

Sorry Harvard, but I don't like the Case Method: A Rebuttal (and An Affirmation)

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In a recent paper, use of the case method as the primary means of instruction was criticized for failing to adequately bring together both theory and practice (Pasricha, 2016). The purpose of the current paper is to rebut (and affirm) some of the concerns that Pasricha had with the case method as well as to provide an example of a case that addresses concerns raised in the Pasricha paper. The example case provided in the current paper addresses all of Pasricha's concerns and demonstrates that a well-constructed case can combine theory and practice. The case method, as currently used in many business schools, often does not specifically require the application of theory to practice. Requiring learners to apply theory to a problem from an actual business situation can reinforce theory in ways that simply reciting theory cannot accomplish. This author intends to show that the case method is good pedagogy. The problem is not the case method; the problem is the application of the case method

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Introduction

In a recent paper, use of the case method as the primary means of instruction was criticized for failing to adequately bring together both theory and practice (Pasricha, 2016). The purpose of the current paper is to rebut (and affirm) some of the concerns that Pasricha had with the case method as well as provide an example of a case that addresses his concerns.

The Case Method is a teaching method used in the Harvard Business School and in many other institutions of higher education around the world. One of the features of the Case Method is that it requires active participation by the learners. The case method was first used at Harvard Law School in the late 1800's and remains a popular method of teaching the Law at Harvard and other Law Schools. Not all students at Harvard are supporters of the Case Method as a means of teaching Law. In a very personal account one former student (Turow 2017) recounts his experience in his first year at Harvard Law School. The case method, as used today in modern business schools (b-schools) is generally structured to require learners to integrate seemingly disconnected information in such a way that a decision can be made about a business situation or problem. As used at Harvard Business School, the case method has three distinct and equally important steps. First, students study the case individually and prepare their own comments. Second, students come together in small groups and discuss the case and their comments or suggested solutions. Together the group will formulate a

suggested solution or decision. Third, the class meets and discusses the case, examining many possible solutions or decisions. As students are exposed to more ideas, the group should come to the best solution or decision.

“The case method of management instruction is based upon the belief that management is a skill rather than a collection of techniques and concepts” (Stanford, 2017). It appears to be this understanding with which Pasricha has problems. At Stanford it appears that instruction in theory and techniques is not the purpose of case method instruction. The underlying theory and concepts must be explored prior to a student beginning to study using the case method. If this is not what is happening at Goa Institute of Management (GIM), then perhaps GIM needs to revise their curriculum. This paper presents a case that could be used as a method of instruction to teach theory and/or to explore practical problems of applying theory.

Pasricha listed the following five specific challenges inherent in using the case method of teaching. This author agrees with most of the challenges listed in Pasricha’s paper but also believes that the case method can be used effectively in the academic environment if the case is structured in a way that requires the student to research theory and apply theory in addressing the solution to the case. In some places, the following list is paraphrased, but the essence of the five criticisms has been maintained in the list.

1. The cases available to most classroom instructors are basically out-of-date and do not reflect contemporary issues being faced by business managers.
2. “Most cases do not lend themselves to easy application of theoretical principles and tools which may have been taught in formal classroom sessions or described in chapters of a textbook.” Interviewing people directly involved in the most intriguing and challenging business situations takes time. Many parties involved are unavailable, or unwilling, to talk about the situation for several years.
3. Teaching theory and combining it with practical applications is challenging for any instructor and most cases do not lend themselves to the integration of both theory and practice.
4. “Most teaching faculty in B-schools have limited (often no) prior working experience in industry...” and therefore have very little credibility in translating theory into practice.
5. The length and complexity of most available, published cases discourages learners from doing the necessary pre-class preparation.

The Pasricha paper goes on to list three conditions necessary for the Case Method to become an effective teaching tool in modern B-schools. His conditions are tied to his complaints—cases should be selected to blend theory and practice; faculty using the Case Method should have industry experience, and there should be a balance between class sessions dealing with theory and those dealing with practical applications. The illustrative case provided in this case meets all of the conditions identified by Pasricha. It was used on the second day of a two-day session on revenue recognition in which the accounting standard was presented in a traditional lecture format and the case was a requirement for the second day.

The Case Method of teaching, at least in those B-schools with which this author has been associated, tends to be used in non-quantitative type classes—management and marketing to single out two disciplines that make significant use of the Case Method. One quantitative discipline that seems to also lend itself to the Case Method is finance. Accounting (the discipline of this author) does not generally use the case method. However, accounting does often use short vignettes (mini-cases) requiring the learner to make a decision based on a small amount of data. These little

vignettes generally tie theory to practice very well. For example, in teaching managerial accounting, various methods of dealing with resource allocation in capital budgeting are presented. After the 'theoretical' methods of evaluating various capital projects is presented, a small case can be assigned in which the learner is asked to evaluate several proposed projects and determine, quantitatively, which project or projects should be pursued. After the most desirable (from a quantitative perspective) decision is made, the learner can be asked if there are other factors which might cause management to pursue a less than desirable (from a quantitative perspective) project. This is one way accounting tries to integrate theory and practice. This particular example does not require that the instructor have a great amount of industry experience (but, admittedly some experience helps). Other sub-disciplines within accounting—tax and audit, specifically—make some use of the case method, but tend to concentrate on larger, more comprehensive 'problems' to integrate theory and practice. In tax, a common use of cases is to have the learner prepare an actual tax return from a given set of facts that can often be interpreted differently. In audit, cases may be presented that combine audit theory with accounting theory that deal, as in the case included in this paper, with the appropriate reporting of a business transaction. Also audit makes use of cases that deal with evaluating the level of risk associated with certain accounts, transactions, or industries.

Classes in financial accounting have most generally approached teaching the subject in the traditional lecture format and then using smaller more narrowly-focused 'problems' to reinforce the material covered in the lectures. Together with a colleague, this author experimented with teaching one of the more difficult financial accounting topics using the theory/practice method through a case we developed from a situation that we were aware of from sources outside our normal accounting channels. This case is illustrative of the type of cases that could address the concerns expressed by Pasricha. Specifically, the illustrative case addresses Pasricha's concerns in the following manner.

1. At the time this case was first developed and used, the topic was very current. Since the case was developed using publicly-available materials, no interviews were required so there was no lag between the facts and the case development. The ultimate default by the company on nearly 60% of the loans was not given in the case but could have been found by the learner very easily. However, knowing the outcome did not really help the learner address the issues of the case.
2. The case presented in this paper ties theory and practice together by asking learners to use the conceptual, theoretical understanding of the elements of financial statements and the revenue recognition accounting standards to make a business decision. At the time the case was developed, the joint revenue recognition standard had not been finalized by the Financial Accounting Standards Board (FASB) or the International Accounting Standards Board (IASB). The joint standard was later issued by the FASB as Accounting Standards Update 2014-09, Revenue from Contracts with Customers (ASU 2014-09), and simultaneously issued by the IASB as International Financial Reporting Standard 15—Revenue from Contracts with Customers (IFRS 15). The teaching notes, which accompany the case but are not presented here, use U.S. accounting standards that were in place at that time, but this case could easily be adapted to use the new revenue recognition standard for accounting for contacts with customers (or any future revenue recognition standard). Knowledge of the accounting standards are expected for entry-level accounting graduates and required for passing the examination for entry into the U. S. accounting profession. However, application and interpretation of the standards is often required in the professional practice of

- accounting. This case provides a bridge between 'knowing' an accounting standard and applying standards to actual business transactions.
3. The case method could not, and will not, replace traditional lectures in most accounting courses, but could certainly be used to reinforce a learner's understanding of very difficult material. If a specific university curriculum experiences high failure rate on the accounting professional licensing exam, learners will demand changes in the curriculum or will seek other curriculums that prepare them for the professional exams. "Eraut (1994) discussed the role of 'professionals specifying and controlling the content of the related knowledge base' and in setting 'admission standards based on acquisition of the knowledge data base.'" (Parkinson and Chew, 2016, p.33). It appears that what is needed in accounting, as much as in other business disciplines, are well-structured cases that permit learners to apply this knowledge data base to practice.
 4. The authors of the case presented in this paper cannot objectively address the issue of industry-related experience since both authors have extensive experience in both the professional practice of accounting and in other accounting environments. However, we can speculate that those without professional practice experience would feel uncomfortable facilitating a discussion on something that appears, on its surface, to be so contrary to existing standards. However, without an academic background, the possibility of an answer other than one that hinges on an understanding of a specific accounting standard appears to be unthinkable. For example, one very well respected practicing accountant who reviewed this case before it was field-tested, commented that there was only one possible answer – recording the transaction in accordance with the legal substance of the transaction instead of the economic substance of the transaction. However, the authors felt that this response was exactly what caused criticism of the rules-based approach to the practice of accounting that was used, and is still being used, by accounting practitioners in the United States.
 5. Instead of inundating the learner with 10-12 pages of explanation and numerous pages of appendices, the case presents only five pages of explanation, excluding the bibliography. Admittedly some of those pages of explanation could probably have also been omitted and not affected the development of the case. In the early stages of development of the case, the authors included many charts and graphs showing the movement of prices in the sugar market but later realized that a simple statement that the market prices for sugar at the time of the loan and at the default date were below the loan rate would be sufficient for development of the case. This author believes Pasricha (2016) is correct in his criticism of the length of cases available for use in the classroom – learners will not read massive amounts of data any more than busy executives will. It is reported that Ronald Reagan, former U.S. president, would not read a report that exceeded one typewritten page in length, which was also true of Sir Winston Churchill (former Prime Minister of the U.K.). Reagan is credited with saying "If you can't summarize an issue on one page, you don't understand the issue well enough." Perhaps this is true for summarizing an issue, but in case development enough facts must be presented to give the learner a feel for the data available to a decision maker and to help a learner begin to separate essential from nonessential data.

The case that is included with this paper is an example of a case, based on real data, which permits the integration of theory and practice. This case combines theory and practice and addresses

many of the criticisms identified by Pasricha as well as the three conditions necessary for the case method to become an effective teaching tool in B-schools.

Revenue or Liability? A Case Study*

Abstract

This is a theoretical accounting case dealing with reporting transactions in accordance with the legal substance of the transaction versus the economic substance of the transaction. This case was classroom tested on approximately 48 graduate accounting students at a major U.S. public university. It asks students to decide if revenue should be recognized in accordance with the economic substance or legal substance of a specific transaction and to defend or justify their decision, balancing accounting standards with good theory and logic.

Introduction to the Reporting Dilemma

Sam Call*, CPA, newly-appointed CFO for American Crystal Sugar Company (ACSC), a U.S.-based agricultural cooperative sugar processor, was contemplating the company's 3rd quarter 2013 financial statements. One of his major concerns was how to report the cash received from the United States Department of Agriculture (USDA) through its Sugar Loan Program (SLP). ACSC had engaged in several SLP transactions earlier in the year. The most recent was a \$71.2 million transaction in early September (Wexler, 2013). Although technically the cash was received through a nonrecourse loan program, the underlying legislation gives processors the legal right to forfeit the sugar on the repayment date without penalty. Sam has carefully studied the current business environment and the business environment known on the date of the most recent SLP transaction and has determined that, on the date of the transaction and on the current date, there is evidence that it is very probable that the nonrecourse liability incurred in early September will be satisfied not by repayment of the loan but rather by defaulting on the loan and transferring the collateral (sugar stored in silos) to the USDA.

Sam is a newly-appointed CFO and does not want to present financial statements that are not in accordance with U.S. generally accepted accounting principles (U. S. GAAP). On one hand, the legal substance of the transaction is a loan which requires disclosure as a current liability. On the other hand, reporting a \$71.2 million current liability on 3rd quarter financial statements that will become revenue in the 4th quarter seems wrong to Sam. Recognizing the loan proceeds as revenue in the 3rd quarter would report the economic substance of the transaction. Sam swivels around in his chair, takes a sip of his coffee and looks out the dusty window of his office. He is remembering his graduate Theory of Accounting course and wishes now that he had retained more of the content of that course. Sam feels quite comfortable with his knowledge of U.S. GAAP reporting requirements but not quite as comfortable with the theoretical underpinnings of GAAP. How should the \$71.2 million be reported? Should it be reported as a liability, in keeping with the legal substance of the transaction? Or should it be reported as a revenue since all available evidence on the date of the transaction, and on the financial statement date, indicates that it was/is more likely than not that ACSC will default on its loan and 'sell' the sugar to the USDA therefore converting it to a revenue?

Although the 3rd quarter financial statements do not have to be filed until 45 days after the end of the quarter, Sam must provide the ACSC CEO a draft copy of the financials before the end of the month so the CEO can prepare for the quarterly member meetings to be held in various locations on several dates on or about the 5th of October. Sam must decide what he wants to do very soon and

he realizes he must be prepared to defend his decision to the CEO and to the member/shareholders. The additional revenue would be welcome news to the members who have seen depressed sugar prices being reflected in the financial statements of their cooperative. Also, decreasing the current liabilities would affect, in a positive manner, several key operating ratios.

Sam takes another sip of coffee and thinks, "Taking out the large SLP loan so close to its maturity date was good business practice, but how can I make that evident in the 3rd quarter financial statements?" Managers are evaluated on operating results and this very wise move on the part of ACSC management might be lost on the members if the loan is reported as a liability and not as revenue. Why didn't I retain more of what I learned in Theory class? Why did I think all I had to do was memorize the rules? Even the rules don't seem to help because it is hard to tell which part of the Accounting Standards Codification (ASC) is the most appropriate to apply in this situation.

Introduction to the USDA's Sugar Loan Program

As a matter of public policy, the USDA through the Farm Service Agency (FSA) supports the market price of sugar in a variety of ways. To support sugar producers, the USDA provides loans to sugar producers (rather than directly to the farmer/producer) through the Sugar Loan Program. It is loans through this program which are the source of Sam's concerns.

Loans to sugar processors are secured (collateralized) by the sugar already in their silos. Good business practices dictate that if the market price of sugar on the maturity date of the loan exceeds the price per pound on the loan date, sugar producers will sell their sugar and repay the loan. Conversely, if the market price of sugar on the maturity date of the loan is less than the price per pound on the loan date, sugar producers will most likely default on the loan and turn over the collateral to the USDA, effectively selling the sugar to the USDA.

In September 2013, ACSC had taken out additional loans from the USDA, putting up sugar at \$.2393 per pound as collateral for the loan. Futures sugar trades on that same day were around \$.21 per pound. On the day the loan was taken out, it appeared that the price of sugar would not be above \$.2393 per pound by the maturity date of the loan—October 1, 2013 (USDA, 9/18/13). Sam's concerns, as he reviewed a tentative draft of the financial statements, was the presentation of the proceeds of these SLP proceeds. Should ACSC report the proceeds as a current liability in its 9/30/13 financial statement (in accordance with the legal substance of the transaction) or as a revenue (in accordance with the apparent economic substance of the transaction)? If it is presented as a current liability is it more appropriately presented as a note payable or as unearned revenue? If it is presented as revenue, when should the reduction in inventory be booked and at what value?

Introduction to ACSC

American Crystal Sugar (ACSC) is an agricultural cooperative owned by its members/shareholders. ACSC is the largest processor of beet sugar in the United States. Its 2013-2014 allocation of 1,967,161 tons was approximately 37% of the USDA total allocation for the period. American Crystal Sugar has a wholly-owned subsidiary, Sidney Sugars, which processes sugar beets. Marketing of ACSC sugar is done through United Sugar, a marketing cooperative.

In its 2012 financial statements ACSC reported the following (in \$000s):

Revenues	\$1,479,095
Gross Profit	\$ 867,842
Operating Income	\$ 568,786

Income from Continuing Operations	\$ 548,253
Current Assets	\$ 391,401
Total Assets	\$ 899,480
Current Liabilities	\$ 320,542
Total Liabilities	\$ 600,671
Stockholder's Equity	\$ 298,809

Sugar Program: The Basics (Jurenas, 2013)

The sugar program provides a price guarantee to the processors of sugarcane and sugar beets, and in turn, to the producers of both crops. The USDA further is directed to administer the program at no budgetary cost to the federal government by limiting the amount of sugar supplied for food use in the U.S. market. To achieve both objectives, USDA uses four tools – authorized by the 2008 farm bill and long-standing trade law – to keep domestic market prices above guaranteed levels. One of the tools is price support loans at specified levels. It is these price support loans that are the subject of this case.

Non-recourse loans taken out by a processor of a sugar crop, not producers themselves, provide a source of short-term, low-cost financing until a raw cane sugar mill and beet sugar refiner sell sugar. Their “non-recourse” feature means that processors—to meet their repayment obligation—can exercise the legal right to forfeit sugar offered as collateral to USDA to secure the loan, if the market price is below the effective support level when the loan comes due. The price levels at which processors can take out loans are referred to as “loan rates.” The raw cane sugar loan rate (\$0.1875/lb.) is lower than the refined beet sugar loan rate (\$0.2409) to reflect its unprocessed state. Raw sugar must be further processed by a cane refinery to have the same value and characteristics as refined beet sugar for use in households and in food manufacturing. The minimum market price that a processor wants to receive in order to remove the incentive to forfeit sugar and instead repay a price support loan, though, is higher than the loan rate. The “effective support level,” also called the loan forfeiture level, represents all of the costs that processors want to cover if they decide to repay the loan. These costs equal the loan rate, plus interest accrued over the nine-month, or less, terms of the loan, plus certain marketing costs. The effective support level for raw cane sugar is \$0.2094/lb.; for refined beet sugar it ranges from \$0.240 to \$0.2762/lb. depending on the region. If market prices are below these loan forfeiture levels when a price support loan comes due (i.e., July to October 1), and a processor hands over sugar earlier pledged to obtain this loan rather than repay it, USDA gains title to the sugar and is responsible for disposing of the sugar.

U. S. Generally Accepted Accounting Principles (GAAP)

Liabilities are defined in the professional literature as “probable future sacrifices of economic benefits arising from present obligations of a particular entity to transfer assets or provide services to other entities in the future as a result of past transactions or events.” [emphasis added] (FASB, 1985, par. 35).

Revenues are defined in the professional literature as “inflows or other enhancements of assets of an entity or settlement of its liabilities (or a combination of both) during a period from delivering or producing goods, rendering services, or other activities that constitute the entity’s ongoing major or central operations.” (FASB, 1985, par 78)

Requirements of the Case

1. What entry should ACSC make on the date of the sugar loan in early September?
2. How should Sam report the loan proceeds on the 3rd quarter financial statements?
3. Given your answer in #1, what entry should ACSC record on the date of the default?
4. Defend your opinions/answers with reference to accounting standards, good theoretical logic, and quantitative evaluations.
5. How would your answers change if the due date of the loan was September 30 rather than October 1.
6. Would your answers differ if ACSC reported using International Financial Reporting Standards (IFRS)?

Conclusion

The author believes that this case addresses the concerns Pasricha had concerning using the case method as a pedagogical tool. This case presents learners with a situation in which the economic substance and the legal substance of a transaction conflict. The problem presented in this case presents a situation not unlike the problem faced by accounting standard setters involving certain long-term leases in which the legal substance of the transaction and the economic substance of the transaction were different. In the case presented here, there is no reason to believe that a rational business person intends to repay the 'loan' in cash. Since the sugar is already segregated and the USDA assumes all costs of disposition of the sugar, a rational person would conclude that ACSC has effectively 'sold' the sugar to the USDA.

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**This case was originally developed by this author and Dr. Lance Fisher for use in a graduate-level accounting course at a major U.S. university. Dates in the case are in the American-format of mm/dd/yy rather than the dd/mm/yy format used in major parts of the world because ACSC is a U.S.-based company and the case was originally used at an American university. The case is based on publicly available information regarding American Crystal Sugar in the period leading up to their default on loans received through the USDA's Sugar Loan Program. The only changes to that information has been to change the due date/default date from September 30, 2013 to October 1, 2013 to allow for consideration of the appropriate treatment of the loan proceeds in 3rd quarter financial statements. Sam Call, CFO, and his thoughts on how to report the proceeds of the sugar loans are entirely fictitious.*