trueblood series (Deloitte, 2016) (Contingent Liabilities).

Case #3 = Fair Value.

The Green Energy case required students to determine the appropriate financial reporting for “green” energy certificates, a topic that falls outside the scope of the revenue recognition standard. Most students identified IAS 20 as the appropriate IFRS standard. However, they struggled with the requirement to also determine the appropriate reporting under US GAAP, a second requirement of the case. Students were frustrated when they could not find links to government grants within the Financial Accounting Standards Board’s (FASB’s) Accounting Standards Codification. Student frustration with a lack of authoritative guidance led to the following feedback.

- Learning about the gray area is important, very difficult to research.
- Felt lost more than challenged by the research.
- I found that I spent a lot of time researching for this case. Many of the places that I originally looked for answers turned into dead ends.
- I found this problem to be very difficult. I was not confident in my ability to judge what standards to use. However, I learned a lot while stumbling around reading.

Similar to other learning situations, resourceful students found secondary resources. Online searches found either the Ernst & Young (2008) *IFRS Outlook*, “Shedding light on accounting for alternative energy,” or the PwC public utility manual (PwC, 2013, 2016). Subsequent class discussion focused on what guidance may be used in the absence of specific authoritative guidance when relying on either IFRS or US GAAP. Students were surprised to learn that many accounting conventions develop over the course of time, and that specific aspects of recurring journal entries are only included in accounting textbooks. For example, neither IAS 16 (IASB, 2016) nor ASC 360-10-035-4 (FASB, 2016) identify the calculations underlying depreciation expense. Rather, both describe the rationale for depreciation.

The Fair Value case was the most developed of the three cases as it was classroom tested and revised following its use during fall 2015. Students provided the following comments in their feedback:

Table 4

Summary of fall 2016 student feedback.

	Case #	N	Range	Mean	Std. Dev.	Std. Error	ANOVA Sig.	Sig. Case Differences		
								1–2	1–3	2–3
This assignment helped me learn how to research a reporting question	1	36	4–5	4.33	0.478	0.080	0.004	0.004	ns	0.003
	2	37	1–5	3.86	0.948	0.156				
	3	37	3–5	4.35	0.538	0.088				
I have a better understanding of the case concept	1	36	2–5	4.22	0.722	0.120	0.001	0.001	ns	0.004
	2	37	2–5	3.57	0.867	0.143				
	3	37	2–5	4.11	0.774	0.127				
This assignment helped me understand how to identify appropriate facts	1	36	3–5	4.31	0.624	0.104	0.003	0.001	0.008	ns
	2	37	1–5	3.59	1.066	0.175				
	3	37	2–5	3.73	0.962	0.158				
After completing the case I have a better idea of how to apply the appropriate standard	1	36	3–5	4.25	0.604	0.101	0.000	0.000	0.015	0.000
	2	37	1–4	2.92	0.924	0.152				
	3	37	1–5	3.76	0.983	0.162				
This assignment allows me to show my analytical abilities	1	35	2–5	4.17	0.706	0.119	0.000	0.001	ns	0.000
	2	36	1–5	3.50	0.971	0.162				
	3	37	3–5	4.41	0.686	0.113				
This case required me to think more critically	1	36	3–5	4.17	0.697	0.116	0.240	ns	ns	ns
	2	37	2–5	4.11	0.843	0.138				
	3	37	3–5	4.38	0.594	0.098				
Overall, this case exposed me to the complexities of financial reporting	1	36	3–5	3.75	0.692	0.115	0.002	0.090	0.001	0.063
	2	37	2–5	4.05	0.911	0.150				
	3	36	3–5	4.39	0.645	0.107				
Overall, this case exposed me to the need to carefully read the case facts and reporting standards	1	36	3–5	4.31	0.710	0.118	0.097	ns	ns	0.032
	2	37	2–5	4.16	0.764	0.126				
	3	37	3–5	4.51	0.607	0.100				
Overall, this case was a valuable learning experience	1	36	3–5	4.22	0.591	0.098	0.018	0.007	ns	0.033
	2	37	1–5	3.70	1.077	0.177				
	3	36	2–5	4.11	0.667	0.111				
This case should be used again	1	36	2–5	3.94	0.754	0.126	0.000	0.000	ns	0.000
	2	37	1–5	3.13	1.134	0.186				
	3	37	1–5	3.97	0.928	0.152				

Feedback presented chronologically from the beginning of the semester.

Responses: 1 = strongly disagree through 5 = strongly agree; Bold indicates highest mean response.

Case Legend:

Case #1=Revenue Recognition.

Case #2=Green Energy.

Case #3=Fair Value.

ns = no significant difference.

- Very interesting assignment that I enjoyed researching. The only gripe was that it was given at a very, very busy time and the stress took away from the enjoyment.
- It was definitely difficult but helped me learn.
- I enjoyed these assignments because they challenged me and helped me apply my textbook knowledge to real life situations.
- Although I missed that the plant isn't depreciated until maturity, and I also missed that the operating expenses should be capitalized because of its cost of bringing the plant to maturity, I think I still did well on this case.
- Preferred this case over the last. It alluded to which documents in the IFRS & IAS to use. Easier/more of a learning experience when there is less stress of which one to use.
- I like case 1 and 3 the best. I really liked this case. I think it covered fair value and an unusual capitalization problem. I also thought being able to work with a partner enhanced my learning experience.
- I thought this was a great case, because it was focused enough that I was able to read the IFRS standards needed to answer the case in its entirety.

5. Implementation guidance and concluding comments

Faculty considering incorporating IFRS case writing assignments into a class may want to consider a few aspects of the assignment. Students enrolled in the summer 2015 and 2016 courses had completed the intermediate accounting course sequence and up to six additional upper-level accounting courses. Most had completed two upper-level courses. This background was sufficient for them to select many ESMA confidential extracts as the basis for their case. In addition to the cases

students completed in the online summer course, most students had also completed three US GAAP or IFRS research assignments within the intermediate accounting 1 course. These assignments combined with the numerous writing assignments during the online summer course provided them with experience and feedback on effective business writing.

These students had at most four weeks to identify an appropriate ESMA report and extract and then develop their teaching cases. No specific checkpoints were embedded in the course assignment. As explained in Section 3.1, some students emailed the instructor to ask questions about the underlying technical guidance, and the depth to which they should develop the case story. Three of the four “best cases” were completed without any additional guidance. Overall, most students were effective at choosing a confidential extract that interested them, and developing the case on their own. It seems likely that students in a face-to-face class will ask more clarifying questions as they have personal contact with the instructor before and after class and during office hours.

Faculty teaching a course during a longer ten to 15-week class period could divide the assignment into different milestones that stipulate dates by which students should identify an appropriate extract, draft their teaching case for faculty feedback, draft the teaching notes, and refine the final case and teaching notes. This would allow more faculty input to the process and could benefit weaker students.

Faculty may want to limit the CESR and ESMA extracts students use as the basis for their case. The more recent cases are likely consistent with current IFRS, as such, those reports published by the ESMA rather than the older cases published by CESR could provide more relevant cases. However, as seen in the Revenue Recognition case, the use of an older decision may be helpful in showing changes from a prior to a current standard. Faculty interested in having upper-level and graduate students develop cases that can be used in specific course offerings may pre-select certain ESMA decisions as the basis for case development. This would result in multiple cases for each decision. Students authoring cases on the basis of a specific decision could then work in a group to produce a final, group authored case that combines the best of their individual case proposals.

All the cases selected for classroom testing received high grades. However, as students classroom tested the cases, they found content that was either confusing or interfered with their ability to determine an appropriate solution. In some cases, the lack of understanding was a result of a student’s misreading of the case content or the lack of prior knowledge needed to solve the case. In other cases, the problem was with numbers included in tables or the attached financial statements. For example, accumulated depreciation was misstated in the initial Fair Value case. In another, cost estimates irrelevant to the Revenue Recognition case confused student research and problem solving. Faculty interested in adopting student-authored cases are encouraged to solve the case prior to using it as a class assignment. These complicating factors support the required classroom testing imposed by the peer-reviewed case publishers.

Appendix A

Case instructions module 4.3: Developing an IFRS teaching case (As of May 2015).

Module 4.3 Rationale:

As a School of Business student, you have used various teaching cases in your classes. You were exposed to three in the first two weeks of this class. This assignment gives you the opportunity to identify a financial reporting problem and develop a teaching case that helps students evaluate the appropriate IFRS reporting.

Learning Objectives for this Module:

Use the ESMA database to identify an interesting reporting problem.
Follow the instructions in the Assignment link to develop a case.
Develop thoughtful questions that help students tackle the case assignments.
Solve your own case in the teaching notes.

Required Readings:

Whatever it takes!

Assignment:

The European Securities and Markets Authority includes summaries of recent IFRS enforcement actions. The latest was published March 31, 2015. The link below will take you to the IFRS Enforcement page of the ESMA website. The ESMA Report on Enforcement provides you with background information on their activities. You should review the 16th Extract from the EECS’s Database of Enforcement to learn details of recent enforcement actions. If you scroll down the page you will find additional reports of this nature. <http://www.esma.europa.eu/page/IFRS-Enforcement-0.7>

⁷ This web link is no longer active.

You should read the enforcement actions thinking about which would be a good basis for a teaching case. As you read the enforcement actions ask yourself if you could develop a story about a financial reporting situation under IFRS that could logically result in the outcome of the enforcement action. The best teaching cases often include what appears to be a simple reporting problem that leads to a lot of judgment and decision making. Be sure you can identify the appropriate IFRSs that would apply to your case (that part should be easy as the ESMA often refers specifically to the standard). You will also have to develop a hypothetical company in a specific IFRS-using country or region as the basis of your story line. You may need to develop a set of financial statements (when I need to do this I find a sample company or composite financial information for an industry and adapt from there). Be sure your case focuses on a material reporting problem. As a hint, think about this as a detective story. You want to provide the basic facts and enough complicating information (perhaps in the form of a back-and-forth conversation between multiple people in an office) to make the case challenging.

Your outputs (what you need to submit to successfully complete the assignment) include:

An interesting title

An abstract of no more than 150 words that includes the ESMA citation and briefly explains what students will discover after working through the case

The case story

Questions students should think about as they solve the case

Appendices as needed

Teaching notes that provide your suggested solution.

The case itself is worth 100 points, the teaching notes 50 (this is approximately 18% of the course grade). My guess is you'll have lots of questions. I'm happy to help.

Appendix B

Basis for case 1, 2015.

XI Decision ref EEC/0214-11 – Disclosure of major customers (ESMA, 2014b).

Financial year end: 31 December 2011.

Category of issue: Operating segments, Entity-wide disclosure.

Standards or requirements involved: IFRS 8 – Operating Segments.

Description of the issuer's accounting treatment

83. The issuer is a listed company, which reports its activities as one segment in its financial statements. In accordance with paragraphs 32 and 33 of IFRS 8, the issuer made entity-wide IFRS disclosures on products and services as well as the geographical areas from which it earns revenues.

84. The issuer did not include any information about its major customers even though some sections of the issuer's annual report implied that the issuer had a limited number of customers.

85. Even though two customers each accounted for more than 10 percent of the entity's revenues, the issuer did not make the disclosures required in paragraph 34 of IFRS 8, arguing that it was a commercially sensitive information.

The enforcement decision

86. The enforcer disagreed with the non-disclosure of information about major customers and required the issuer to disclose such information within its financial statements.

Rationale for the enforcement decision

87. In accordance with paragraph 34 of IFRS 8, an entity shall provide information about the extent of its reliance on major customers if the revenues from a single external customer amount to 10 percent or more of an entity's revenues. Accordingly, the entity should disclose this fact and the total amount of revenues from each such customer.

88. According to paragraph 31 of IFRS 8, the provisions of paragraphs 32–34 of IFRS 8 apply to all entities preparing their IFRS financial statements, including those entities that have a single reporting segment.

89. Finally, paragraphs BC 43–45 of IFRS 8 do not include any exemption for disclosure on the ground that it is commercially sensitive information that could cause competitive damage.

Appendix C

Basis for case 2, 2015.

Extracted verbatim from the PUBLIC STATEMENT European common priorities for 2013 financial statements (ESMA, 2013).

Fair value measurement and disclosure

Issuers should assess the impact of any changes to their fair value measurement practice based on the requirements of IFRS 13 – Fair Value Measurement, defining fair value, clarifying and refining the principles for its determination as well as setting out its measurement framework. Appendix B of IFRS 13 provides detailed explanations and indicators that should be taken into account when assessing whether a market is active and the consequences for classification of fair value measurement within the fair value hierarchy.

IFRS 13 applies not only to financial instruments, but also to other assets, liabilities and equity instruments the recognition and measurement principles of which are included in standards other than IAS 39 Financial Instruments: Recognition and Measurement.

ESMA draws issuers' attention to the following specific elements related to fair value measurement:

Extracted verbatim from the REPORT ESMA Report on Enforcement and Regulatory Activities of Accounting Enforcers in 2014 (ESMA 2015c).

Fair value measurement

28. Considering the date of the first application of IFRS 13 Fair Value Measurement, ESMA decided to include specific elements in its 2013 European Common Enforcement Priorities. This assessment was performed by European enforcers on a sample of 100 issuers (both financial and non-financial institutions) from 20 EEA countries for which fair value measurement related to the application of IFRS 13 was deemed to be material. More than 90% of this sample included material items classified as level 2 or level 3 of the fair value hierarchy. These issuers included both corporates as well as financial institutions. ESMA highlighted the following issues:

Accounting policy

29. Almost 90% of issuers in the sample properly disclosed the accounting policy in accordance with the definition of fair value in IFRS 13 and disclosed all elements relevant for the issuer in the description of the accounting policy. For the issuers in the sample with items classified as level 2 and/or level 3 of the fair value hierarchy, more than three quarters provided appropriate disclosure of the valuation techniques in the fair value measurement. For the remaining issuers, disclosure of the valuation technique was incomplete or generic, mainly repeating the wording of the standard.

Aggregation

30. Almost all issuers provided disclosures based on appropriate classes of assets and liabilities, higher level of disaggregation for level 3 fair value measurements and adequately disclosed fair value measurements at the end of the reporting period.

Fair Value Hierarchy

33. Almost all issuers in the sample provided adequate disclosures on the fair value hierarchy for all significant fair value measurements. While almost 85% of issuers in the sample disclosed 12 separately the transfers into each level of the fair value hierarchy, three quarters of them explained the reasons for the transfers.

34. Almost 90% of issuers in the sample provided adequate fair value disclosures for non-recurring fair value measurements (e.g. IFRS 5 Non-current Assets Held for Sale and Discontinued Operations), even though only three quarters of them provided adequate disclosures for assets and liabilities not measured at fair value but for which disclosures about fair value measurement are required according to IFRS 13.

35. More than three quarters of issuers in the sample reported significant recurring level 3 fair value measurements calculated using significant unobservable inputs. More than 90% of these issuers disclosed the effect of the measurements on profit or loss or other comprehensive income for the period for all significant fair value measurements.

37. In 2014, as a result of the examination of the sample of 100 financial statements, European enforcers took 19 enforcement actions as follows:

- 3 required public corrective notes;
- 16 required corrections in future financial statements.

In addition, notifications were issued to a further 11 issuers without requiring a corrective action or public announcement. One further issue was still being considered by the national enforcer at the time this assessment was being finalised. Most of the actions taken or notifications issued relate to disclosures on level 3 fair value measurements (disclosures on use of valuation techniques, use of unobservable inputs and sensitivity analysis).

Appendix D

Basis for case 1 2016.

Decision Ref. EECS/0910-03: Revenue recognition (Committee of European Securities Regulators, 2010b).

Financial year end: 31 December 2008.

Category of issue: Revenue recognition.

Standards or requirements involved: IAS 18.

Date decision taken: 18 January 2010.

Description of the issuer's accounting treatment

The issuer is a football club which has entered into contracts allowing it to earn sponsorship income over given periods. The services rendered in return for such sponsorship include access to web and e-mail based marketing, admission to football matches, including the provision of meals and other events. Some of these contracts are for periods of less than 12 months. It appears from the accounts that most of the contracts were entered into in December 2008.

The issuer's accounting policy for revenue recognition is as follows: "Sponsorships and services comprising both income and expenses for the company are accrued over the relevant individual financial years. Sponsorships primarily comprising participation to sports events whose main purpose is networking with other business community members and granting admission to the company's football matches are recognised at the date of conclusion of a binding agreement. Sponsorship agreements of this nature with a term of more than 12 months are accrued in order to give a true and fair view."

Based on the accounting policy described above, for sponsorship contracts of less than 12 months, the issuer recognised all income in full at the date when the contract was signed. Moreover, it did not take into account the fact that the contracts cover different types of services which are to be provided over the contract period. Recognising the income on a straight-line basis over the length of the contracts would have reduced equity by 17% at 31 December 2008.

The enforcement decision

The enforcer concluded that the issuer's recognition of revenue with respect to sponsorship contracts with a period of service of less than 12 months does not comply with paragraph 20 of IAS 18 which requires income from services to be recognised by reference to the stage of completion of the transaction at the end of the reporting period.

Rationale for the enforcement decision

IAS 18, 'Revenue', paragraph 4 states that the rendering of services typically involves the performance by an entity of a contractually agreed task over an agreed period of time. When the outcome of a transaction involving the rendering of services can be estimated reliably, the standard requires the revenue to be recognised by reference to the stage of completion of the transaction at the end of the reporting period (paragraph 20).

This requirement applies to all such transactions, irrespective of the length of the contract term. Accordingly, there is no legal basis for the issuer failing to accrue income arising from sponsorship contracts with a term of less than 12 months over the period of the contract. Income from sponsorship contracts which extend over two financial reporting periods cannot be recognised in full in the financial year in which they were entered into simply because the agreements are binding.

The issuer argued that it only assumes limited obligations under the sponsorship contract (mainly relating to the provision of meals) and that this could not be seen as the rendering of services per se. The issuer referred to IAS 18, Appendix A, paragraph 117 to support its view. This paragraph, referring to 'Initiation, entrance and membership fees' states that "if the fee entitles the member to services or publications to be provided during the membership period [...], it is recognised on a basis that reflects the timing, nature and value of the benefits provided."

The enforcer did not agree with the issuer that this requirement permitted full and immediate revenue recognition in the circumstances of this case. The enforcer found it more relevant to refer to IAS 18, Appendix A, paragraph 15, which concerns income from "artistic performances, banquets and other special events". Under this provision, income should be recognised on a basis which reflects "the extent to which services are performed at each event".

It was, therefore, the enforcer's overall assessment that the sponsorship income should be recognised as services are rendered and as football matches are played in accordance with IAS 18, paragraph 20. In practice, the entity should adopt a method that measures reliably the services performed as indicated in paragraphs 24 and 25.

Appendix E

Basis for case 2 2016.

IV Decision ref EECS/0111-04 – Government grants (ESMA, 2011a)

Financial year end: 31 December 2008.

Category of issue: Classification of governments grants.

Standards or requirements involved: IAS 18, IAS 20.

Date decision taken: 26 April 2010.

Description of the issuer's accounting treatment

20. The issuer is a producer of green power. Specifically, it manages a number of local projects that process biomass into energy. The issuer identifies potential biomass projects and performs feasibility studies with the aim of eventually taking responsibility for the development, construction and operation of 8 the projects, in close co-operation with selected suppliers and partners. The issuer's sales comprise mainly the sale of electricity and green certificates.

21. Green certificates represent the environmental value of renewable energy generated. Under the national scheme, the issuer's generation of green power is first certified by an independent organisation which confirms the origin of production. The issuer then receives a certain number of green certificates depending on, and proportional to, the volume of green electricity generated and the amount of CO₂ the installation has saved in comparison to a referenced installation plant. The green certificates are allocated to the issuer on a quarterly basis by the regional government agency based on thresholds of quarterly production. The issuer can trade the green certificates separately from the energy that is produced.

22. A minimum amount of the electricity delivered by a supplier (who is not necessarily the producer of the electricity) to users has to be green electricity. Suppliers with only grey or 'dirty' electricity (i.e. electricity not produced with renewable energy sources), can buy green certificates either on the market on which they are traded or directly from a producer. Beyond the recording of their sale (when the conditions of IAS 18 – Revenue paragraph 14 were fulfilled), which is contracted at fixed prices under a long-term off-take agreement, no information relating to the accounting treatment accorded to green certificates was provided in the issuer's 2008 annual financial statements. On enquiry, it was confirmed that transactions with the regional government agency (acquisition of certificates) were not recognised in the accounting process. Furthermore, no information was provided in the accounting policies about the green certificates which were not sold at the end of the reporting period.

The enforcement decision

23. The enforcer required the issuer to determine, apply and disclose appropriate policies covering the acquisition, the presentation and measurement of the certificates within its primary statements. Following extensive discussions with the issuer, the enforcer agreed that the green certificates should be accounted for as government grants in accordance with IAS 20 – Accounting for Government Grants and Disclosure of Government Assistance.

Rationale for the enforcement decision

24. The enforcer found that the green certificates qualify as government grants in accordance with IAS 20, paragraph 3 as they represent assistance by government in the form of resources provided to an entity in return for past compliance with certain conditions relating to its operating activities. The certificates are income-related grants according to the standard, as the certificates are not long-term assets.

25. The qualification of the green certificates as income-related grants had a number of implications for the issuer's financial reporting. In accordance with paragraph 29 of IAS 20, the green certificates allocated by the regional government must be presented as a credit in the statement of comprehensive income, either separately or under a general heading such as 'Other income'; alternatively, they must be deducted in reporting the related expense. As required by paragraph 39 of the standard, the issuer had to disclose an accounting policy for government grants and provide the additional disclosures required in respect of the nature and extent of the government assistance given and any unfulfilled conditions or other contingencies attaching.

26. To the extent that the certificates were not sold by the end of the accounting period, the issuer proposed to recognise them under inventories in accordance with IAS 2 – Inventories as it was agreed that they are held for sale in the ordinary course of business within the meaning of paragraph 2.6 (a) of that standard. On sale, the income from green certificates is, in line with IAS 18, presented as 'Sale of 9 green certificates' and the related green certificates, included in inventory, are charged to production as part of the cost of sales.

27. The accounting policies relating to the accounting treatment of the green certificates were required to be disclosed in the financial statements as they were considered relevant to an understanding of the issuer's financial statements as required by paragraph 117 of IAS 1.

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