Integrating Catholic Social Teaching into Undergraduate Accounting Courses

Jason Haen

Abstract

The world of work that students enter after graduation will not mirror the straightforward world portrayed by their textbooks. They will be required to make decisions that will affect more than the bottom line. Faculty at Catholic business schools can integrate the components of Catholic social teaching (CST) into the classroom to help equip students with the tools necessary to discern appropriate courses of action when confronted with ethical decisions during their careers. This article discusses the reasons why business faculty should embrace the opportunity to incorporate CST into their classrooms and provides specific examples of how this can be done in introductory financial and intermediate accounting courses.

Introduction

In 2004 the Association to Advance Collegiate Schools of Business (AACSB) issued a document titled “Ethics Education in Business Schools,” calling for the strengthening of ethics curricula in order to combat the crisis in business ethics. The AACSB believes alternative models and approaches need to be developed in order to give students the proper background necessary to become ethical business leaders. The AACSB considers ethics to be a key component of business curricula since, “A society where those holding power are neither moral nor accountable creates a state where the strong do what they will and the weak what they must.”\(^1\) It is assumed (hoped) that if academic institutions can increase the ethical awareness of business students, some

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future financial implosions can be stopped before they reach the magnitude of past discretions.

How a Catholic business school (CBS) responds to the call to strengthen its ethics curriculum is a defining moment for a mission-driven institution. A mission-driven CBS can do more than use secular ethics discussions in its classrooms. It must be willing to embrace its Catholic identity. “If a CBS is to take ethics and values seriously in regards to its mission, it seems that a logical place for it to explore would be its own Catholic moral, intellectual, and social tradition.”

All faculty at Catholic colleges have the unique opportunity to use Catholic social teaching (CST) to integrate ethical discussions into their courses. Faculty can embrace this opportunity even in traditionally technically demanding courses such as accounting. While an understanding of debits and credits is the necessary foundation laid by accounting faculty members, this foundation has limited utility beyond the simple bookkeeping aspects of accounting. Accounting faculty must encourage students to consider the usefulness (and shortcomings) of accounting information when making business decisions. Students may be more comfortable making decisions strictly based on the numbers, but they must learn that dollars and cents cannot be the only consideration. CST can guide these discussions.

One aspect of current accounting standards within the United States is its flexibility. While this flexibility or “wiggle room” is important in today’s ever-changing business environment, it also has been part of some of the most noteworthy financial scandals (e.g., the establishment of special purpose entities by Enron). Catholic educators have a responsibility to discuss with students that even though something may be technically correct, this does not mean that it is morally correct. CST can help students gauge the ethical nature of alternatives. These ethical discussions are an essential part of the education provided by a CSB.

An ongoing debate is occurring at both secular and Catholic institutions about whether business ethics is most effectively taught as stand-alone courses, integrated into existing courses, or through a combination

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The accounting curriculum at most colleges and universities has very little room for additional courses. Creating room for new accounting courses on business ethics by deleting current courses is troublesome due to the extensive technical requirements accounting students must be familiar with in order to pass licensing exams such as the Certified Public Accountant (CPA) examination. Therefore, integration of ethical content into current accounting classes is the most logical approach. These ethical discussions can be supplemented by general education courses with significant components dedicated to ethics and Catholic thought.

Previous articles have suggested ways to integrate CST into accounting courses. This article tries to expand on these ideas by giving specific examples of how CST can guide traditionally numbers-oriented discussion by using CST to analyze the concepts of fixed asset valuation/depreciation, inventory valuation, and the establishment of an amount for the allowance for doubtful accounts. Each faculty member needs to determine whether to use the examples as part of in-class discussions, written assignments, quizzes, exams, or some combination of the various alternatives. Additionally, faculty members may add CST discussions to current coursework or through new course requirements.

Catholic Social Teaching

Although there is no official list of CST documents, it is understood to have been conveyed through various papal, conciliar, and episcopal documents. While an in-depth reading of all of these documents may be beyond the comfort level of many faculty members, a review of some of the summary documents issued by the United States Conference of Catholic Bishops (USCCB) can act as a foundation. For example,

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5 Participants at “The Eighth International Conference on Catholic Social Thought and Management Education: Renewing Mission and Identity in Catholic Business Education” in Dayton, OH, on June 18–20, 2012, also accurately pointed out that service learning, when integrated into existing courses or offered as standalone courses, is an important tool to consider when developing an ethics curriculum.
a two-page document issued by the USCCB\(^6\) outlines the seven components of CST as:

1. **Life and Dignity of the Human Person**
   
   All human life is sacred and its dignity must be protected. People are always more important than things. This is the basis for all other components of CST.

2. **Call to Family, Community, and Participation**
   
   Humans are social beings. The organization of our society has a direct effect on the dignity of human life. We have the right and duty to participate in society while seeking the common good.

3. **Rights and Responsibilities**
   
   Every human has the fundamental right to those things needed for human decency. Everyone has the responsibility to make this a possibility for all.

4. **Option for the Poor and Vulnerable**
   
   A great divide between the rich and the poor is not acceptable. One may look at the condition of the most vulnerable to determine how well CST is being implemented.

5. **The Dignity of Work and the Rights of Workers**
   
   The economy must serve the people. Work is a way to continue participating in God’s creation. Workers’ have basic rights such as productive work, decent wages, and fair treatment.

6. **Solidarity**
   
   There is only one human family. No matter a person’s ethnic, economic, or ideological backgrounds, they are our brother or sister and we are their keeper. At the core of solidarity is the pursuit of justice and peace.

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7. Care for God’s Creation

Everyone must be stewards of God’s creation. Humans are called to protect not only people, but also the planet.

It will not be possible to incorporate all themes into every decision accountants are involved in, but opportunities do exist in both financial and intermediate accounting courses to incorporate some. Faculty members must be willing to adapt and sometimes let the class lead the discussion into unpredictable areas.

While a college’s Catholic identity should influence everything it does, few classes will be comprised of only Catholic students. Faculty members must be mindful of this and respect other faiths. Thus the focus typically will be on the underlying concepts of CST versus verbatim memorization of the themes of CST.

Discussion Areas

Although other business and accounting courses, such as managerial accounting with its decision-making emphasis and auditing during the review of the American Institute of CPA's Professional Code of Conduct, provide natural opportunities to integrate CST into classroom discussions, the focus of this paper is incorporating CST into financial and intermediate accounting courses. The first exposure to accounting for many students occurred in a bookkeeping class in high school when some of the basic concepts of financial accounting were introduced. High school accounting courses and many college introductory financial accounting courses are very rigid. Students are taught the “rules.” When a certain rule is followed (e.g., use the percentage-of-sales method to calculate the allowance for doubtful accounts) using specific parameters (5% of sales) there is only one correct answer. This black or white mentality (no gray areas) perhaps is what initially draws some students to the accounting field.

The following examples are a few areas where accounting faculty members can introduce the discussion of gray areas and how CST can guide students while they discern the best alternative. The areas purposely encompass topics that are covered in both introductory financial and intermediate accounting classes. The discussions can occur at either level, but for faculty members that teach both levels, the opportunity exists to connect the classes by introducing the discussion in a financial accounting course and having a more in-depth discussion during the intermediate course coverage of the same area.
When incorporating CST into accounting discussions, it is important to recognize that most accounting textbooks have a very strong focus on net income, so accountants have been conditioned to always consider it. Trying to change this focus may cause confusion among the students and perhaps give the impression that ethical discussions based on CST do not belong in technically challenging courses. Instead, accountants should be taught that it is permissible to focus on net income, but only if the ramifications of the decisions that go into the determination of net income are also considered.

**Fixed Asset Valuation/Depreciation**

Fixed assets include physical, long-lived resources used in the operations of a business. The categories discussed in accounting textbooks typically include land, land improvements, buildings, and equipment. The valuation of these resources leads to a discussion of the total cost of the fixed asset to list in the accounting records. The total cost of a fixed asset is defined in accounting literature as purchase price plus any additional costs necessary to get the asset in useable condition. In most financial and intermediate accounting texts, these costs are easily identified, and students quickly master the appropriate steps to record them.

However, during their careers students may be confronted with capitalization questions and decisions without straight-forward answers. Students must come to appreciate that business decisions have more important ramifications than the correct way to record a transaction and their affect on the bottom line. The following section provides a few potential discussion points.

<table>
<thead>
<tr>
<th>Discussion Point</th>
<th>Example CST Components to Integrate into Discussion</th>
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<tbody>
<tr>
<td>Should a company purchase noise reduction devices to</td>
<td><em>Life and Dignity of the Human Person</em> and <em>The Dignity of Work and the Rights of Workers</em></td>
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<tr>
<td>protect its employees’ hearing?</td>
<td>If safety devices such as these are available, companies have a responsibility to purchase them at a reasonable cost.</td>
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Faculty members can use discussions such as this to introduce the unrecorded costs and benefits of business decisions. Students can quickly master how to record the price (cost) of the noise reduction devices, but the benefits are more difficult to quantify. While many students will recognize that experiencing fewer hearing problems is a benefit, how this benefit can positively affect net income may be harder to understand. Discussion
can include how a healthier workforce can lead to better productivity through increased morale and decreased absenteeism and attrition.

After the benefits have been identified, the students can be asked how to record them. The students should come to the conclusion that the benefits are not directly recorded in the accounting records. It should be emphasized that this is not an unique example and that the accounting records will almost never include all of the information necessary to make a moral business decision. This realization is important for students since financial and intermediate accounting courses tend to end the discussion of a topic once the correct process for recording a transaction is identified.

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| Should a company purchase machines that emit less pollution but result in a higher per unit cost? | *Call to Family, Community, and Participation*  
We are all called as members of society to seek the common good.  
*Solidarity*  
Loving our neighbor requires us to consider the impact of our decisions.  
*Care for God’s Creation*  
Everyone must be a steward of God’s creation. Humans are called to protect not only people, but also the planet. |

Accounting students are at times so focused on profit that even the thought of increasing costs will be uncomfortable to them. Does a business have responsibilities to parties other than its stockholders? It is important to incorporate the discussion of the possible far-reaching ramifications of specific decisions into the classroom, since accounting literature tends to focus only on a decision’s effect on net income and earnings per share.

The CST concepts of *Call to Family, Community, Participation, Solidarity,* and *Care for God’s Creation* all require us to consider the impact a decision can have on all parts of society. Pollution can have detrimental health affects not only on those close to factories, but also on people thousands of miles away. Additionally, pollution may prohibit future societies from benefiting from various resources that God has provided.

Accounting students must learn that the value of a decision cannot be measured only by its effect on the bottom line. Ramifications, whether intended or not, on people and the planet must be taken into consideration. Students must learn that the value of a business decision is based on whether it is both technically and morally correct.
Discussion Point | Example CST Components to Integrate into Discussion
---|---
What is the cost of a parcel of land? | *Call to Family, Community, and Participation*  
Truthful information is required by those trying to participate in society.  
*Rights and Responsibilities, Option for the Poor and Vulnerable, Solidarity, and Care for God’s Creation*  
We are all brothers and sisters.

Every decision that an accountant makes or fails to make has an effect on net income. Even when a non-depreciable asset such as land is purchased, the decision of what should be properly included as part of the capitalized cost of the land presented on the balance sheet versus what is more appropriately expensed affects net income. Call to Family, Community, and Participation is just one of the CST components that calls on accountants to provide information based on truth versus the desire to increase or decrease net income.

Discussion about the purchase of a parcel of land can be further developed by incorporating various other factors besides the dollar amount paid. These other factors many times should be given more consideration than the purchase price. Developing a parcel of land in an economically depressed area can help create jobs for the underemployed and unemployed. According to Rights and Responsibilities, Option for the Poor and Vulnerable, and Solidarity we are all brothers and sisters, and we have a responsibility to help all obtain what is needed to live with human decency. Additionally, the environmental impact of any land development must be considered. Care for God’s Creation teaches us that the planet is not only for our use, but it also is intended for the benefit of our brothers and sisters, along with future generations.

Discussion Point | Example CST Components to Integrate into Discussion
---|---
Should a company purchase machinery that requires fewer workers? | *The Dignity of Work and the Rights of Workers*  
Workers have basic rights such as productive work, decent wages, and fair treatment. “(W)ork is not the by-product of production but part of the reason why we create firms in the first place.”

*Solidarity*  
We are all one human family.

A company’s decision to downsize workers can detrimentally affect its reputation. This reputation may have taken years to build, but can

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be quickly tarnished by a rash decision that ignores *The Dignity of Work and the Rights of Workers*. A damaged reputation may lower the bottom line by decreasing customer loyalty, making it difficult to recruit new workers when needed, creating animosity during future labor negotiations, and perhaps making the community hesitant to offer concessions (tax breaks) when sought for expansion.

This type of decision can also be made very personal for students and perhaps will help them understand the concepts of *The Dignity of Work and the Rights of Workers* and *Solidarity*. The situation can be introduced in a very numbers-oriented way—the purchase of a piece of machinery for $1,000,000 will allow the company to lay off twenty workers for an overall cost savings of $400,000 annually. Students’ thought processes will immediately turn to how to record the new machinery in the accounting records, so it should be illustrated on the board. When asked about other considerations related to this decision, students may identify issues, such as the need to record depreciation expense in the future; that overall, the payroll expense of the business will go down; or other issues related to the new machinery they have just recorded.

Should (or can) this decision to buy the machinery be reevaluated if the student knows some of the twenty workers being laid off? What if the student’s mother or father is one of the employees that will be laid off? What if one of the laid off workers is the student’s best friend from high school? What if the student is the godparent of this friend’s disabled child? While the example may seem a bit extreme and even evoke laughter from the students at first, it does serve its purpose. Students need to learn how to stop and consider how business decisions affect others, instead of just focusing on the economic ramifications of decisions. The CST component of *The Dignity of Work and the Rights of Workers* teaches us that workers have the right to fair treatment, while the component of *Solidarity* teaches us that we are all one family. When CST is incorporated into these discussions, “justifying downsizing on economic grounds often becomes difficult.”

After students have considered the technically appropriate way to value a fixed asset, the methods available to allocate at least part of these costs to the income statement are discussed. Depreciation is a systematic and rational way to allocate the cost of a fixed asset to the periods that it is expected to benefit the business. Numerous methods are available, but the one most predominantly used is the straight-line method. The calculation is simply total cost, less expected salvage value,

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divided by total expected useful life of the asset. Students can easily master the calculation, but by emphasizing the various decision points, faculty can help students understand how the CST components can fit into the calculation.

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| How should the salvage value and useful life of an asset be determined? | Call to Family, Community, and Participation  
Accurate information is necessary for people to believe that their participation in society is worthwhile.  
Care for God’s Creation  
An asset that is harmful to the environment should be replaced before it physically deteriorates. |

The estimation of salvage value presents another opportunity to incorporate CST discussions into the classroom. The estimation must be based on the best information available, and not on the desire to record either a higher or lower depreciation expense per period to reach a particular earnings level. Using intentionally inaccurate information to manipulate earnings puts into jeopardy the CST component Call to Family, Community, and Participation. As noted by Lyons and Orlowski, “Transparency and information are vital for ensuring integration of individuals into a human society and for overcoming the sense of isolation or recalcitrant attitudes.”9

Estimating the expected useful life of an asset can open up discussions similar to those already noted, as well as discussions about stewardship of the environment. With technological advancements, the environmental impact of a machine only three years old may be much greater than a comparable new machine. A company should take the cost of this environmental impact into consideration when estimating how long it intends to use a machine. The environmental or human costs that can occur, and the effects these costs will have on a company’s bottom line, should also be a part of a company’s calculations when determining whether to replace a piece of equipment before it physically deteriorates, and not just the cost of the equipment itself.

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Inventory Valuation

At least three inventory valuation techniques are discussed in financial and intermediate accounting courses: First-In-First-Out (FIFO), Last-In-First-Out (LIFO), and moving-average methods. Each one is acceptable under current U.S. Generally Accepted Accounting Principles (GAAP). Students gain a fuller understanding of the advantages and disadvantages of each method when they are discussed from a CST perspective.

FIFO transfers the oldest product costs from the inventory asset account into the cost of goods sold expense as items are sold. In most companies this approximates the actual flow of goods. Since the newest costs remain in the inventory asset account, the balance sheet most accurately reflects the replacement cost of the remaining items.

LIFO transfers the newest product costs from the inventory asset account into the cost of goods sold expense account as items are sold. Although old costs remain on the balance sheet, LIFO does do a better job of matching current costs with current revenue. In periods of rising costs, this method will result in the lowest net income. The resulting lower net income and thus lower amount of income tax expense is why it is predominantly used for income tax purposes in the United States.

The moving-average method recalculates the average cost per unit each time the company purchases additional units. When a sale occurs, the most recent average cost per unit is used to calculate the dollar amount to transfer out of the inventory asset account and expensed as cost of goods sold. Using the moving-average method is considered middle ground, as the results typically are somewhere between the inventory asset balance and the amount expensed as cost of goods sold calculated when either the FIFO or LIFO method is used.

So how should a company decide which method should be used? The technical answer is to select the cost flow assumption that most accurately reports periodic income. Also, in most cases in the United States, if a corporation uses LIFO for income tax purposes it must also use LIFO for external reporting purposes. In most textbooks the discussion of the appropriate inventory valuation method stops here, and students complete homework assignments based on whatever method they are told to use.
Discussion Points | Example CST Components to Integrate into Discussion
---|---
What criteria can be used to guide the decision about the appropriate inventory valuation method to employ? | *The Dignity of Work and the Rights of Workers, Option for the Poor and Vulnerable, and Rights and Responsibilities*  
CST components can help guide decisions when potentially competing interests are involved.

There is an opportunity here to expand the discussion through the use of CST principles. As noted previously, transparency is a necessary consideration when applying CST to accounting decisions.\(^{10}\) So how should a future accountant decide what is more important, a transparent balance sheet (use FIFO) or a transparent income statement (use LIFO)? An answer that covers all scenarios is impossible to develop, but it is an excellent opportunity for students to consider some of the decision points in accounting from a CST perspective without necessarily coming to the one correct answer.

For example, profit-sharing plans many times use net income as a factor when determining the amount that will be contributed by the company.\(^{11}\) In a period of rising costs, LIFO will report the lowest net income and could potentially result in the lowest contribution by the company. Thus, does the use of LIFO violate the CST component of *The Dignity of Work and the Rights of Workers*, since workers are not receiving their just wage? However, if FIFO is used, net income will be higher and thus the contribution to the profit-sharing plan is increased, although this can be seen as detrimental to the stockholders, since the value that remains in the company goes down. How are decisions made when the interests of various groups appear to contradict one another? In some cases other CST principles, such as the *Option for the Poor and Vulnerable*, can further refine the decision-making process. For example, hold a discussion on the question, “Who are the poor? Who will be most affected by the accounting decision, the worker making $10 per hour or the elderly woman depending on a steady return from her retirement savings invested in the company?

Additionally, since net income is lower, LIFO will result in the lowest amount of income taxes. Can the use of LIFO be seen as violating the CST component of *Rights and Responsibilities*, since the company

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\(^{10}\) Lyons and Orlowski, “Transparency in Financial Markets.”

\(^{11}\) Of course the inventory valuation method used to calculate net income for profit-sharing plan purposes may be a negotiated part of a union contract, so management may not have the discretion described here, but it still can be used an example that many students will understand.
will pay fewer taxes in relation to its peers who do not use LIFO? Of course, most stockholders want the company to pay the smallest amount of taxes that it legally can, since it allows more wealth to be retained by the company and possibly later distributed to stockholders. From this perspective, CST becomes a tool to help students better understand the complexity of decisions that businesses have to make in light of competing interests.

**Allowance for Doubtful Accounts**

Another area in which accountants have discretion is the annual adjustment to the allowance for doubtful accounts. Acceptable methods include percentage of sales, percentage of receivables, and the direct write-off method for immaterial amounts. This is an area of significant judgment for accountants, since the amount cannot be verified until a later date—sometimes years later.

The exposure most students receive in this area from their textbooks is straightforward. Students are told that the appropriate rate is $X\%$, so the calculation is simply a math formula. There is little discussion about how the percentage is determined, except that historical default rates and the general economy are typically sources of information.

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| Why is it important to establish an appropriate amount for the allowance for doubtful accounts? | *The Dignity of Work and the Rights of Workers*  
Employees have the right to decent wages and fair treatment.  
*Rights and Responsibilities and Solidarity*  
We are the keepers of our brothers and sisters and have the responsibility to help them obtain the basic needs required for human decency. |

A way to integrate CST into these discussions is to describe what could happen if the estimate is purposely overstated or understated. Overestimating the estimate lowers net income. Many students will recognize this as inappropriate, as investors are not given a true picture of the company’s financial condition. An additional point to make is how this can be viewed as violating *The Dignity of Work and the Rights of Workers*. Negotiations between an employer and union typically will include a review of the financial health of the company. Overstating the allowance for doubtful accounts may allow the company to hide its financial strength in order to seek additional concessions from its employees. Help them to understand
that a company’s reputation hinges on its honesty and integrity both of which are key principles of CST. Reporting accurate data is one way that companies develop and maintain a good reputation.

If the estimate for the allowance for doubtful accounts is purposely understated, net income will be overstated. Most students will again identify this as wrong since investors are not receiving accurate financial information. Help them to see how others might be negatively affected by this inaccurate data, such as workers whose bonus is affected by a company’s bottom line. Or ask what pressures a company might be under, once it establishes a higher threshold of net income, to take extraordinary measures to maintain or exceed it. Wage and benefit concessions, lay-offs, and unsafe labor practices could all be employed by a company to maintain an earnings level that was artificially inflated.

The discussion should also include the personal responsibility of the student to make sure the allowance for doubtful accounts is a truthful representation. According to CST components Rights and Responsibilities and Solidarity, we are all one family who must ensure that our brothers and sisters have what is required for human decency. Any intentional misrepresentation of financial information that adversely affects others violates these components. An individual has the responsibility to stop these harmful misrepresentations and cannot ignore them in the hope that other individuals will take action.

Conclusion

This article presented rationale for how and why CST should be incorporated into financial and intermediate accounting courses. Examples were provided to act as a possible starting point for faculty. Faculty must recognize that every discussion in the classroom lends itself to the consideration of CST. It is up to each faculty member to determine the most appropriate subjects and times to incorporate CST concepts into the classroom.

Business faculty at Catholic business schools are called to produce more than technically competent students. “Teachers need to inspire their students to discover the good which is within them and to follow the call they have to use their professional skills and judgment as a force for good in the world.”12 If students are to learn to understand the

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larger issues affecting business, they must be given the opportunity to consider issues beyond technical skills. Business faculty members can provide these opportunities by incorporating CST into their courses, whether through the examples provided here or through topics more specific to their subjects. Although this article focuses on accounting courses, similar examples can be used in a variety of other business courses.

Ethical discussions that integrate CST components are an essential part of the education provided by a CBS. As stated by Pope John Paul II, “The education of students is to combine academic and professional development with formation in moral and religious principles and the social teachings of the Church; the programme of studies for each of the various professions is to include an appropriate ethical formation in that profession.” Integration of ethical content into current accounting classes can be supplemented by general education courses with significant components dedicated to ethics and Catholic thought. Coverage in the general education program may allow deeper consideration of CST components in accounting and business courses than what is presented here.

The key is to teach future accountants that their decision-making process has ramifications beyond the net income number. As Pope Emeritus Benedict XVI noted, “Every economic decision has a moral consequence.” Future accountants that have experience analyzing financial transactions through the use of CST will be better prepared to consider some of the nonnumeric ramifications of business decisions throughout their careers and understand that “profit is a good servant, but it makes a poor master.”

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