WORKING ON A NOT-FOR-PROFIT’S END OF YEAR REVIEW AS A FORM OF EBL

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ABSTRACT

Recently, I have begun to provide MS in Accounting students with the opportunity to engage in the process and steps taken to provide a not-for-profit with their year-end review. Students are able to experience this real-life work on a one on one basis with me. Given this is a new program, students participate through an independent study. Because it is often the student’s first exposure to any type of assurance work, it provides them with an excellent learning experience of what they would confront in an accounting firm and possibly the only experience similar to an internship if they happen to be an international student.

INTRODUCTION

At year end, many entities are required to have either an audit of their financial statements, a review of this same work or a compliance report based on an understanding of the entity’s transactions and internal controls. This requirement holds for for-profit and not-for-profit entities alike. The work is to be accomplished through an engagement with an independent certified public accountant (CPA).

Recently, I have begun to provide MS in Accounting students with the opportunity to engage in the process and steps taken to provide a not-for-profit entity through a firm that I, as a CPA established for this purpose. The advantage to engaging in a review, rather than an audit is that it is less complex and less time consuming. Further, it is more informative and a richer learning experience than what they would experience through a compliance engagement. Each year one student experiences this real-life activity through an independent study working one on one with me. Conducting this assignment as an independent study is preferred to a larger class setting because it is a relatively new experience for the student as well as myself. This is also important since a nonprofit’s financial report is at stake and it is easier to monitor the activities of one student as compared to a group of students. The work is accomplished using software created for and sold to accounting firms – proprietary software for a review.

This manuscript discusses the details of this independent study. The remainder of this paper is structured as follows: first, there is a discussion of theoretical underpinnings related to experiential based learning for business activities and internships, linking the literature to the educational aspects of the independent study and the experience for the student, second, a description of the work required in this exercise including details of the processes used, the expected outcomes resulting from these activities, feedback from those that have participated in the exercise, along with a discussion of the benefits and the difficulties associated with this experience. Further, future plans for the project are also considered.

THEORETICAL BASIS

Research suggests that active learning generally leads to better student learning outcomes than a traditional lecture (Morgan et al., 2005) and experiential learning has been shown to have a positive, significant effect on student learning and the students’ perceptions of their learning (Burch et al., 2014). The appealing aspect of the project discussed in this paper is that this experience is an active learning endeavor and is essentially the type of work expected to be performed by a staff accountant in an accounting firm. In the academic setting, it is more intense because the student is engaged in learning the concepts through readings and discussions concurrently while working through the review procedure. This implies that the practical experience takes place along with the “textbook learning” through the independent study.

Cannon and Geddes (2019) argue that their initial intuition regarding internships was correct in that “the mere completion of an internship would involve the learning of generalizable, and presumably, useful principles.” Further, they suggest that an internship could reduce or eliminate the need for education. However, they also posit that unique experiences such as internships are useful in education and therefore should be valued as an experience rather than merely a stepping stone to a job offer. The review for the nonprofit, as an active learning experience may be viewed similarly to an internship. However, this independent study involves more than what would be experienced through an internship. The review process begins with readings promulgated by the American Institute of Certified Public Accountants (AICPA), requires regular one on one meetings with me as the instructor and continues until the financial report is completed. During this time, I monitor the work completed by the student on a regular basis through these ongoing meetings. Therefore, the student is able to map this work to the relevant literature as well as the concepts taught in accounting and auditing classes that are required for an accounting degree. In this sense, the student should be able to use this experience to validate what he has already learned through the completion of this project. As a result, one would expect this
experience to be of more value than an in-office internship as it adds more tools to his accounting toolkit and should instill confidence in the student’s ability to complete similar tasks in the real world setting when employed in an accounting firm.

The goals of the independent study are to (1) familiarize a student with the accounting standards established for the review process, (2) provide a student with the opportunity to create working papers required for a review and sign off on the review steps expected for completion of the job, (3) help a student understand the building of the financial statements from the detailed accounts data, (4) have students learn more about the rules associated with nonprofit accounting that to some extent differ from those for a for-profit entity and (5) encourage critical thinking and creativity as students evaluate the financial condition of the not-for-profit to determine if it is a going concern and provide recommendations for the entity.

THE EXERCISE

This exercise may be the student’s first exposure to any type of assurance work as some of these students entering our graduate accounting program have had no internships in an accounting firm or other similar experiences. This is the type of student that would best benefit from the experience and the one sought out to participate in the independent study. The work conducted through the independent study is intended to be carried out by a graduate student, in this case a student earning an MS in Accounting degree. The educational background and maturity level of students in this program should be more appropriate to conduct the required work independently. Further, this exercise provides the student lacking any previous internship with an excellent learning experience that relates well to the real world and should provide some insight regarding client work in an accounting firm.

There are a number of steps involved in this review exercise to complete the client’s work as part of the independent study:

1. A reading and discussion of the review standards established by the AICPA
   - The AICPA literature is comprehensive in laying out the necessary work to complete the review, including a collection of readings related to conducting a review, starting with the initial documentation, the engagement letter, the analysis of the client’s accounts using the trial balance, and guidelines for following up with the client when numbers are considered to be materially different as compared to some benchmark. The student would spend at least two weeks reading and discussing this literature with me.

2. Discussions with the client regarding the entity, any unusual events or transactions and any other changes in management or processes that may have occurred during the year
   - An understanding of the client’s operations over the year, how transactions were carried out, that is who authorized a transaction, who recorded the transaction and who reviewed the work completed for transactions would be included in the initial interview with the client’s management. Once an understanding of the firm's operations has been established then the tasks should be identified for the entity’s review. This part of the independent study is based on a joint effort between me and the student since this work is novel to them; and it is extremely important that they understand the basic details of the entity and what activities could have caused the account balances to be different from what they are expected to be.

3. A dive into the client’s documents (hard copy), general ledger (Excel document) and trial balance (Excel document) to understand the nature of the balances for each account
   - Transactions for a company are recorded in the general ledger. For a nonprofit (a health care entity), the majority of the transactions are the result of contributions, fund raisers and grants for the revenue accounts; and expenses are generally human resource costs for time worked in the office and at clinics with patients, supplies consumed during the year and rent for space used for administrative and patient purposes. All transactions related to the recognition of revenues and expenses (and related assets and liabilities) are included in the accounts in the general ledger. The trial balance is a summary of the ending balance for each account in the general ledger.

   The student would conduct analytical procedures on the balances for each account listed on the trial balance to highlight which accounts should be probed in more detail, based on the prior knowledge of the client (learned during the completion of step (2)) and comparisons with benchmarks that were already established. These benchmarks are the trial balance from the prior year and the budget for the current year. The identified differences that are investigated are based on a level of materiality that is established by me for the engagement.

   If an account balance exceeds the level of materiality, then further work is done by the student. The first step for this additional work is a review of the hard copy documents that were the basis for the recorded transactions.

   Cash reconciliations should always be completed by the client. As part of the review, the student inspects the monthly reconciliations to determine if the bank balances agree with the general ledger balance. It does not matter whether these balances are the same as the prior year or budgeted balance, that is there are no material differences, this step is a required task for the review because of the importance underlying the cash account.
4. Discussions with the client regarding unusual variances associated with entity’s account balances
   - Based on the findings from part (3) above, the student would then interview the entity’s management to inquire about material differences that existed and were still in question following the review of hard copy transaction paperwork. Explanations for these differences would then be documented in the working papers of the review.

5. Assembling the financial statements, preparation of the footnote disclosure and completion of the annual financial report
   - The financial statement and footnote disclosures are prepared based on AICPA standards, knowledge of the entity, information included in the prior year’s annual report and the significant changes noted during the year for the entity. Once the student has satisfied himself and me that all of the legwork has been accomplished, the student would then proceed to produce the current year’s annual report.

6. Obtain written representation from the entity’s management and provide recommendations based on the findings from the review
   - One final piece is required for this project, a management representation letter indicating that management is responsible for all services performed within the entity. The entity’s management designates this by signing this representation letter and returning it to the student.

   Further, any recommendations for improvements or other changes for the entity that have been identified during the course of the review would also be written up by the student and reviewed by me. It is then presented to the entity’s management and should include any issues regarding sustainability, if that appears to be a concern.

7. Signing off on the steps identified in the review paperwork (available through the proprietary software) that have been completed
   - Through the review software, the specific tasks to be carried out to evaluate the entity, analyze the accounts balances and complete the annual report are listed. Once a step is completed the student would sign off on it (initials and date of completion) indicating it had been done. Following the completion of the job, it is important to check that all steps have been signed off on, indicating completion.

   At the start of the project, all of the review steps are outlined for the student and we discuss each one and the implications surrounding each step. The student meets with me on a regular basis (generally weekly) to review what was accomplished and how to proceed with the next steps. During this meeting and at any time when there is some uncertainty, a Q&A session takes place to assure the student as well as myself that he understands what is required and why that particular task is required. The steps are clearly outlined for this review. There is a lot for a student to absorb and work through. However, this is the type of work that is expected while employed in a public accounting firm.

   Through this exercise, the student learns a number of lessons that would impact him at the start of his accounting career and hopefully allow him to realize the steps that should be taken to mentor others in a similar setting in the real world. The lessons learned include taking on responsibility for such a project, learning how to ask questions when uncertainty exists regarding a step in the project, identifying the appropriate working papers and tasks that need to be developed for a project, specifying what constitutes materiality for an entity’s account balances when compared to some benchmark, treatment of anomalies when balances are different from what is expected and pulling the entire job together to complete the project.

   One aspect that is of particular value for the student is learning to talk with a client regarding details of the entity as well as asking questions regarding the account balances. It is important to learn these communication skills and actually participating in these inquiries should make the student more comfortable with and aware of how important it is to correspond with the client.

   **CONCLUSION**

   On a practical level, this exercise highlights the need to develop stronger linkages between actual annual financial reports for entities and a student’s learning process. Having students become more aware of the extent of the work involved in the review should provide them with more knowledge to work through similar projects in an accounting firm as well as confidence to interview and talk with recruiters. A weakness of this exercise is that the active student learning was not compared to student learning delivered though a more traditional lecture format, but the anecdotal evidence suggests that students enjoy this exercise and easily recall it well following the end of the project, indicating a positive effect from the experiential learning on the student perceptions of learning.

   This thought-provoking and challenging active learning exercise helps students understand the issues underlying the creation of financial reports and more importantly the review process that ultimately results in the completion of the financial statements and related disclosure. Further, the communication with the client is a valuable experience that should help them with the interview process, when on the job market and when assigned that particular task as part of an audit, review or compliance engagement. This is knowledge they can take with them into their careers as practicing accountants.
Another advantage of this exercise is that the entity is still in existence and will need reviewed financial statements every year going forward. The project will be updated each year to reflect the new activity for the nonprofit, as well as any changes that are promulgated by the AICPA in the accounting standards for reviews. A goal for future years is to open this up to more students as I believe that working together is also a benefit because they will be able to learn from each other and use their group as a sounding board for ideas related to entity and review issues that they encounter. I would continue to limit the number of students, possibly 3 to 5 to maintain better control over the quality of the work being done.

On another note, proprietary software was used for this particular exercise. The cost of the software is not inexpensive. The recommended procedures that are identified in the software are also available through the AICPA literature regarding the review process. Going forward, I plan to create a document that enumerates the tasks to be completed as required by and based on the AICPA standards for reviews. Additionally, a more formal set of instructions for a student will be developed by me. This should make the exercise more economical and feasible for any masters in accounting program to conduct.

REFERENCES

