

Mr. and Mrs. Smith: A Student Introduction to Federal Tax Compliance and Documentation

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ABSTRACT: In this case, students assume the role of new accounting staff tasked with the preparation of a personal income tax return and supporting documentation for a client of their firm. Students are provided prior year work papers and client communications, a copy of the prior year's tax return, as well as a letter and supporting documents from the client for the current year. To complete the case, students generate questions based on the initial information provided, meet face-to-face with the client, and roll forward a set of electronic work papers before submitting a complete current year engagement file for senior review. This case adds work papers and client interaction to the traditional tax compliance case to reinforce both the technical and communication skills valued in professional practice. The formulation of questions for the client also allows students to practice discussing technical topics in a non-technical manner and underscores the required balance between attitudes of client advocacy stressed in professional tax practice and legal requirements for "good-faith" tax return reporting. This case is appropriate for an individual income tax course at either the undergraduate or graduate level, and can be easily adapted to increase or decrease difficulty.

Keywords: tax education; tax return project; tax compliance; client communication skills; electronic work papers.

CASE

Introduction and Background

Scott and Kourtney Smith have been clients of Footem and Filem, LLP (F&F) for the past few years. Scott owns a real estate business, Smith Realty, which he operates as a sole proprietorship. Kourtney is an elementary school teacher. The couple has also received investment income in recent years, including royalties from an oil and gas property as well as income from a rental house they purchased in Ruidoso, NM.

F&F is a CPA firm that provides tax and assurance services. To ensure quality in all services, the firm has established best practices for staff, seniors, and partners to follow when providing services to both tax and assurance clients. For tax services, the partner conducts a meeting with the client after year-end to collect information about the tax year just ended. The senior accountant performs a preliminary review of information provided by the client (commonly referred to as "PBC" materials), and this information is forwarded to a staff accountant for further review and comparison with prior year work papers and tax filings.

Next, the staff accountant meets with the senior accountant to ask any preliminary questions about the client and suggest any additional information that might be necessary to request from the client to complete the current year tax return. The senior

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Supplemental materials can be accessed by clicking the links in Appendix A.

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accountant either answers the staff accountant's questions directly or approves questions to be asked of the client. This best practice was established to ensure that client interactions are always useful and productive.

Once the staff accountant has an approved list of questions, he or she must schedule a follow-up meeting with the client to gather additional information. This meeting is an important time for the staff accountant to develop client interaction skills, particularly in conveying technical information in a non-technical manner. The information gleaned from the client meeting allows the staff accountant to complete the tax return, which is then delivered to the senior accountant along with the current year work papers and a carryforward memo detailing key information from the current year. The senior accountant will follow up with the staff accountant for clarification or correction of items in the work papers or the tax return.

As a staff accountant for F&F, you are assigned to prepare a personal income tax return and supporting documentation for Mr. and Mrs. Smith for the current tax year (2014 in this case, also labeled "CY") in accordance with the firm's best practices described above. You will be provided with prior year (2013 in this case, also labeled "PY") work papers and client communications, a copy of last year's tax return, as well as a letter and supporting documents from the client for the current year. To complete the case, you will generate questions based on the initial information provided, meet face-to-face with the clients, and roll forward a set of 2013 electronic work papers before submitting a complete 2014 engagement file for senior review.

This case requires a heightened level of critical thinking and reinforces both the technical and communication skills valued in professional practice. The formulation of questions for the client will allow you to practice discussing technical topics in a non-technical manner and to better understand the required balance between attitudes of client advocacy stressed in professional tax practice and legal requirements for "good-faith" tax return reporting. Details about the case assignment are provided below and in the supporting materials.

Requirements

Task 1: Review current and prior year information; begin preparation of the tax return.

Your first task in this project is to familiarize yourself with the client and begin the preparation of the current year tax return. This will require your review and understanding of several different documents you will receive from your senior, as discussed below:

- *Current Year PBC Manual Documents*—items prepared by the client for 2014. They consist of a letter Kourtney Smith wrote to describe some of the major events she and her husband experienced this year, various W-2 forms for both Kourtney and Scott, as well as several 1099 forms (1099-B, 1099-DIV, 1099-INT, 1099-MISC, etc.). Each 1099 form provides detail for a specific type of transaction the client experienced during 2014.
- *Current Year PBC Excel Documents*—two documents in an Excel spreadsheet prepared by the client. The first is an income statement for Smith Realty (Scott's company) for 2014. The second document is a listing of the couple's 2014 expenses. It is categorized into personal expenses, expenses for the couple's rental cabin in Ruidoso, and expenses for their oil and gas property.
- *Prior Year 2013 Engagement File*—contains a copy of the 2013 income tax return F&F prepared for Scott and Kourtney and manual copies of all work papers used to complete the 2013 engagement. Items are tick marked (a tick mark is a unique symbol indicating that a task has been performed, accompanied by a comment in the work papers to reconcile and/or clarify amounts recorded on PBC documents) and tied within the work papers, and should be traceable to the tax return. Items denoted "SALY" (same as last year) in the prior year work papers should be confirmed with the client and/or applicable IRS guidance for the current year. The prior year engagement file also includes a carryforward memo, which lists issues that arose during the 2013 engagement as well as transactions noted by the client that were not taxable or includible (denoted "N/T" in the work papers) on the tax return. Use this as a guide in preparing the current year carryforward memo in Task 3B, discussed below.
- *Prior Year 2013 Excel Work Papers*—electronic work papers used by F&F staff to complete the 2013 engagement. These include a list of questions presented to the client during last year's engagement (including client responses), an annual depreciation schedule, a schedule of itemized deductions to be claimed on Schedule A, a schedule of business income and deductions to be claimed on Schedule C, and a lead sheet tying all calculations in the work papers to the final balances reported on the tax return. *You will need to roll forward the 2013 Excel work papers to complete the 2014 tax return*, although minor revisions may be necessary to adapt last year's work papers for the current year. This will make efficient use of your time and maintain consistency with last year's engagement.

A review of the above listed items should help you get started preparing the 2014 tax return and work papers. It should also help you generate questions about any additional documentation needed or whether certain items that applied in the prior year still apply this year. Please prepare as much of the 2014 tax return and work papers as you can with the information provided

and make a list of questions for your senior and/or the client. One member of your team will then need to forward these questions to your senior to begin Task 2. Note that you will only have *one* opportunity to meet with the client during Task 2, so you need to be extremely thorough in Task 1 as you work your way through the current year return and generate questions.

As you prepare this year's return, make sure you have included the following forms and schedules, all of which can be found at <http://www.irs.gov>:

- Form 1040;
- Schedules A, B, C, D, E, and SE (Section A);
- Form 2441;
- Form 4562 (for business and rental property);
- Form 4684;
- Form 4797;
- Form 8829;
- Form 8949; and
- Form 8960.

Task 2: Meet with senior and client.

The second task for this project is to meet with the senior accountant to discuss your questions before scheduling a follow-up meeting with the clients, Scott and Kourtney Smith. After completing Task 1, a meeting should be scheduled with your senior accountant to ask any questions you might have about the engagement in general, client information that might be missing, and/or clarification of information initially provided in the engagement file. Your senior accountant will answer all questions that he/she can before the client meeting. Any remaining questions for the client *must* be approved by the senior accountant before the client meeting.

You have *one* opportunity to meet with the client to ask questions. Keep in mind that Scott and Kourtney are very busy, so do not waste their time with unnecessary questions (i.e., any questions not approved by your senior). Remember that you are representing F&F in this meeting, so be sure to smile, greet the client in a respectful way, and keep all interactions professional. Make sure to thank them at the end of the meeting.

Task 3A: Prepare the work papers and tax return.

Your third task is to complete the preparation of the current year work papers and tax return for Scott and Kourtney Smith. As mentioned in Task 1, electronic work papers should be rolled forward from the previous year. Use the prior year engagement file for examples of how your tick marks should look and what documentation should be created for the current year. Once the work papers are complete, they should be printed for your senior to review and organized in a similar fashion to the prior year engagement file. All manual work papers and communications from the client should also be included in the current year file.

Along with your work papers, the tax return should be put into the current year engagement file for review by the senior accountant. Please ensure that all numbers tick and tie properly (i.e., tick-marked numbers in the work papers should match the tax return where indicated).

Task 3B: Prepare a carryforward memo.

Your final task is to prepare a carryforward memo for the engagement file to assist the staff accountant who prepares next year's tax return for Scott and Kourtney Smith. Refer to last year's carryforward memo for help with formatting and content, and note that two primary goals of the memo are to (1) document items that were particularly challenging and/or unusual compared to the prior year and (2) provide details of any items that were excluded and/or phased out when preparing the current year return. When you have finished this final task, please deliver your carryforward memo, final tax return, and current year work papers to your senior for review.

Case Critical-Thinking Questions

The following questions should help you connect key concepts discussed in class with the tax compliance work you perform for Mr. and Mrs. Smith. Please write a few sentences to address each question below.

Task 1 Critical-Thinking Questions

1. What was your group's process for reviewing the documentation provided to you for the Smiths?

2. What is the importance of the engagement file for engagement continuity? In addition, what role does the staff accountant play in making sure the engagement file is useful in future years?
3. What is the importance of looking at last year's engagement file as it relates to IRS audit risk and year-to-year comparisons? In addition, why is detailed documentation important for expenses deducted on the tax return?
4. Why are the official tax forms (such as W-2 and 1099) important when preparing the tax return?
5. What is the role of a tax preparer as it relates to advocacy for the client versus fulfilling ethical obligations? Stated differently, what is the responsibility of the tax preparer for the information provided on the client's tax return?

Task 2 Critical-Thinking Questions

1. How did you determine which questions to ask the senior accountant? Did every group member play a role in this determination?
2. Did your interaction with the senior change your questions or generate any new questions? Why?
3. Why is it important to collaborate with the senior accountant before meeting with the client?
4. How did you feel about interacting with the client? Was it generally successful or unsuccessful? Why? What are the professional implications of a positive interaction with a client?
5. How did your client interview affect your interpretation of the information that you had previously reviewed?

Task 3A and 3B Critical-Thinking Questions

1. How does the taxable income formula you learned in class map into the items on Form 1040?
2. Form 1040 is a summary of all of the other forms. How did this fit into your group's strategy for preparing the tax return? In what order did you prepare the forms?
3. How does the recovery of capital concept learned in class relate to the preparation of Scott and Kourtney's tax return?
4. Assume Scott and Kourtney no longer own a home and contribute to charity only sporadically. What strategy would you recommend to maximize their deductions for charitable contributions?
5. How do the concepts of ordinary, necessary, and reasonable relate to the expenses taken on Scott's Schedule C?
6. How did you determine which items to include in your carryforward memo?
7. How did you determine which items to exclude from your carryforward memo?
8. What is the importance of the carryforward memo for future years?

APPENDIX A

Student Handout 1_Current Year 2014 Letter from Client: <http://dx.doi.org/10.2308/iace-51207.s01>
Student Handout 2_Current Year 2014 PBC Manual Documents: <http://dx.doi.org/10.2308/iace-51207.s02>
Student Handout 3_Current Year 2014 PBC Excel Documents: <http://dx.doi.org/10.2308/iace-51207.s03>
Student Handout 4_Prior Year 2013 Engagement File: <http://dx.doi.org/10.2308/iace-51207.s04>
Student Handout 5_Prior Year 2013 Excel Work Papers: <http://dx.doi.org/10.2308/iace-51207.s05>
Student Handout 6_Prior Year 2013 Carryforward Memo: <http://dx.doi.org/10.2308/iace-51207.s06>

CASE LEARNING OBJECTIVES AND IMPLEMENTATION GUIDANCE

Overview of the Case

Traditional tax compliance cases typically provide students with all of the information needed to prepare a tax return, using a combination of checklists and descriptive paragraphs. While this strategy expedites the completion process, it does not fully reflect a professional working experience. In particular, two elements of professional practice—interpersonal communication with a client and documentation using manual and electronic work papers—are not generally emphasized in traditional cases. To implement these elements, our case allows students to practice “finding holes” in an incomplete set of information provided to them by simulated clients before generating questions for their senior and client to collect additional evidence. In addition to looking up answers and applying tax treatments, students must carefully evaluate the quality of the information presented to them, generally in the form of PBC source documents (W-2, 1099, etc.), and determine what issues require further clarification before preparing work papers and a tax return.

This case provides students with a prior year engagement file comprised of a completed tax return, electronic working papers, and PBC source documents. This gives students the opportunity to apply tax concepts covered in the classroom to the process of rolling forward prior year documentation that often occurs in professional practice. Accounting firms use this process to provide new staff with concrete examples of acceptable documentation and prevent them from spending too much of their budgeted time “recreating the wheel” and preparing new work papers from scratch. Furthermore, without the prior year engagement file, new staff may rely too heavily on their superiors for guidance, perhaps giving the impression that they are not able to fulfill their basic job requirements. Critical thinking is further encouraged by the prior year engagement file as students/staff continually compare last year’s materials to the current year, generally looking for areas where current information is lacking and/or different from the prior year.¹

Whereas the real-world implications of traditional tax compliance cases typically end with the application of a static set of client data to common forms, our case adds additional elements that more closely mimic the first-year staff experience. New accounting staff are commonly expected to exercise discipline and professional judgment in their work while adhering to a hierarchy of command and being mindful of time constraints that limit their interaction with clients and superiors. Our case reinforces those concepts by requiring students to carefully evaluate the quality of initial current year information and seek preliminary guidance from prior year documentation through the roll forward process, all with the goal of fostering independent thought and maximizing the productivity of subsequent meetings with the senior and client. Thus, the case gives future accounting professionals a chance to think critically and strike a balance between attitudes of client advocacy stressed in professional tax practice and the requirements for “good-faith” tax return reporting embodied in IRS Circular 230 in a controlled classroom environment that offers a more realistic simulation of future working conditions than more traditional tax compliance cases. Further, our use of simulated electronic work papers and client tax forms introduces students to the rigors of professional documentation and roll forward procedures in conjunction with the final preparation of a personal income tax return, thus providing a more complete review of technical skills needed for a career in accounting.

Case Learning Objectives

The overarching goal of the Mr. and Mrs. Smith case is to expand classroom tax education by illustrating to students how class topics translate to the preparation of a tax return and work papers for an actual client. The case has five specific learning objectives:

1. Think critically in the context of individual taxation.
2. Interact with team members, superiors, and clients in preparation for a professional career.

¹ While the roll forward process in this case encourages the timely identification and organization of relevant content as is commonly valued in practice, some of the critical-thinking skills developed in this case may differ slightly from those fostered by a more traditional case that excludes work papers and does not require students to make current year information fit an existing template. Thus, much like accounting firms must balance the benefits of engagement efficiency with the potential dangers of a mechanical “follow the prior year” mentality, instructors using this case must decide how much emphasis to place on documentation relative to more open-ended and scholarly thought. As evidenced by the relatively low weight assigned in our example grading sheet (available for download in the Teaching Notes) to the format and content of current year work papers compared to more technical matters covered in class, we strive to limit potential distractions inherent to documentation practices that are generally unfamiliar to students. We further maintain that, in conjunction with an entire semester of academic lecture and discussion, the expected benefits of affording students the opportunity to practice roll forward procedures before entering the workplace outweigh their potential costs.

TABLE 1
Summary of Implementation Steps and Time Commitment

Implementation Step	Venue	Student Time Commitment^a	Instructor Time Commitment^b
Preparing the Case for Students (reading through the case, updating for current laws)	Outside of Class	NA	2–3 hours
Distribution of Case Materials and Verbal In-Class Instructions	In Class	30 minutes to 1 hour	30 minutes to 1 hour
Performing Task 1	Outside of Class	3–10 hours	NA
Critical-Thinking Questions for Task 1	Outside of Class	30 minutes to 1 hour	NA
Senior Interviews with Students for Task 2	Outside of Class	15–30 minutes per group ^c	15–30 minutes per group ^c
Client Interviews with Students for Task 2	Outside of Class	15–30 minutes per group ^c	NA ^c
Critical-Thinking Questions for Task 2	Outside of Class	20–45 minutes	NA
Performing Task 3A	Outside of Class	5–13 hours	NA
Performing Task 3B	Outside of Class	30 minutes to 1.5 hours	NA
Critical-Thinking Questions for Tasks 3A and 3B	Outside of Class	30 minutes to 1 hour	NA
Student Case Assessment	In Class or Outside of Class	3–5 minutes	1–2 minutes per student
Grading Projects and Critical-Thinking Questions, Evaluating Student Performance	Outside of Class	NA	30–45 minutes per group ^d
Debriefing Session	In Class	20–30 minutes	20–30 minutes

^a Validating instructors asked each student who completed both the pre- and post-case questionnaires depicted in Table 2 (n = 319) to provide an estimate of time spent at each step of the case. Reported times reflect the interquartile range of those student responses and are for guidance purposes only.

^b Reported times reflect estimates provided by validating instructors and are for guidance purposes only.

^c If necessary, these steps can be combined to allow the instructor to play both the senior accountant and the client during the interview process.

^d Times will vary based on preference for detail in grading and evaluation for each instructor.

3. Prepare professional quality documentation, specifically Excel work papers, manual client documents, and a carryforward memo, in the context of individual tax return preparation.
4. Ask questions of superiors and clients to identify missing information and to better understand specific individual tax problems.
5. Apply tax rules and principles through preparation of an individual tax return and supporting schedules.

Teaching and Implementation Guidance

Intended Audience

This case has been designed for use in either undergraduate or graduate individual income tax classes. We recommend the case be completed in student teams (with the exception of the case critical-thinking questions [CCTQs], which we recommend be completed individually) to foster collaborative learning and efficient use of time outside of class. Given that the case is comprehensive in nature and builds on subject matter covered over many weeks, it is best implemented in the latter half of a semester, preferably after course drop deadlines to limit the effects of student withdrawals on group dynamics.

We typically give students two weeks from the launch of the case to complete Task 1, another week to complete Task 2, and two final weeks to complete Tasks 3A and 3B. A summary of implementation steps and time commitment for the students and instructors who took part in our case validation is provided in Table 1. We discuss the results of our case validation in depth later in this article.

Launching the Case

As described in the case requirements, several files should be distributed to students when the case is launched and students are assigned to teams. These files include the background detail and case CCTQs described above, current year manual and electronic PBC documents, and the engagement file and electronic work papers from the prior year. Links to downloadable

versions of these student handouts are provided in the Case. Further, prior year files can help to reinforce fundamental tax compliance topics as they are covered in class, and could be distributed to students well in advance of the current year compliance portion of the case.

When the case is launched, the instructor plays the role of the senior accountant for Footem and Filem, LLP tasked with guiding student teams (i.e., staff accountants) through the process of preparing the current year federal income tax return and engagement file for Scott and Kourtney Smith. We recommend that the instructor introduce himself/herself as the senior accountant at the onset and discuss deadlines for key deliverables, firm best practices, as well as the role of current year and prior year documents provided in the case materials to ensure students fully understand their roles as staff in this engagement. As many students have no prior experience with client service or tax compliance engagements, they tend to ask many questions that deviate from the main topics addressed in this case. Much of the responsibility of the instructor as senior accountant is to keep student teams on task without giving away key details that they should discover through their interactions with the clients and careful review of both current and prior year work papers.

Student and Instructor Roles for Task 1

For Task 1, each student team should first review the case instructions, background materials, as well as the prior year return and work papers before beginning an initial draft of the current year return. They should use the initial set of current year PBC documentation supplied in the case materials to work through as much of the Smiths' 1040 as they can to compile a list of items that are either missing or require further discussion with the senior or client. Student teams should also begin their roll forward of the prior year Excel calculations supplied in the case materials to aid in return preparation and complete the Task 1 CCTQs. We suggest this process be heavily emphasized to students when the case is first launched, as students often discover that they were not adequately prepared for the client meeting only after they have conducted their meeting and begun final preparations of the return in Task 3A. The instructor's role during Task 1 is primarily to aid student teams in their exploration of the prior year tax return and work papers.

Student and Instructor Roles for Task 2

During Task 2, the instructor (playing the role of senior) should meet with each student team to collect their responses to the Task 2 CCTQs and discuss their list of questions and open items pending client discussion. The instructor can discourage student teams from asking questions of the client that are not covered in the client script (available for download in the Teaching Notes) by referring teams back to the prior year engagement file or through outright dismissal. It is also recommended that the instructor refrain from giving very detailed responses to questions that teams do not need to pursue in further detail, as this may change the results of the case and complicate the grading and feedback processes. By the end of each student team meeting, the instructor must approve all remaining questions and grant permission to each team to speak to the client. Student teams should then initiate contact with the client and schedule a meeting to ask the questions.

If possible, the instructor should make arrangements with one or more colleagues (another instructor, graduate student, teaching assistant, etc.) to serve as the client who will meet with student teams during Task 2. The client(s) should receive a copy of the client script, which contains details of all missing items in the case and provides references to additional PBC documents withheld from the initial set given to students. The script also instructs the client (1) not to divulge any information to student teams unless asked and (2) to refer student teams back to their senior/instructor for any questions that are not covered in the client script. It is further recommended that the client(s) exercise discretion in determining whether a question posed by a student team actually applies to an area covered in the client script, generally leaning in favor of releasing pertinent information to student teams while being careful not to lead them into questions they might not otherwise have asked. When in doubt, a client can always ask a student team to rephrase a question and/or explain why they think the question is relevant.

If it is not feasible for a colleague to play the role of the client, then the instructor can act as both the senior and the client and combine both meetings into one. This generally affords the instructor more control over client meetings and eliminates the need to approve each group's questions in advance, but may also change the tone of the meetings and detract from their realism depending on the rapport already established between the instructor and students. Validating instructors have utilized both methods over multiple implementations of the case and found no significant differences in student performance, although some students appear slightly more comfortable meeting exclusively with the course instructor.

If a team fails to identify missing PBC documents or other information when submitting questions to the senior and client, then it is left to the instructor's discretion whether the team will receive additional aid before the case is concluded. On one hand, such assistance might offer students a "safety net" that could potentially undermine the importance of thinking critically and evaluating incomplete information in professional practice. On the other hand, not providing such

assistance for items that are more prominent in the case could prevent students from gaining needed exposure to real-world manifestations of classroom topics. For the case validation described below, we and our validating instructors chose to provide missing PBC documents relating to the sale of the clients' rental property if teams did not specifically request them, as this transaction affects multiple areas of the tax return (capital gain/loss, depreciation, etc.). However, we chose not to provide teams with a missing document related to the taxpayers' ongoing investments, as this document is clearly shown in the prior year engagement file with complete documentation of its effect on the tax return. We and our validating instructors pointed out these and other commonly missed items during debriefing sessions that took place after the case was completed.

Student and Instructor Roles for Tasks 3A and 3B

During Tasks 3A and 3B, students should finalize their current year electronic work papers (rolled forward from prior year), tax return, carryforward memo, and CCTQs. The instructor role for this portion of the case is to enforce deadlines and deliverable expectations for each student team. Once the case has concluded, the instructor may wish to conduct a debriefing session summarizing the case and highlighting areas where students commonly struggled and/or excelled.

Customizing the Case

Our current and prior year solution files (available for download in the Teaching Notes) are provided in Excel format and include data input tabs, which can be altered to change the outcome of the case and generate new PBC documents for dissemination to students if desired. The data input tabs in our solutions files offer sections dedicated to each category of PBC details, which allows the instructor to vary the difficulty of the case (or perhaps substitute details from an established case of his or her own) by changing various sources of income and deductions while automatically updating case solutions. For instance, input data for the clients' gross income can be increased or decreased to adjust AGI and its resulting limitations on various deductions and credits. Similarly, our solution set accommodates adjustments to the gain/loss on disposition of real property, which can be converted from a loss (our default position) to a gain taxed at special rates determined by IRC Section 1250. These changes flow automatically to Excel-based versions of Forms W-2, 1099, K-1, etc., as appropriate and can be reprinted and/or copied to a separate electronic document for dissemination to students.

The Excel-based solutions files also permit customization of the case for specific groups or class sections if an instructor is concerned about possible collusion, although this could potentially complicate the grading process for large enrollments. Alternatively, we have explicitly discouraged groups from sharing client information in our case validations by emphasizing that students are not to speak with other teams about the case or ask any additional questions of the client not approved by the senior. We also rely on our detailed grading sheet (available for download in the Teaching Notes), which offers a checklist of missing items that matches each group's client questions to the final deliverable, to deter inappropriate sharing of information and reward a group's honest efforts.

An instructor could also extend the case with additional exercises in tax planning and consulting. For instance, the instructor could ask students to evaluate the clients' current tax position and prepare written recommendations for alternative tax-planning strategies (education savings, retirement planning, etc.) after the current year return has been completed.

Updating the Case for Legislative Changes

The Excel-based nature of the prior and current year solutions files mirrors current practices in public accounting and—much as tax practitioners and instructors alike must stay abreast of regulatory developments and revise their tools of the trade—will require periodic maintenance if used for subsequent tax years. These changes are often quite easy to implement in our existing template. For example, the data input tabs in our current and prior year solutions files contain a field indicating the tax year, which is linked to each PBC document (W-2, 1099, K-1, etc.) and facilitates the process of rolling a case over from year to year. Other annual updates primarily consist of adjusting any income tax rates, brackets, and/or statutory thresholds shown in the work papers that were changed from the previous year.

More substantive legislative changes, such as the recent imposition of the net investment income tax that has been added to our solutions files, may require additional overhaul of Excel schedules if the instructor wants his/her students to address such items in future uses of the case. Any difficulty in making such adjustments will likely be a function of the instructor's level of comfort with Excel and the severity of unknown future law changes. Moreover, should an instructor choose to use this case in future years and/or modify the supplied client information, he/she will likely want to prepare solutions for new forms for the prior year engagement file and to assist in grading student submissions for the current

year. In that event, the instructor could either devote time and attention to updating our spreadsheet materials before manually preparing new tax forms, or he/she could input his/her desired client information into a tax compliance program (many of which are available to instructors at little or no cost) and use computer-generated forms to guide his/her updates to the spreadsheet materials. Either way, the instructor can use one source to facilitate updates to the other rather than generating both from scratch.

Case Validation

Participating Courses

All student and instructor feedback in this article reflects the most recent use of the case, implemented by one author and three additional validating instructors from separate universities in the same semester.² Each of the nine traditional face-to-face course sections involved in the validation was an undergraduate introduction to individual taxation, primarily consisting of juniors and seniors; final graded enrollment across all sections totaled 414 students. All of our validating instructors adhered to the same implementation schedule, launching the case immediately after the mid-term and automatic drop deadline for each section and administering the case over a total of five weeks. Each instructor also assigned between 10 and 20 percent of their final semester grades to the case, giving it approximately the same weight as one exam. These allocations were consistent with each instructor's grading policies for traditional tax return projects prior to the case validation and were not altered to make any special concessions for the unique requirements of the case.

Student Self-Assessment and Graded Performance

Consistent with prior works that give students the opportunity to apply real-world accounting practices to a single comprehensive case (e.g., [Sonnier 2010](#); [Bagley and Harp 2012](#); [G. Huston and J. Huston 2013](#); [Blazovich et al. 2014](#)), we first evaluate our learning objectives using student self-assessments. Each instructor administered a pre-case questionnaire (consisting of 15 questions, all on a seven-point Likert scale) tied to our stated learning objectives in the first week of the semester. The questionnaire was repeated and paired with initial responses following the conclusion of the case in week 13 of the semester, producing a total of 319 complete observations (77 percent response rate).

As shown in Table 2, students indicated significant improvement in their respective abilities to think critically, ask questions, interact with their peers and superiors, and prepare professional quality work papers and tax returns after completing the case. For the 319 total students who completed both questionnaires, paired sample t-tests show significant improvement for all 15 survey questions tied to our stated learning objectives.³ Thus, our sample students report increased confidence in their abilities to engage in professional interactions and carry out duties commonly expected in public accounting practice after completing the case.

In addition, we offer grade-based evidence suggesting that our learning objectives were accomplished. First, in Panel A of Table 3 we present summary statistics for the 100 student teams that completed the case. The topic areas listed in Panel A comprise multiple elements of the case solutions and detailed grading sheets used by each of our validating instructors. The totals provided for each topic area first reflect the average percentage of teams who requested necessary information from the client, followed by instructor evaluations of team performance in decreasing order of quality (and thus increasing order of point deductions).⁴

Overall, we find the majority of teams properly identified missing items warranting additional follow-up with the client (LO2, LO4) and were able to apply appropriate tax treatments to supplied information with little or no point deductions (LO1, LO5). While there were no major areas of the case that posed significant problems for the majority of teams, common pitfalls

² The most recent use of the case featured 2013 as the current year and 2012 as the prior year, as several 2014 forms had not yet been released by the IRS when the case was validated. For convenience, we have rolled forward all supplied case materials to accommodate the most recent tax filing season (2013–2014) at the time this article was written. These updates incorporate annual adjustments to the rates and brackets used to calculate taxes on ordinary, net investment, and capital gain/dividend income and have no material effect on our case solutions or the inferences drawn from our validation. Earlier versions of the case were used for a total of three semesters at two universities. All courses were traditional face-to-face undergraduate courses in individual income taxation.

³ Of our 319 total observations, 145 pertain to students taught by one of the authors in three course sections at a large public university in the southeastern United States. Of the remaining 174 observations, 51 come from one course section at a large public university in the southeastern United States, 43 come from two course sections at a small private university in the northeastern United States, and 80 come from three course sections at a large public university in the southwestern United States. In untabulated analyses, we find that separate results for each instructor and institution are qualitatively and quantitatively consistent with those using the aggregate data shown in Table 2.

⁴ We report the average percentage of teams because few teams obtain the exact same qualitative assessment for every item in a given topic area. For example, the “deductibility/taxability of expenditures/income” topic area covers five separate items that are provided in the case materials and require no additional input from the client. Many teams obtained the proper tax treatment for one or more of those items (e.g., cash gifts) while struggling with others (e.g., sale of gifted stock).

TABLE 2
Student Questionnaire of Learning Objectives Before and After the Case

Item (Learning Objective) n = 319 Students	Week 1 Mean ^a (Std. Dev.)	Week 13 Mean ^a (Std. Dev.)	Difference
I can use critical-thinking skills to make sense of information that is disorganized, unclear, and/or incomplete (LO1).	5.58 (0.97)	5.98 (0.76)	0.41***
I can identify missing information that is necessary to complete a tax return for a client (LO1).	3.20 (1.48)	5.38 (0.86)	2.18***
I feel prepared to work for an experienced accounting professional (e.g., a senior) and/or public accounting firm (LO2).	3.15 (1.53)	4.61 (1.29)	1.46***
I feel prepared to interact with a public accounting client (LO2).	3.51 (1.57)	5.07 (1.19)	1.55***
I feel prepared to advise a public accounting client (LO2).	2.50 (1.31)	4.29 (1.27)	1.79***
I feel comfortable working in a professional group environment (LO2).	5.45 (1.22)	6.05 (0.95)	0.61***
I know how to “roll forward” a set of professional work papers (LO3).	2.74 (1.45)	5.44 (1.04)	2.70***
I know how to prepare professional quality tick marks and documentation (LO3).	2.61 (1.30)	5.07 (1.18)	2.46***
I know how to prepare professional quality work papers in Excel (LO3).	4.22 (1.55)	5.57 (1.01)	1.35***
I know how to prepare a professional quality carryforward memo for an engagement file (LO3).	2.71 (1.42)	5.33 (1.02)	2.63***
I can discuss and ask questions about technical tax concepts in a non-technical (i.e., “plain English”) manner that a client with no tax background can understand (LO4).	2.90 (1.45)	5.55 (1.00)	2.65***
I can discuss and ask questions about technical tax concepts with a senior colleague who is an experienced tax professional (LO4).	2.66 (1.43)	5.25 (1.07)	2.60***
I know how to prepare Form 1040 and supporting forms/schedules (LO5).	2.68 (1.63)	5.77 (0.91)	3.09***
I know how to calculate taxable income for an individual taxpayer (LO5).	3.09 (1.61)	5.86 (0.90)	2.77***
I know how to calculate taxable income for a business owned by an individual taxpayer (LO5).	2.64 (1.42)	5.64 (0.92)	3.00***

*** Significant at the 0.01 level using a paired t-test.

Student survey instruments adapted from [Blazovich et al. \(2014\)](#), [Huston and Huston \(2013\)](#), [Bagley and Harp \(2012\)](#), and [Sonnier \(2010\)](#).

^a Responses given on a Likert scale ranging from 1 (Strongly Disagree) to 7 (Strongly Agree), with 4 (Neutral).

included minor errors in the collection and application of omitted transaction details and failure to request missing client information. Several teams also struggled to prepare descriptive tick marks and organize a complete set of documentation due to their lack of prior work experience—however, results for the “preparation of tax forms, working papers, and carryforward memo” topic area suggest that approximately 96 percent of teams were still able to roll forward the supplied Excel working papers and document new material to the satisfaction of the instructor (LO3).

Review of the CCTQs (assigned on an individual basis during our case validation) was similarly encouraging. As shown in Panel B of Table 3, our validating instructors’ assessments indicate that most students provided high-quality answers to the CCTQs at each stage of the case (LO1). Panel B also shows that the number of high-quality of CCTQ responses increased for Tasks 2 (91.22 percent) and 3 (81.50 percent) relative to Task 1 (77.12 percent). Upon examining the content of CCTQ responses, we found that the majority of students were thoughtful in their responses, with many appreciating the importance of the interaction with the client and their peers (LO2, LO4) and relating various aspects of the case to fundamental class topics (LO5). Most

TABLE 3
Student Case Performance

Panel A: Summary of Team Results

Topic Area (No. Items) n = 100 Teams	Avg. % of Teams Requested Info from Client	Instructor Assessment of Tax Treatment		
		Correct Avg. % of Teams	Minor Mistakes Avg. % of Teams	Insufficient Avg. % of Teams
Deductibility/taxability of expenditures/income (5)	NA	73.20%	16.80%	10.00%
Phase-out of credits and deductions (1)	NA	85.00%	15.00%	0.00%
Preparation of tax forms, working papers, and carryforward memo (4)	NA	22.00%	74.50%	3.50%
Missing identifying information (3)	72.33%	66.33%	12.33%	21.33%
Missing PBC documents (3)	71.67%	65.67%	12.00%	22.33%
Omitted transaction detail (9)	62.67%	65.00%	9.22%	25.78%
Clarification of certain business expenses (2)	62.00%	75.50%	3.00%	21.50%
Estimated payments and allocation of refund (2)	62.50%	59.00%	2.50%	38.50%

Panel B: Summary of Individual Critical-Thinking Question (CCTQ) Responses

Task (No. Questions) n = 319 Students	Instructor Assessment of CCTQ Responses			
	High-Quality (A or B) % of Students	Moderate (C) % of Students	Low-Quality (D or F) % of Students	Did Not Complete % of Students
Task 1 (5)	77.12%	10.97%	2.19%	9.72%
Task 2 (5)	91.22%	0.00%	0.00%	8.78%
Task 3A and 3B (8)	81.50%	6.58%	0.94%	10.97%

students also demonstrated their grasp of the connection between items discussed in class and the preparation of the tax return and carryforward memo (LO3).

In addition, we show in Table 4 that average exam scores improved after students worked on the case, which further demonstrates improvement in critical thinking (LO1) and the application of fundamental tax principles (LO5).⁵ For the student sample matched to our questionnaire data in Table 2, we report an overall average increase in exam performance of 3.10 percent following the launch of the case.⁶ We further examine this trend in exam performance by categorizing students according to their case grades. Students earning A-level grades on the case exhibited the highest overall increase in exam performance (4.42 percent), followed by C students (4.21 percent) and B students (1.67 percent).⁷ Finally, while the 3.76 percent average improvement for our D-level category fails to achieve statistical significance, we note that this group only consists of five students, three of whom exhibited improvement on exams ranging from 3.6 percent to 12.5 percent.

⁵ The author and two of the three validating instructors offered one midterm before the case was launched and one final exam after the case was concluded. The third validating instructor offered a total of four exams, two before and two after the case was launched. Untabulated paired t-tests for the third validating instructor's students reveal no statistically significant differences in scores when comparing exam 1 to exam 2 and exam 3 to exam 4. Thus, for all instructors involved in the case validation, statistically significant improvement in exam scores occurred only after students began working on the case.

⁶ We did not administer a traditional tax compliance case in any of the course sections involved in our case validation and, thus, cannot compare the observed improvement in exam scores following our case to that which might have occurred in otherwise similar classes using a traditional case. Such a comparison may be an avenue for future research.

⁷ Upon further examination of our B category of students in Table 4, we noted that 65 of the 149 total students who earned a B on the case exhibited a decline in exam performance averaging 10.02 percent. Forty-five of these students earned a B or above on their exams preceding the case, suggesting a drop in later exam performance because (1) there was relatively less room for these students to improve their exam scores after completing the case and/or (2) their superior performance on early exams largely secured an acceptable final grade in the course and reduced individual pressures on later assignments. Conversely, of the 84 students who earned a B on the case and improved or maintained their exam performance, only 17 earned a B or above on their exams preceding the case. Thus, for this category we find greater evidence of improvement among students who struggled early in their courses and had more to learn as the semester progressed.

TABLE 4
Student Exam Performance Before and After the Case

Category by Tax Return Project Grade n = 319 Students	Students (% of n)	Exam Mean Before Case (Std. Dev.)	Exam Mean After Case (Std. Dev.)	Difference
A, 90 % and above	113 (35%)	77.05% (15.27%)	81.47% (13.44%)	4.42%***
B, 80 to 89 %	149 (47%)	74.99% (17.05%)	76.66% (13.96%)	1.67%*
C, 70 to 79 %	52 (16%)	70.31% (17.72%)	74.52% (14.09%)	4.21%**
D, 60 to 69 %	5 (2%)	69.44% (16.53%)	73.20% (20.17%)	3.76%
All Students	319 (100%)	74.87% (16.64%)	77.96% (14.10%)	3.10%***

***, **, * Significant at the 0.01, 0.05, and 0.10 levels, respectively, using a paired t-test.

Student Feedback

Table 5 reports the results of an anonymous student assessment of the case (consisting of nine questions on a seven-point Likert scale and two requests for written comments) that was administered during the same class period as the post-case questionnaire.⁸ Interestingly, while the first item in Table 5 suggests that students were on average neutral in their enjoyment of the case, they overwhelmingly agreed for the remaining items that the exercise was beneficial and improved their understanding both of course topics and the accounting profession. Thus, despite the challenges posed by the broad and open-ended nature of the case, students ultimately valued the opportunity to simulate a client service engagement and recommended that it become a permanent addition to the course curriculum.

Written comments on the student case assessment were also generally positive. Almost all students commented that the concepts of the taxable income formula, depreciation, exemptions, deductions, and AGI were topics expanded upon by the case. Many students also stated that despite the complexity of the case, it helped them to understand the practical real-world application of tax theory better than in a typical classroom setting. Following are some representative examples of positive feedback we received from students about the case:

- “I feel that it was a good project to prepare us for the real world.”
- “It helped to implement the process of filling out a tax return and how it works, from meeting with clients all the way to filling out the actual tax forms.”
- “It showed you how tax accounting is applied in the real world as opposed to problems in a class.”
- “It helped me see what actually goes on when calculating a person’s tax return and how many steps there are.”
- “It helped implement teamwork and professionalism. It also reinforced all of the concepts we learned in class and turned them into one cohesive document.”
- “I think this project was very helpful in preparing us for the future when we begin to intern and have jobs with accounting firms.”

Common concerns noted on the student case assessment largely pertained to four main areas of interest: group dynamic, client interaction, timeframe, and instruction. Comments related to group dynamic either showed a preference for working alone or talked about the difficulty of splitting up work that inherently lent itself to group work. Comments about client interaction universally requested more client meetings. Comments about the timeframe of the project typically suggested starting the project earlier in the semester or implementing “checkpoints” to ensure groups remained on track. Finally, comments on instruction generally requested that areas of the case requiring more detailed calculations, such as asset

⁸ The validating instructors allowed students to submit the case assessment anonymously to encourage complete and candid feedback regarding the case. As shown in Table 5, this yielded a slightly larger sample size (n = 365) compared to that of Table 2 (n = 319), reflecting the number of anonymous responses from students who did not complete the pre-case questionnaire at the beginning of the semester.

TABLE 5
Student Case Assessment Responses

Item ^a n = 365	Week 13 Mean ^b (Std. Dev.)	Mean Difference ^c	Lower CI ^d
I enjoyed completing the Mr. and Mrs. Smith tax return project.	4.04 (1.60)	0.04	3.82
I would recommend that my instructor use the Mr. and Mrs. Smith tax return project again in future sections of this class.	5.26 (1.50)	1.26***	5.06
I would recommend the Mr. and Mrs. Smith tax return project be completed in groups.	6.26 (1.26)	2.26***	6.09
I found completing the Mr. and Mrs. Smith tax return project to be a challenging exercise.	6.36 (0.71)	2.36***	6.27
The Mr. and Mrs. Smith tax return project was relevant to the course objective of improving my understanding of individual taxation.	6.18 (1.00)	2.18***	6.04
The level of difficulty in the Mr. and Mrs. Smith tax return project is appropriate for this course.	4.87 (1.56)	0.87***	4.66
The Mr. and Mrs. Smith tax return project pulled together class concepts, enabling me to see the bigger picture.	5.85 (1.06)	1.85***	5.71
I believe that after completing the Mr. and Mrs. Smith tax return project I am better prepared for a career in public accounting.	5.55 (1.23)	1.55***	5.38
The Mr. and Mrs. Smith tax return project was effective in implementing many of the concepts we have discussed in the tax course.	5.87 (0.97)	1.87***	5.74

*** Significant at the 0.01 level.

Student survey instruments adapted from [Blazovich et al. \(2014\)](#), [Huston and Huston \(2013\)](#), [Bagley and Harp \(2012\)](#), and [Sonnier \(2010\)](#).

^a To encourage complete and candid feedback, the case assessment was completed anonymously during the same class period that the post-case questionnaires were collected. The larger sample size for this table (n = 365) includes 46 anonymous observations for students who did not complete the pre- and post-case questionnaires and course exams necessary to be included in the paired samples for Tables 2 and 3 (n = 319).

^b Responses given on a Likert scale ranging from 1 (Strongly Disagree) to 7 (Strongly Agree), with 4 (Neutral).

^c Mean difference from the survey's midpoint of 4. Positive (negative) differences indicate agreement (disagreement) with each statement.

^d Lower confidence interval using a 99 percent confidence level.

depreciation and disposals, be discussed earlier in the semester and/or with more detailed examples resembling the clients' fact pattern and supplied materials.

Instructor Feedback

In addition to collecting student feedback and performance measures, we asked our three validating instructors to complete a separate case assessment. Each of the instructors found the case to be a useful addition to their normal class schedules and have expressed interest in using the case in future semesters. We also asked each validating instructor if they had to eliminate or reduce time devoted to any topics to make room in their course schedules for the case. All of the instructors reported the case fit nicely into their courses, generally replacing a more traditional tax case.

The instructors also offered written comments asserting that the stated learning objectives of the case were achieved. Notably, the instructors reported that after the case was launched, the quality of class participation increased as students used concrete examples from the case to form thoughtful questions and comments relating to various course topics, including property disposals and the substantiation of deductible expenses. The instructors further indicated that many of their students had little or no prior experience with professional work papers, and the feedback offered in class suggested that students appreciated the opportunity to practice some basic documentation skills before being expected to perform these tasks in an internship or full-time position. Following are some representative comments from the validating instructors:

- “This project gives the students a better understanding of the ‘big picture’ and how everything taught over the semester works together. I most liked the preparation of work papers and teaching students to reference [tick and tie].”
- “This case gets the students to transfer the ‘book knowledge’ to a real-world scenario. I also think the case really improved the students’ ability to interact in a professional setting—when they made mistakes in the case I could

explain to them how similar mistakes could have a serious impact on their careers if they made them on the job. It also allowed them to understand more fully the purpose of work papers.”

- “The case gives a real-world component that most of our accounting classes are lacking. The interview and senior process was a fun and productive interaction. There was a bit of *esprit de corps* among students from their shared struggles.”

TEACHING NOTES AND STUDENT VERSION OF THE CASE

Teaching Notes and the Student Version of the Case are available only to non-student-member subscribers to *Issues in Accounting Education* through the American Accounting Association’s electronic publications system at <http://www.aaapubs.org/>. Non-student-member subscribers should use their usernames and passwords for entry into the system where the Teaching Notes can be reviewed and printed. The “Student Version of the Case” is available as a supplemental file that is posted with the Teaching Notes. Please do not make the Teaching Notes available to students or post them on websites.

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