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A "Going Concern" and the Need to Fully Integrate Economics in the Business School Curriculum

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In response to the recommendation by the American Assembly of Collegiate Schools of Business (AACSB, 2002), which urged business schools to embark on interdisciplinary programs to facilitate boundary-spanning teaching and learning, many colleges have conducted one form of curriculum integration or the other. Many of these team-taught course integrations, however, concentrate on core business courses without reaching out to related courses in other disciplines. Moreover, due to some factors, the informational contents of management disclosures in annual reports and audit unqualified opinions may not align with the future viability of an enterprise. Using a "going concern concept", this paper demonstrates how the addition of economics in business school curriculum integration could produce well-rounded business graduates. Economics concepts could unambiguously support the tests that cast doubts on firms' ability to continue operations.

Keywords: audit opinion, bankruptcy, financial condition, going concern, shutdown point

Introduction

Businesses use teamwork and integrative models to solve problems. To remain competitive, there are never-ending innovations in developing new products and strategic management. As such, the American Assembly of Collegiate Schools of Business (AACSB), through its Management Education Task Force, recommended that colleges implement curricula that "blur boundaries" between disciplines.

Instead of a functional-based curriculum comprised of courses taught in silos (Berry, 2009), there have been calls for an interdisciplinary and integrative business curriculum in undergraduate business degrees and MBA programs. Moreover, the current functionally taught curriculum was constructed around the 18th-century division of labor theory, which does not support today's fast-changing technological business environment.

In the process, colleges have responded by experimenting with different forms of integrative curricula. Team-teaching, multidisciplinary cases and projects, student group projects, round-table student discussions, capstone courses, etc., are some of the many integrative tools implemented by higher education institutions designed to assist in the interdisciplinary or cross-disciplinary understanding of materials.

McKinney and Yoos (1998) illustrate "learning to learn" curriculum integration where students take responsibility for their learning. Marketing, strategy, and management information systems (MISs) are combined to form an undergraduate capstone management course. Cannon, Klein, Koste, and Magal (2004) describe the five steps of implementation of Enterprise Resource Planning (ERP)/Systems, Applications and Products (SAP), simultaneously integrating a business curriculum using a fictitious company.

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Ducoffe, Tromley, and Tucker (2006) examine student and alumni perceptions of the value of interdisciplinary team-taught undergraduate business courses and combine three first-year courses (finance, marketing, and organizational behavior) into a sophomore-level two-semester course sequence. Pointer (2007) discusses 10 important lessons in curriculum revision. The curriculum revision aims to place courses in sequence so that students build their skills from one course to another, and the material learned in one course can be applied in subsequent courses.

While these and many other curriculum integrative programs affect business courses such as finance, marketing, accounting, strategic management, organizational behavior, statistics, and quantitative analysis, none seem to consider economics as one of the courses to be included in interdisciplinary or cross-disciplinary integrative curricula. Thus, D'Souza, Bement, and Cory (2022), using Cross-Functional Integration (CFI), questioned whether business schools deliver what organizations need. Yet, Oudenampsen, Das, Blijlevens, and Pol (2024) examined the empirical evidence for interdisciplinary learning outcomes in higher education. This paper argues that any meaningful curriculum integration in business schools must include economics since economics forms the theoretical framework for all business courses.

Using a "going concern" concept of the business enterprise as an illustration, the importance of economic theories in many aspects of business practices becomes necessary. First, I will discuss a "going concern" as examined in a business course, such as accounting and auditing. Next, I will present the production range of the neo-classical firm (equivalent "going concern" in economics), and lastly, I will compare the connection between the two approaches.

The "Going Concern" Assessment

The "going concern" concept in accounting is the assumption that a business entity will continue to exist and produce for the foreseeable future. It supports the assumption that when a business purchases assets such as equipment, buildings, and land, it is with the intention that these assets will generate income over several years. The "going concern" assumption helps accountants/management allocate revenues and costs that cover multiple periods.

The International Accounting Standard (IAS) 1 (IAASB, 2009) describes some conditions that may cast significant doubt on the going concern assumption of an entity. These conditions are financial events, operating conditions, and other factors. Financial events include the withdrawal of financial support and negative cash flows, inability to comply with the terms of loan agreements, fixed-term borrowings approaching maturity without realistic prospects of renewal or repayment, substantial operating losses, and significant decreases in the value of assets.

Operating signals are mainly "loss of key management staff without replacement; loss of a major market franchise, license or principal supplier; and labor difficulties" (IAASB, 2009). Other signs that could question the "going concern" assumption of an entity are "non-compliance with capital or other statutory requirement; and a pending legal or regulatory proceeding against the entity that may, if successful, result in claims that could not be satisfied" (IAASB, 2009). The key elements of financial events, such as negative cash flows and substantial operating losses, overlap with operating signals. Thus, any drawbacks in the firm's operating income would disrupt its financial standing.

The assessment of a company's ability to continue as a going concern is the responsibility of the company's management. IAS 1 requires that "management take into account all available information about the future, which

is at least, but not limited to twelve months from the balance sheet date" (IAASB, 2009). This period falls within the economic analysis of firms' short-run-long-run production decisions.

However, some factors could cloud the informational values of management and the auditors' willingness to issue going concern uncertainties. Alexeyeva and Sundgren (2022) noted that a litigious environment, loss of clients, regulated environment, private versus public firms, and the size of the firms could influence audit opinions. Using about 3,000 modified going-concern opinions (GCOs) spanning 16 years in the United States, Desai, Desai, Kim, and Raghunandan (2020) revealed that profitability and liquidity factors are cited in 81% and 56%, respectively, of the GCOs. Here, profitability is a dominant predictor of near-future bankruptcy.

Puspaningsih and Analia (2020) found several companies that received unqualified going concern opinions but liquidated in less than a year. They relate the inconsistency in auditors' opinions and bankruptcy to some factors, including debt default and opinion shopping. Perhaps integrating the economics threshold would give stakeholders concrete numbers with which to assess the "going concern" assumption.

Economic Operating Income and Shutdown

The fact that accounting and finance profitability ratios applied to assess an enterprise's sustainability are based on historical data in the income statement and balance sheet, economics operating data (total cost, total fixed cost, total variable cost, average total costs, average variable cost, and marginal cost), as shown in Table 1 and Figure 1 below which are current and would portray an up-to-date picture of a firm's operating conditions.

Business students would find it thought-provoking to incorporate the processes leading to a firm's shutdown as analyzed in economics into the accounting assessment of a "going concern". Economic analysis, which generally involves the opportunity cost of production, sets a threshold based on an entity's production function, where it is considered unworthy for an enterprise to remain in business. At any point below such threshold, an entity is considered economically insolvent.

Using total costs (TC), total fixed costs (TFC), variable costs (VC), average total costs (ATC), average variable costs (AVC), marginal costs (MC), and a market-given price, Table 1 shows the cost functions for a typical firm.

Table 1

Cost Functions

Output/hr	TC	TFC	VC	AVC	ATC	MC
0	200	200	0	-	-	-
1	260	200	60	60	260	60
2	300	200	100	50	150	40
3	320	200	120	40	106.66	20
4	344	200	144	36	86	24
5	370	200	170	34	74	26
6	420	200	220	36.67	70	50
7	480	200	280	40	68.57	60
8	560	200	360	45	70	80
9	660	200	460	51.1	73.33	100
10	780	200	580	58	78	120

Figure 1 below plots the AVC, ATC, and MC. This entity can remain in business if the price and output of this product are, at a minimum, $34 and five, respectively. Below those points, the firm cannot cover its variable

costs, and it is not economically beneficial to remain in business. By economic analysis, the firm maximizes profits where marginal revenue (MR) is at least equal to MC. At the price of $50 and $60, it would be making operating profits if the entity produced six and seven outputs, respectively. It is making enough to cover all variable and some fixed costs but not breaking even.

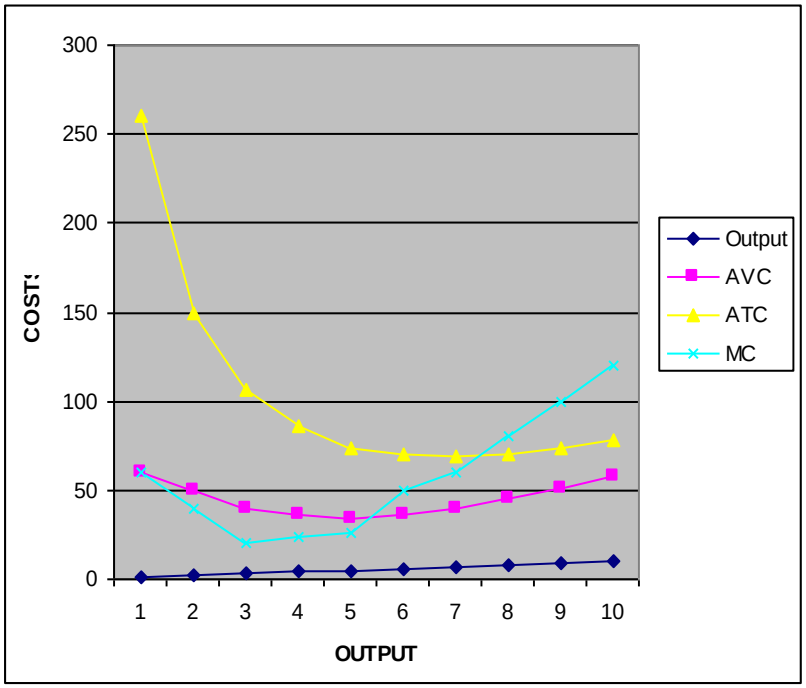

Figure 1. ATC, AVC, and MC.

At the price of $80 and above, this enterprise is making a positive economic profit. Positive economic profit is a huge accounting profit that is partly distributed to shareholders and partly kept as retained earnings.

This analysis is based on an increasing and decreasing returns production function. Business analysis assumes a relevant range. Within the relevant range, cost functions are assumed to be linear. Assuming the AVC is constant after producing the fifth output, this hypothetical entity would be making an operating profit and thus can sustain its operations.

Integrating Economics and Accounting Costs

Materials in Sections II and III are taught, respectively, in undergraduate accounting and principles of microeconomics courses in silos and during freshman or sophomore years. It would take a keen or mastery-style learner (Barron & Harachiewicz, 2001) to connect both after graduation. Properly integrating these economics and business concepts would give business students a concrete output threshold associated with the minimum AVC as the starting point of a "going concern".

Since the economic consideration of this concept is based on costs incurred and revenue generated, it is also necessary to integrate the accounting and economics costs in a class discussion. Economics total costs are categorized into fixed and variable costs as illustrated above, and often, at times, fixed costs are conceptualized as capital and variable costs as labor. Accounting fixed and variable costs are further decomposed into direct and indirect costs.

Direct costs include machines, labor, and materials that can specifically be identified with an object. In this case, the object is the output. Indirect costs are shared costs that are also referred to as overhead costs. Direct and indirect costs can be fixed or variable. Supervisory employees' salaries, for example, are direct fixed costs; labor wages are direct and variable costs since they change as the volume of activity changes. Electricity used to operate a manufacturing plant is an indirect variable cost, while machine depreciation is an indirect fixed cost. See Table 2 below.

Table 2

Economics and Accounting Costs

Economics classification			
A—Fixed costs (K)		B—Variable costs (L)	
Accounting	Assignment	Accounting	Assignment
1. Machines (dep)*	Indirect	1. Material	Direct
2. Buildings (dep)	Indirect	2. Labor	Direct
3. Cost of Capital	Indirect	3. Utilities	Indirect**
4. Plant Supervisor*	Direct/indirect^	4. Factory Supplies	Indirect**
5. Plant Maintenance*	Indirect	5. Sales Commission	Indirect
6. Insurance	Indirect	6. Delivery Charges	Indirect
7. Property Taxes	Indirect	7. Labor Fringe[2]	Indirect**
8. Advertising	Indirect		
9. Management Salaries	Indirect		

Notes. ^ Plant supervisor's pay could be indirect if (s)he supervises more than one plant. * Fixed manufacturing overhead. ** Variable manufacturing overhead.

A loose "going concern" assessment would inquire whether an entity is capable, within its current and immediate future operations, of generating enough revenue to cover total variable costs (Column B items). A more stringent "going concern" requirement would include some fixed cost items in Column A. Based on economic analysis, to breakeven, a firm's revenue would cover both Columns A and B operating expenses. At breakeven, the opportunity cost of capital (#3 Column A) reflects a normal accounting profit, as expected by Wall Street.

Some of the assessment factors stipulated by IAS 1 as conditions that cast some doubts on the "going concern" assumption of an entity could be misleading conditions to management or auditors. For example, "the withdrawal of financial support and negative cash flows; inability to comply with the terms of loan agreements; and fixed-term borrowings approaching maturity without realistic prospects of renewal or repayment" (IAASB, 2009) could be accounts receivable and collection problems, and not the inability to produce and sell.

On the other hand, an entity could pass such financial flow tests and, simultaneously, may be unable to generate enough revenue to cover variable costs, thus conveying misleading signals to the stakeholders. A "substantial operating loss" is another financial event given by the accounting literature that could make a going concern assumption of an entity questionable, but it does not say how substantial. Therefore, incorporating the economic threshold into the discussion would make the "going concern" assumption less subjective.

Conclusion

In the wake of AACSB's (2002) suggestion to better integrate the business school curriculum to stimulate comprehensive learning, many colleges have carried out several forms of integrative curriculum. These include

team-taught programs, multidisciplinary case projects, students' group projects, capstones, etc. However, most of these integrative attempts are courses within the business school that fall short of the interdisciplinary purpose.

This paper uses basic production theory and a "going concern" concept to show how it would be rewarding for students and business managers if economics were fully integrated into the business schools' curriculum. The inability of average revenue generated to cover the average variable costs, as analyzed in economics, would be the lowest benchmark to cast doubt on the "going concern" assumption.

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