An historical perspective on governmental accounting education

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A R T I C L E   I N F O

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A B S T R A C T

This paper presents a senior governmental accounting educator’s perspectives on how governmental accounting education has changed over the past 35 years and what we can expect for the future. Having begun my academic career during the 1970s, a period of turmoil and debate about the deficient state of governmental accounting, I look at how events of this period influenced my personal decision to specialize in governmental accounting education and how those events led to a path of dramatic improvement in governmental accounting standards, practice, and education. Key trends in governmental accounting education are discussed along with major changes in practice guidance over the years that have challenged textbook authors and faculty in staying abreast of change. The paper identifies many governmental accounting educators who have made significant contributions to governmental accounting and auditing policy and encourages current educators to seek ways to participate in the policy-making process. Finally, the paper discusses the future outlook for governmental accounting education and concludes that governmental accounting educators are well positioned to contribute to achieving the recently released recommendations of the Pathways Commission (2012).

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1. Introduction

The editors of this special edition asked me to provide an historical perspective on governmental accounting education, presumably based on my long academic career as a governmental accounting...
teacher, researcher, textbook author, and frequent participant in the policy-making process. Following their recommendations, I discuss early influences on my career that led me to specialize in governmental accounting, the predominant trends that I have observed in governmental accounting education, the major pressures on textbook authors and instructors in staying abreast of rapid change in practice guidance, the major policy contributions made by governmental accounting educators, and the outlook for the future.

2. Early influences on my career

Given the public’s pervasive low opinion of everything governmental, one might wonder why any academic would select governmental accounting as his or her chosen field. In my case, several factors come to mind as influencing my early career decision to specialize in governmental accounting, a decision I have never regretted. I entered the Ph.D. program at the University of Missouri-Columbia (MU) immediately after retiring from the U.S. Air Force in 1977. No doubt my military experience and exposure to the federal government for 20-plus years predisposed me to the governmental area.

Over the last 35 years governmental accounting has undergone a remarkable transformation. In fact, I became involved in governmental accounting during what was arguably the most turbulent time in its history—in the aftermath of well-publicized financial crises such as those of New York City in 1975 and later in Cleveland, Chicago, Boston, and other cities. Pressure from many groups, including the federal government, the municipal debt market, major accounting firms, the Financial Accounting Foundation (FAF), and the American Institute of Certified Public Accountants (AICPA), led to significant policy debate and subsequently to a path of improvement for governmental accounting and financial reporting. These developments further elevated my interest in governmental accounting. My reasoning at the time was that an area in such turmoil might be one in which academics could make a difference.

Another important factor was the unique opportunity I had to be mentored by two excellent governmental accounting professors at MU. Professor Walter Johnson had successfully established governmental accounting as a required course in the accounting curriculum and was well respected in the community for his work in governmental accounting. At the time, few accounting programs had a required course in governmental accounting. Early in my program I took Walt’s course and, despite the confusing subject matter, thoroughly enjoyed it. Evidently I did well enough in his course that Walt hired me as a research assistant on a federally funded project that he headed to provide technical assistance to Missouri counties in improving their fiscal management and to upgrade data-processing capabilities. As part of this project, I interviewed key officials of Boone County, Missouri, the county in which MU is located, and flowcharted fiscal operations of the county. During this project, I became familiar with county fiscal activities state-wide, particularly such areas as property taxes, revenue streams, budgeting and budgetary control, accounting, and treasury operations. While the project was still underway Walt joined the faculty of the University of Central Florida, where he spent the remainder of his outstanding career. After he departed I became project director for the final 3 months of the project and authored the final report to the federal grant agency.

MU was fortunate to hire Professor Thomas Howard to replace Professor Johnson. Tom’s doctoral research at Arizona State University focused on the municipal bond market, an area in which I had developed a strong interest. He and I spent many hours talking about the municipal bond market and were both inspired by Professor Wanda Wallace’s doctoral research in the area that was subsequently published in the *Journal of Accounting Research*. Wanda’s research and Tom’s encouragement and leadership motivated me to complete my dissertation, titled *Accounting Impact on Municipal Bond Risk Measures*, from which an article coauthored with Tom was published in a 1984 issue of *Journal of Accounting Research*. To support my dissertation, I invested heavily in unique data that I manually extracted from microfiche copies of post-sale reports and official offering statements for new issues of general obligation bonds. This database contained bond issue and financial and socioeconomic data

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1 Unless indicated otherwise, the term governmental accounting should be interpreted more broadly throughout this paper to include governmental accounting, financial reporting, auditing, and financial management. However, the paper focuses predominantly on state and local government accounting and financial reporting. Governmental auditing and federal government accounting and financial reporting are only discussed in brief.
for a national sample of several hundred municipal bond issuers. Maintaining this database enabled a
successful municipal bond research program that served me well during much of my career, both from
a research and teaching perspective.

As I neared completion of my Ph.D., I accepted an offer to remain at MU as a faculty member. About
the same time, a need developed for someone to teach taxation. Tom generously agreed to tool up to
teach in this area, but continued to teach an occasional governmental accounting course. Teaching
governmental accounting then became my main responsibility, particularly since I had taught govern-
mental accounting as a doctoral student. Throughout my career, I taught undergraduate- and gradu-
ate-level governmental accounting courses, and a governmental accounting research doctoral
seminar.

Shortly after earning tenure and being promoted to Associate Professor, I served as an academic
fellow with the Governmental Accounting Standards Board (GASB) and authored a 1990 GASB Re-
search Report titled Financial Reporting by State and Local Governments: A Survey of Preferences Among
Alternative Formats. It was around this time that Professor Leon Hay at the University of Arkansas,
long-time author of a leading textbook on governmental accounting, invited me to join him as a coau-
thor on the 9th edition of his textbook. I had used Leon’s textbook many times and was well familiar
with it. Since joining the book I have coauthored eight editions, each one reflecting significant change
in both content and pedagogy. Some of these changes are discussed in a later section.

3. Trends in governmental accounting education

3.1. Demand for governmental accounting courses and enrollment trends

During the 1970s and before governmental accounting and auditing were not examined rigorously
on the Uniform CPA exam. Moreover, relatively few accounting graduates sought or obtained employ-
ment with state and local governments. Consequently not many colleges and universities devoted
scarce resources to governmental accounting. There were some notable exceptions, such as at MU
and other universities where governmental accounting textbook authors or others with a governmen-
tal background were members of the faculty. More commonly, governmental accounting was an elec-
tive course, taught perhaps once a year. More common yet was a class session or two on governmental
accounting as part of advanced accounting courses, or no governmental accounting coverage at all in a
student’s (undergraduate) degree program.

Demand for governmental accounting education has increased over the years due to such factors as
the increasing volume and complexity of governmental accounting and auditing standards, greater
emphasis on these topics on the CPA examination, noted quality deficiencies in governmental audits,
and, before the current recession, increased demand for governmental accounting and finance profes-
sionals and auditors of governments. While I cannot cite any research reporting recent enrollment
trends in governmental accounting courses or the number of course offerings, our textbook adoption
lists suggest that there are currently more than 500 colleges and universities in the U.S. that offer at
least an elective course in governmental and/or not-for-profit accounting. Some of these courses are
part of a public administration or public policy curriculum, but most are part of the curriculum for
accounting majors.

3.2. The continuing shortage of qualified governmental accounting educators

Even though more students appear to be taking governmental accounting courses, the number of
qualified faculty in this area continues to be inadequate, reflecting not only scarce resources but also a
lack of faculty members with an interest in the area (Schiffel & Smith, 2006). As a result, many gov-
ernmental accounting courses today are taught by an adjunct instructor from the local government
or accounting community, or by a faculty member “drafted” to teach the course. This condition im-
poses special content and pedagogical challenges for textbook authors as adjunct instructors may
place greater reliance on the textbook and accompanying supporting materials, rather than develop-
ing their own materials or innovative pedagogy.
3.3. The impact of technology

As with all areas of higher education, technology has changed the way in which governmental accounting courses are taught and administered. Compared with the norm of the 1970s when classroom technology typically consisted of a chalkboard and an overhead projector, many, if not most, instructors now use cutting-edge technology to make their courses more effective and interesting. Over my career, educators have faced a steadily increasing challenge to make their courses more interesting to generations of students with shifting demographic characteristics, the so-called generations X, Y, and Z. Each generation of these students has grown up interacting with increasingly sophisticated technology. Current students are universally connected with social media and network-connected mobile devices and are generally less responsive to traditional instructor-centered lecture approaches.

The higher education profession, including accounting education and governmental accounting education in particular, has responded to instructor and student needs with course management technology such as Blackboard (including mobile apps), cutting-edge classroom technology such as computer projectors, smart boards, Internet-connected computers, and the use of social media. Publishers have responded to technology demands with a broad package of computer-based instructor and student support materials for most textbooks. For example, our textbook offers an internet-based package with three different computerized cumulative problems, PowerPoint lectures that are available to instructors and students, interactive online student quizzes, solutions to end of chapter materials, and a computerized test bank for instructors. As with most textbooks, students can purchase an electronic version (e-book) or hardcopy. Also, custom versions of the book are available containing only those chapters that an instructor wants to assign.

4. Staying abreast of change: the challenge for governmental accounting educators

Governmental accounting educators and textbook authors find it a major challenge to stay abreast of developments in the field. Because of the prolific release of new accounting and reporting standards, as well as auditing standards, keeping the content of a governmental accounting textbook and teaching materials up to date is a challenge. Following are some of the major changes with which our textbook and competing textbooks have dealt over the years.

4.1. National Council on Governmental Accounting (NCGA) Statement 1

In the aftermath of the fiscal crises mentioned above, several influential groups and researchers (e.g., Coopers & Lybrand/University of Michigan, 1976; Davidson, Green, Hellerstein, Madansky, & Weil, 1977; Ernst & Whinney, 1979) criticized the inadequacy of governmental accounting and financial reporting guidance and the widespread lack of compliance with GAAP. In response to this criticism, and threatened federal legislation to regulate state and local governmental accounting and reporting, the NCGA issued Statement 1 “Governmental Accounting and Financial Reporting Principles” in 1979. Statement 1 restated the guidance previously provided by the NCGA’s 1968 Governmental Accounting, Auditing, and Financial Reporting (GAAFR) and incorporated guidance contained in the AICPA’s 1974 Industry Audit Guide Audits of State and Local Governmental Units.

In brief, Statement 1 (1) articulated a set of 12 basic principles of governmental accounting and reporting, and (2) established a comprehensive annual financial report (CAFR) that encompassed all funds and account groups. The Statement made a number of improvements to general-purpose financial statements, the most important of which was requiring for the first time, financial operating statements for governmental fund types and a statement similar to the income statement presented.
by commercial entities for all proprietary funds and similar trust funds. In addition, Statement 1 required a combined statement of changes in financial position for all proprietary funds—essentially a statement of sources and uses of working capital. This pronouncement had major impact on nearly all aspects of the state and local government accounting and financial reporting and governmental accounting education.

4.2. Formation of the Governmental Accounting Standards Board in 1984

Creation of the GASB followed several years of controversy and negotiation involving the FAF, Financial Accounting Standards Board, federal government, AICPA, and several state and local governmental organizations.\(^5\) The GASB’s structure and due process, and the fact that it is the first independent standard setting body for governmental accounting and reporting standards, are key subjects for textbooks and should be discussed with students.

4.3. Impact of GASB guidance

As of June 2013, the GASB has issued 70 Statements of Governmental Accounting Standards, five Statements of Governmental Accounting Concepts, six Interpretations, and a number of Technical Bulletins.\(^6\) GASB Statement No. 1 formally adopted all then effective NCGA pronouncements and the AICPA Industry Audit Guide as GAAP “until altered, amended, supplemented, revoked, or superseded by a subsequent GASB pronouncement” (GASB, 1984, p. 3). Many of the 70 GASB statements deal with specialized topics or practice issues that are not often discussed in governmental accounting textbooks, but several have had significant impact on governmental accounting practice and education. Those statements are summarized below.

4.3.1. The pre-GASB Statement No. 34 period (1984–1999)

Among the first 33 GASB statements, the few that significantly affected textbook and course content are those that (1) eliminated the longstanding special assessment fund type and provided new guidance for how special assessment transactions should be reported, (2) replaced the former statement of changes in financial position for all proprietary funds with a statement of cash flows and provided guidance on how the statement of cash flows should be presented, (3) defined the governmental reporting entity and provided guidance on how the primary government and component units should be reported, (4) provided guidance for financial reporting of defined benefit pension plans and of employers, and (5) provided classifications and reporting guidance for non-exchange transactions.

4.3.2. A revolutionary change in governmental accounting and reporting—GASB Statement No. 34

In June 1999, the GASB issued Statement No. 34, “Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments” (hereafter written as GASBS 34 for brevity). This statement prescribed a completely new reporting model. The new model was revolutionary in scope and created major implementation problems for governments, as well as for textbook authors and instructors. In summary, GASBS 34 replaced the previous fund-type financial statements with a management’s discussion and analysis (MD&A), basic financial statements, and required supplemental information (RSI) other than the MD&A. The pronouncement requires two sets of basic financial statements, a set of government-wide financial statements prepared on the accrual basis, similar to commercial entity reporting, and a set of fund-based financial statements with separate column reporting of only the general fund and other funds that meet the major fund criteria provided in the standards. Totals for nonmajor funds are combined together in a single column.

\(^5\) For a discussion of the birth of the GASB, see Chan (1985).

\(^6\) In line with the technological advances discussed previously, GASB pronouncements are now available free online at http://www.gasb.org.
The changes brought by GASBS 34 were so extensive that they required near total rewrite of the portion of our textbook that covered state and local government accounting, about two-thirds of the text. Adapting to the new terminology, principles, and statement formats and content were major challenges for textbook authors and instructors alike. Further complicating matters was the three-year phase-in implementation of the standards, which created confusion about when to switch textbook coverage to the new standards, given that some governments were still following the old guidance while others had implemented the new standards. My coauthors and I opted to release a new edition covering GASBS 34 a year earlier than our normal publication schedule.

Textbook authors also faced a conceptually difficult decision about how to incorporate the dual reporting requirements for governmental activities imposed by GASBS 34. Before GASBS 34 these activities were reported only within funds and only current financial resources similar to working capital, measured on the modified accrual basis of accounting, were reported. GASBS 34 requires not only fund-type statements for governmental activities (reported by major funds rather than by fund type) but also a governmental activities column within the government-wide statements, which reports assets and liabilities using a flow-of-economic-resources-measurement focus and the accrual basis of accounting. This means that the same activities are essentially reported in two different ways: (1) similar to the way a commercial enterprise would report the activities, and (2) similar to the traditional near-cash way these activities were previously reported.

In practice, governments are invested in their legacy fund-based general ledger computer systems and it would be costly to design a system to report the same transactions in two different ways for two different sets of financial statements. So, more than 10 years later, nearly all governments continue to use a fund accounting system and then use an off-line spreadsheet reclassification analysis to convert the modified accrual basis information to the accrual basis to enable preparation of the government-wide financial statements. Unlike most current textbooks, my coauthors and I decided that students should be taught an accounting approach that produces all the data needed to prepare both the government-wide and fund financial statements. The dual-track accounting approach we developed achieves this goal and has been well accepted by instructors and students. Our computerized practice sets also incorporate the dual-track approach to reinforce student learning. To prepare students for what they will see in practice, we provide an example and an end of chapter exercise on the spreadsheet reclassification approach.

4.3.3. The post-GASB Statement No. 34 period (1999–2013)

Some GASB standards issued subsequent to GASBS 34 have further impacted governmental accounting textbooks and course content. These include making GASBS 34 applicable to public colleges and universities, revision of note disclosures and the statistical section of a comprehensive annual financial report, guidance on other postemployment benefits (such as retiree health benefits), and revised guidance for reporting defined benefit pension plans and employer reporting for those plans.

GASB Statement 54 “Fund Balance Reporting and Governmental Fund Type Definitions” made significant changes to the way fund balances are classified, and changed the way governmental fund balance sheets are presented. GASB Concepts Statement No. 4, “Elements of Financial Statements” and two subsequent standards (GASB Statement 63 “Financial Reporting of Deferred Outflows of Resources and Deferred Inflows of Resources, and Net Position” and GASB Statement 65 “Items Previously Reported as Assets and Liabilities”) introduced two new elements of governmental financial statements, deferred inflows and outflows of resources, and replaced the net assets section of government-wide, proprietary fund, and fiduciary fund statements with a net position section. Because some items that were previously reported as assets are now reported as deferred outflows of resources and some that were reported as liabilities are now reported as deferred inflows of resources, GASB provided guidance to identify specific items that are affected. Changes such as these require much attention to detail as a textbook author and as an instructor to ensure that students are being taught the current rules and terminology.

7 Governmental activities include most of the ongoing core service activities of a government, including such activities as public safety, public works, recreation, social services, and the general government functions that support these activities.
Governmental accounting educators who have significantly influenced accounting and auditing policy

Perhaps more than in corporate accounting, governmental accounting educators have helped shape policy on governmental accounting and reporting, as well as on governmental auditing. Robert Freeman, Michael Granof, and the late Leon Hay, all leading textbook authors, were members of the NCGA during the 1970s. Freeman and Hay were members of the NCGA during its restatement project that resulted in release of NCGA Statement 1, discussed in the preceding section. Freeman served on the Governmental Accounting Standards Advisory Council (GASAC), the body that advises the GASB, and later as a member and chair of the GASB. In addition to serving on the NCGA, Granof is currently a member of both the Federal Accounting Standards Advisory Board (FASAB) and the GASB, and has served on the GASAC and the U.S. Comptroller General’s Advisory Council on Governmental Auditing Standards. Hay also served on the GASAC. William Holder, currently Dean of the Leventhal School of Accounting at the University of Southern California, served as a member of the GASB and served in leadership positions with the AICPA. In addition to the educators just mentioned, several others have served on the GASAC, including professors John Engstrom, Robert “Smitty” Smith, Susan (Kattelus) Convery, Jacqueline Reck (current member), and myself. The latter three persons are current or former coauthors of our governmental accounting textbook. Professor Rhoda Icerman and I served on the Advisory Council on Governmental Auditing and Engstrom and I (and probably other accounting educators) served on the AICPA Government Accounting and Auditing Committee. The late Professor Gil Crain and I conducted nearly 20 focus groups for the GASB with municipal bond community groups and others, the majority of which were led by Crain. Information gained from these focus groups was influential in the GASB’s subsequent deliberations on the GASB Statement 34 reporting model. Most, if not all, of these educators also served on various task forces of the GASB, AICPA, or other standard-setting bodies.

The reason I point out these important past and ongoing policy contributions is to encourage other governmental accounting educators, particularly those new to the field, to look for ways to participate in the standard-setting process. Many of the educators named above made their initial contacts with staff or board members of the GASB or FASAB through programs of the American Accounting Association (AAA) Government and Nonprofit (GNP) Section. Membership and participation in the GNP Section and the annual conferences of professional governmental accounting organizations provide excellent opportunities for interface with U.S. and international government accounting educators and practicing professionals and policy makers.

What lies ahead for governmental accounting academics?

It will be surprising if we see as much fundamental change in governmental accounting and reporting standards over the next three decades as we have seen over the past three decades. As I have discussed in this paper, the past 30 or 35 years have been revolutionary in the way accounting standards are set and, particularly, in terms of the magnitude of the changes that have occurred. Because a relatively high level of financial transparency has already been achieved, GASB’s future efforts, as reflected in its current technical plan, will likely be focused on emerging practice issues, further refinement of its conceptual framework, reporting prospective financial information, and dealing with technological issues such as electronic financial reporting in various media, including social media, and user access to governments’ financial data bases.

Research in governmental accounting

Published research in governmental accounting has generally lagged behind that of other accounting disciplines, in part because of a small supply of high quality papers and in part because journal

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8 I apologize if I have inadvertently omitted from the following discussion others who may have served in these important roles.

9 Several countries and states in the U.S. have experimented with, or are considering the use of, the eXtensible Business Reporting Language (XBLR) to enable easier dissemination of financial information (see, for example, Chen, 2010).
editors have tended to view governmental accounting research in a negative light. Factors such as the lack of computerized databases and the previously noted shortage of full-time faculty members in the governmental area have made it difficult to sustain a productive, high-quality research program. Except for the shortage of governmental accounting faculty, other factors are improving the outlook for research in the area. Among these factors are a new AAA-GNP Section sponsored research journal, the *Journal of Governmental & Nonprofit Accounting*, that will provide an important additional outlet for governmental and nonprofit research and the availability of new databases. These include such databases as the Municipal Securities Rule-Making Board’s (MSRB) *Electronic Municipal Market Access* (EMMA) (http://www.emma.msrb.org/), GASB’s *Governmental Accounting Research System* (GARS) (accessible by faculty and students with a password obtained from the American Accounting Association), and the federal audit clearinghouse database on single audits (http://harvester.census.gov/sac/). Finally, many governments, particularly those with populations greater than 25,000, are posting annual budgets and comprehensive annual financial reports on their Webpages.

6.2. Governmental accounting education

The joint AAA/AICPA Pathways Commission on Accounting Higher Education report (Pathways Commission, 2012) was issued in July 2012. As I look at the objectives set forth in that report, governmental accounting education appears to be well positioned to promote certain of those objectives. Colleges and universities already rely heavily on adjunct instructors from the community to teach governmental accounting and, in my experience, full-time governmental accounting faculty tend to be more involved with the professional community. As a result, governmental accounting education should help achieve the Pathway recommendations to: (1) integrate professionally oriented faculty more fully into significant aspects of accounting education, (2) focus more academic research on relevant issues, and (3) enhance the value of practitioner-educator exchanges. As institutions work to redefine the body of knowledge that will be the foundation for the curriculum of the future, governmental and not-for-profit accounting should occupy a place at the table and seek a more prominent role among the other areas of accounting specialization.

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