The Pathways Commission

Vision for
the First Academic Exposure to
Accounting

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AAA 2014 Western Region Meeting
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A widely held perception of accounting is that it’s the process of “bean counting.”
The public perceives accounting as a mechanical, black-or-white, right-or-wrong process.
Reality is that accounting plays a critical role in supporting a prosperous society.
This is the “Pathways Vision Model.”
Often it is said that ...

Accounting is the language of business.
The public’s view of accounting following “black and white” rules, while essential, is only the grammar.

However, the public’s perception is narrow.
A subtle aspect of accounting, like nuances in other languages, is that it both affects and is affected by the business reality and culture.
Critical Thinking
Consequences of User Decisions
Prosperous Society
Accounting Judgments
Decision Making Hierarchy

Outside companies
- Congress
  - SEC
    - Other
      - FASB
      - PCAOB
        - GAAP
        - GAAS

Inside companies
- Board
- CFO
- Controllers
- Record keepers

Reports → Users
Auditors

Special interests

Voting public
- Media

Education
As educators, our goal is to shift the perception toward the reality.

The first course has the broadest impact.
Teaching the Vision Model Elements

Drill Deeper

Concept Extensions & Applications
Federal regulators have warned banks to be careful about padding their profits with money set aside to cover bad loans. But some of the nation’s biggest banks did more of it in the third quarter than earlier this year.

The banks justify the releases. They cite improvements in credit quality and economic conditions—which make it less necessary for them to hold large amounts of reserves as a cushion against loans that go sour—and they say they are following accounting rules that require them to release funds as losses ease.

A Bank of America spokesman said "the significant impact in credit quality we've seen in the last 12 months" has driven the reserve releases. J.P. Morgan, Wells Fargo and Citigroup all pointed to previous comments their top executives recently made indicating that reserve releases were merited because of factors like improving credit quality and the recent increase in housing prices.

But the Office of the Comptroller of the Currency, which regulates nationally chartered banks and federal savings associations, is reiterating warnings to banks about overdoing it.
Teaching the Vision Model Elements

Big Banks Are Padding Profits With 'Reserve' Cash
As Revenue Slows, Some Banks Increasingly Use Loan-Loss Reserves to Boost Income

By MICHAEL RAPPORT
Updated Oct. 25, 2013 7:23 p.m. ET

Federal regulators have warned banks to be careful about padding their profits with money set aside to cover bad loans. But some of the nation’s biggest banks did more of it in the third quarter than earlier this year.

J.P. Morgan Chase & Co., Wells Fargo & Co., Bank of America Corp. and Citigroup Inc., the nation’s largest banks by assets, tapped a total of $4.9 billion in loan-loss reserves in the third quarter, up by about a third from both the second quarter and the year-ago quarter after adjustments. All the banks except Citigroup showed significant increases compared with the second quarter.

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A Bank of America spokesman said “the significant impact in credit quality we’ve seen in the last 12 months” has driven the reserve releases. J.P. Morgan, Wells Fargo and Citigroup all pointed to previous comments their top executives recently made indicating that reserve releases were muted because of factors like improving credit quality and the recent increase in housing prices.

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Wall Street Journal, October 25, 2013
Teaching the Vision Model Elements

- Analysis
- Ratio effects
- Financial-statement effects
- Entries
- Computations
- Accounting Judgments
- Analyze economic activity
- Events
- Risks & incentives
The vision accommodates diverse educational missions:

- All of the elements can be emphasized at various levels based on each school’s mission and students.
- The Vision Committee recommends the **first** course cover at least a general awareness of all of the elements and the ways they are connected.
THOUGHTS?

Get the Pathways Commission Vision Model at AAA Commons

www.pathwayscommission.org