Disclosure and Audit Implications of Nonfinancial Measures: A Teaching Case

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SUMMARY: This case introduces students to nonfinancial measures (NFMs) and encourages thoughtful consideration and discourse surrounding their reporting and use by managers and auditors. NFMs are commonly reported by companies to provide increased transparency of operations and to more effectively describe performance. External parties such as analysts and auditors make use of NFMs in performing valuation assessments, fraud risk assessments, and substantive analytical procedures. In completing this case, students will be exposed to actual NFMs disclosed in SEC filings and employ Microsoft Excel knowledge to perform foundational analytical procedures. Students will also analyze how these NFMs link to the financial statements, as well as reflect upon the implications of NFMs for both internal and external users.

Keywords: nonfinancial measures; disclosures; financial statement audit; financial reporting.

INTRODUCTION

Nonfinancial measures (NFMs) represent important information for internal and external stakeholders who are interested in thoroughly analyzing company performance in a variety of contexts. Nonfinancial information is anything that might be obtained about a company that does not have a dollar sign in front of it (Meyer 2015), while the term “measures” implies the information is quantitative in nature (e.g., square footage of properties owned/leased, units of inventory held, the number of patents filed/approved, and employee headcounts).

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

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Managers use NFMs to evaluate business performance and to incentivize employees via compensation practices. External stakeholders use NFMs to evaluate company performance, to conduct forecasting and valuation analyses, and, in the case of external auditors, to perform a financial statement audit (i.e., improve audit quality). Table 1 contains a more complete list of commonly disclosed NFMs (Brazel and Schmidt 2016).

### TABLE 1

**Example NFMs**
*(from Brazel and Schmidt 2016)*

<table>
<thead>
<tr>
<th>Category</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employees</td>
<td>Number of employees.</td>
</tr>
<tr>
<td>Facilities</td>
<td>Number of major facilities owned/leased (centers, warehouses, stores, plants, buildings).</td>
</tr>
<tr>
<td>Products and Inventory</td>
<td>Number of brands or types of products/inventory, units sold or available for sale.</td>
</tr>
<tr>
<td>Stores</td>
<td>Number of stores, locations, branches.</td>
</tr>
<tr>
<td>Geographic Regions</td>
<td>Number of geographic areas, countries, states, cities.</td>
</tr>
<tr>
<td>Facility Size</td>
<td>Square footage, miles, acres of facilities owned or leased (centers, warehouses, stores, plants, buildings).</td>
</tr>
<tr>
<td>Sales Channels</td>
<td>Number of dealers/distributors, capacity of sales channels, number of revenue contracts, sales relationships.</td>
</tr>
<tr>
<td>Customers</td>
<td>Number of customers, orders, visitors, clients, backlogs, metrics per customer.</td>
</tr>
<tr>
<td>Patents and Trademarks</td>
<td>Number of patents/trademarks owned, acquired, developed, applied for.</td>
</tr>
<tr>
<td>Suppliers</td>
<td>Number of suppliers, manufacturers, distributors.</td>
</tr>
<tr>
<td>Other</td>
<td>Specific NFMs unique to a company and/or industry (e.g., number of subscribers for a cable company or number of liked posts on Facebook).</td>
</tr>
</tbody>
</table>

Managers use NFMs to evaluate business performance and to incentivize employees via compensation practices. External stakeholders use NFMs to evaluate company performance, to conduct forecasting and valuation analyses, and, in the case of external auditors, to perform a financial statement audit (i.e., improve audit quality). Table 1 contains a more complete list of commonly disclosed NFMs (Brazel and Schmidt 2016).

### NFM Useds Internally: Facebook and Wells Fargo Examples

Facebook uses NFMs to evaluate and compensate its executive officers as disclosed in the “Executive Compensation” section of its 2016 Form DEF 14A (Proxy Statement) filing. One of the objectives for its established compensation practices is to “encourage our executives to model the important aspects of our culture, which include moving fast, being bold, communicating openly, focusing on impact, and building social value in the world” (Facebook Inc. 2016, 19). Evaluation of performance with respect to this objective involves the use of NFMs. Specifically, the company identifies several operational metrics that could be classified as nonfinancial in nature, including: (1) user-base growth across all products, (2) increased sharing and engagement, and (3) improved product quality (Facebook Inc. 2016). In describing bonus compensation for Sheryl Sandberg, the company’s Chief Operating Officer, the company states “Ms. Sandberg received $706,731 for the Second Half 2015 bonus, which reflected her role in growing our revenue year over year, her strategic guidance in various business matters, and the strong growth in the number of advertisers on our platform” (Facebook Inc. 2016, 23).

Like many financial institutions, Wells Fargo emphasizes cross-selling of financial products to its retail customers in an effort to convert customer loyalty and convenience into additional revenue opportunities. In fact, the company periodically discloses financial products per household in its
earnings releases filed with the Securities and Exchange Commission (SEC) (Sweet 2016). Further, employees receive incentive compensation pay for surpassing internal cross-selling targets, highlighting another example of NFMs being used in compensation practices. In September 2016, it was revealed that thousands of Wells Fargo employees in the company’s retail banking division created millions of false customer accounts. According to allegations levied by California state and federal regulators, employees were found to have opened the fake accounts in an effort to meet internal cross-sell targets in order to appease management and to receive the corresponding incentive pay. This startling revelation highlights the potential risks associated with NFMs that are used internally to evaluate and compensate employee performance.

### NFMs Used Externally: Investors, Analysts, and Auditors

Several academic studies suggest that NFMs are useful to investors. For example, Ittner and Larcker (1998) test the value relevance of one particular NFM, customer satisfaction, to investors. In their study, the authors present moderate evidence that customer satisfaction measures are leading indicators of customer purchase behavior, business-unit growth in number of customers, and accounting performance. The study goes on to present evidence that firm-wide customer satisfaction measures are economically relevant within the stock market. Behn and Riley (1999) examine the use of NFMs within the airline industry and find that certain nonfinancial indicators, such as on-time performance, mishandled baggage, and ticket oversales, are significantly associated with customer satisfaction. Furthermore, the authors find customer satisfaction (and other NFMs) are useful in predicting future revenues, expenses, and operating income for airline companies.

A more recent study by Curtis, Lundholm, and McVay (2014) demonstrates that NFMs are extremely useful in predicting future sales, which is often a critical input into many analysts’ forecast and valuation models. Specifically, measures such as new stores and comparable store growth rates can improve upon the accuracy of forecasting models. Givoly, Li, Lourie, and Nekrasov (2017) also find that NFMs are value-relevant to financial analysts. Specifically, they show that analysts respond to “surprises” in NFM disclosure (i.e., disclosed NFMs that deviate from expectations and/or management guidance). In addition, the authors provide evidence that analysts who more accurately forecast NFMs also forecast revenues and earnings more accurately. Taken together, these recent studies highlight the value of NFMs to key financial statement users, presuming that companies faithfully represent this important information.

To ensure that NFMs are faithfully represented, however, the auditing profession may need to expand upon the scope of financial statement audits, which currently require auditors to merely “read and consider” whether other information included in a client’s filings with the SEC is materially consistent with the reported financial information (Public Company Accounting Oversight Board [PCAOB] 2012). As such, it is difficult for investors to know with certainty whether an auditor has performed work that might lend credibility to the disclosed NFMs. In August 2013, the PCAOB proposed a new auditing standard, which would require auditors to “read and evaluate” other information (including NFMs) included with the audited financial statements (PCAOB 2013). This proposed language implies a heightened level of professional skepticism when compared to the current auditing standard requiring that auditors only “read and consider” the disclosed other information. During the public comment period, the PCAOB received hundreds of comment letters weighing in on the proposed rule.¹ Companies (referred to as “registrants”)

¹ These comment letters can be accessed at: https://pcaobus.org/Rulemaking/Pages/Docket034Comments.aspx
almost universally opposed the proposed rule. Professional accounting firms adopted a more neutral tone; however, the firms collectively expressed concern that the term “evaluate” denoted a higher expectation for audit effort without clearly defining what that expectation entailed. In response to the significant critical feedback received, the PCAOB has pulled back on the proposed other information standard for the time being, but continues to engage in discussions on the topic.

Amid ongoing PCAOB deliberations, auditors continue to use NFMs when performing the financial statement audit. Audit “best practices” guidance recommends that auditors seek out more reliable data and information sources like NFMs that are not as likely to be manipulated by management and, in some cases, may be easier for the auditor to verify (Bell, Peecher, and Solomon 2005). Trompeter and Wright (2010) interviewed 36 practicing auditors (including partners, managers, and senior associates) to ascertain how analytical procedures were being implemented. From their structured interviews, the use of NFMs emerged as the only technique for which respondents indicated a significant increase in usage over time. The authors cite the proliferation of financial databases, internet search capabilities, and increasing access to analysts’ reports as a key driver of this shift toward greater use of NFMs in performing analytical procedures. PCAOB AS 2305, Substantive Analytical Procedures, states that “[a]nalytical procedures are an important part of the audit process and consist of evaluations of financial information made by a study of plausible relationships among both financial and nonfinancial data” (PCAOB 2010).

According to Douglas Prawitt, an accounting professor at Brigham Young University, “[a]uditors have access to a lot of nonfinancial information, but they don’t always focus on it” (Meyer 2015). This is potentially detrimental to audit quality as prior research finds NFMs to be very valuable to auditors in their assessment of fraud risk and their corresponding audit procedures. Brazel, Jones, and Zimbelman (2009) find inconsistent patterns of growth in NFMs and financial measures (e.g., revenue growth) can be used to detect firms with high fraud risk. Specifically, the authors compare changes in NFMs alongside changes in financial measures for a sample of identified fraud firms compared to a matched sample of non-fraud firms. In their analyses, the authors observe disparities between NFM growth and growth in financial measures for the fraud firms that is not observed consistently in the matched non-fraud sample. In a subsequent experiment, Brazel, Jones, and Prawitt (2014) show that auditors demonstrate sensitivity to NFMs, given effective prompts regarding the importance of NFMs in appropriately assessing the risk of fraud.

**Concluding Remarks on NFMs**

Collectively, NFMs provide important information that may aid in the assessment of company performance and in the analysis and auditing of company financial reports. Furthermore, public accounting firms acknowledge a shifting landscape in which NFMs present opportunities to improve audit quality and to expand assurance services. For instance, in a KPMG research paper featuring perspectives offered by the firm’s audit leaders, Larry Bradley, former Global Head of Audit, stated:

Investors are making their decisions based on adjusted non-GAAP earnings and nonfinancial metrics. They’re making decisions based on a company’s pipeline, same store sales growth, oil and gas reserves, etc [...] [I]t’s those non-GAAP measures, both financial and nonfinancial, that are driving the market capitalization of the world’s biggest companies. But those metrics typically have no form of independent attestation. I think in the future the market and the investors are going to need, or potentially demand, some form of independent assurance. (KPMG LLP 2014, 4)
NFMs represent vital information used in a variety of applications. Managers evaluate NFMs to assess company performance and to establish thresholds for incentive-based pay. Investors seek out NFMs that will yield more accurate forecasts and valuation assessments. Auditors use NFMs in their audit procedures to better assess fraud risk and to improve analytical procedures. This case should lead students to develop a deeper understanding of NFMs in an accounting and reporting context.

Case Instructions

For this case, we will first examine NFMs together as a class using Nordstrom, Inc., a clothing retailer, as an example. You will then work in teams to expand your knowledge of NFMs by analyzing Twitter. To complete this assignment, read the case materials and respond to the questions posed below. Your team will need to perform independent research as a basis for completing your responses. Documents you will likely find useful as you complete this case are as follows: (1) Annual Filings (Form 10-K); (2) Quarterly/Interim Filings (Form 10-Q); and (3) Current Reports (Form 8-K). You may also find relevant information on Twitter’s website, as well as in recent earnings announcements, shareholder letters, and/or analyst conference calls.

Case Questions

Required Questions

1. Briefly summarize Twitter’s business including: (a) a description of the primary industry in which it operates; (b) identification of key product lines or segments; (c) discussion of the geographic reach of its operations; and (d) a presentation of key metrics that compare Twitter to a closely aligned competitor (e.g., Facebook).

2a. Review Twitter’s filings, particularly the most recent annual report/filing (Form 10-K), interim report (Form 10-Q), and earnings announcement (Form 8-K). If available, you may also wish to review the analyst earnings call transcripts. Based on your review of these documents, identify as many nonfinancial performance measures (NFMs) as possible.

2b. Identify at least three currently undisclosed NFMs relevant to Twitter, which you believe would be useful for business evaluation and/or audit planning. You might find it useful to review the filings and/or analyst earnings call transcripts for one or more competitors to identify these supplemental NFMs.

3. Brainstorm how the NFMs identified in response to 2a and 2b above may be related to various financial statement line items. Prepare an Excel worksheet that maps each NFM to at least one associated financial statement account (e.g., revenue, various expenses, assets, liabilities). You might consider reviewing PCAOB AS 2305, Substantive Analytical Procedures, to understand why such mapping, and more thorough analytical procedures, are an important part of the audit process.

Optional Questions for Additional Learning

4. Evaluate the reporting implications for all of the identified NFMs (consider both those disclosed and those undisclosed in public filings). Answer the following questions:
   a. Assuming all NFM disclosure is voluntary, identify, analyze, and discuss some of the factors that a manager would consider when evaluating whether to disclose a particular NFM. Consider in your discussion information quality, cost/benefit analyses,
industry norms, stakeholder preferences, and future disclosure likelihood (all of which are factors that are discussed in the previously referenced academic literature). Reference one or more of the identified NFMs in your discussion.

b. Discuss the benefits of and costs for disclosing a particular NFM in a company filing. There is bountiful academic literature that discusses disclosure costs and benefits, as well as numerous articles posted by Forbes, Harvard Business Review, etc. From these resources it can be deduced, for example, that disclosure costs typically include: (1) costs of collecting, processing, and disseminating information; (2) political costs; (3) competitive disadvantage costs; and (4) legal costs. Reference one or more of the identified NFMs in your discussion.

5. Reflect upon the audit implications for all of the identified NFMs (consider both those disclosed and those undisclosed in public filings). Answer the following questions:

a. How might a financial statement auditor use NFMs when performing the financial statement audit? Reference one or more of the identified NFMs in your discussion.

b. Discuss the benefits of and potential risks for an auditor who is considering the use of NFMs within the context of a financial statement audit.

REFERENCES


Facebook Inc. 2016. Form DEF 14A (Proxy Statement). Available at: https://investor.fb.com.financials/?section=secfilings


CASE LEARNING OBJECTIVES AND IMPLEMENTATION GUIDANCE

Overview and Learning Objectives

This case study allows instructors to scaffold student learning with regard to financial statement analysis, voluntary disclosures, and nonfinancial measures (Beed, Hawkins, and Roller 1991). More specifically, this case gives future accounting professionals an introductory level opportunity to identify nonfinancial measures in financial statements and evaluate the reporting implications of nonfinancial measures. Generally speaking, the case is designed: (1) to provide instructors substantial flexibility to deliver this case across a range of different classes for both undergraduate and graduate students, in a format that can be customized to best suit the class structure, instructor teaching style, and/or course content; (2) to offer students a chance to discover and thoughtfully consider current NFM disclosure practices through a review of recent SEC filings; and (3) to offer significant opportunities for critical thinking that students will need to succeed as audit professionals.

The four learning objectives, shown below, for this case study are accomplished through different learning methods integrated into the materials:

- **LO1:** Students will understand the usefulness of nonfinancial measures in business evaluation and in the performance of the financial statement audit.
- **LO2:** Students will identify nonfinancial measures (NFMs) and analyze how the identified NFMs relate to the financial statements.
- **LO3:** Students will understand the financial reporting implications for NFMs and evaluate why a company may choose to report certain NFMs and not others.
- **LO4:** Students will understand the audit implications for NFMs and evaluate the benefits and risks of using NFMs when conducting a financial statement audit.

Implementation Guidance

While this case was originally written to be an introduction to nonfinancial measures for undergraduate and graduate financial statement auditing students, the materials can be easily modified for a number of audiences, including courses in intermediate accounting and accounting information systems. Given the subject matter, how and when it is implemented will vary from course to course, but the learning objectives are likely maximized if students have a solid knowledge of financial statement analysis and financial statement disclosures. The case has three distinct components, or phases, for implementation, which allow students to incrementally build their comprehension of NFMs:

- **Phase I**—background reading and understanding;
- **Phase II**—in-class lab and NFM examples; and
- **Phase III**—application and integration of NFM knowledge.

In Phase I of the case, instructors assign the background reading of the NFM case to be completed outside of class. Instructors may elect to provide a high-level overview of NFMs prior to the Phase I reading assignment, but the case materials are written as a stand-alone introduction to NFMs so this may not be necessary. Data collected from student participants indicates the out-of-class reading time for Phase I is approximately 60 minutes.
Phase II of the case commences in the class period subsequent to the Phase I reading assignment. Instructors may choose to start the class with a recap of the Phase I reading, or by soliciting responses/reflections from students regarding highlights from the reading. The primary purpose of Phase II, however, is to provide students real-world examples of NFMs in a learning lab setting. For this learning lab, we judgmentally selected Nordstrom, Inc. as our example company. Nordstrom, Inc. is an American chain of department stores headquartered in Seattle, Washington. Instructors might select another retailer if they believe students would be more comfortable working with a different (local) company. To begin the lab, we instruct students to open Nordstrom’s 10-K filings for the three most recent fiscal years, and to find revenue for each fiscal year.\(^2\) We then ask students to brainstorm what NFMs may be mapped (i.e., correlated) to revenue in each of these years. Students commonly refer to Table 1 (in the case introduction) during the brainstorming session. As the list of NFMs is generated (and written on the board or overhead projector), instructors should challenge students by asking why/how each NFM can drive revenue. Next, we tell students we are going to examine Nordstrom’s disclosure of two specific NFMs: number of employees and number of stores.\(^3\) Using a Microsoft Excel file, we ask students to prepare a summary analysis of the NFMs, including: the stated NFMs, the change in NFMs from year-to-year, revenue per employee each year, revenue per store each year, and the correlations between revenue and each NFM. An example completed lab file can be found in Table 2.\(^4\)

\(^2\) To save time, it is beneficial to provide the electronic PDFs of Nordstrom’s 10-Ks prior to the Phase II learning lab.

\(^3\) If these NFMs are already included in the brainstormed NFM list, we suggest circling the NFMs on the board. If the NFMs are not already on the list, instructors should add them and acknowledge how these NFMs can be mapped to the revenue account.

\(^4\) An example, pre-formatted Microsoft Excel file template like that in Table 2 is available for download, see the link in Appendix A.
Upon review of the completed Excel file, students can see the trends in NFMs across time. In general, students comment that the trends “appear consistent” from year to year, and they believe the changes to be acceptable. However, we encourage students to think broadly about larger, pervasive issues wherein such trends would not appear reasonable (e.g., economic recession, knowledge of a major divestiture, etc.) even if they are not applicable during the years reviewed. In total, Phase II of the case takes approximately 45 minutes of in-class time after accounting for additional student questions.

After Phase II of the case is completed, students are then specifically assigned the questions from the case materials for Phase III. As the concept of NFMs may still be new and unclear to some students, we elected to assign the Phase III questions to groups of 2–4 students. Completion of the questions as a group promotes additional dialogue about NFMs and knowledge-sharing among students. Thorough completion of the case questions takes approximately 3 hours. As such, most of Phase III work is completed outside of class.

Alternatively, instructors can allow for additional work time in subsequent class periods. Instructors are encouraged to monitor and interact with students during any in-class time allotted for Phase III work to ensure progress through, and comprehension of, the materials. Students may complete questions 2a, 2b, and 3 following a format similar to the learning lab Microsoft Excel file (Table 2), or students may opt for a simpler version of documenting NFMs and linking the NFMs to financial statement accounts as shown in Table 3 for Nordstrom, Inc. If this case is assigned for grading, a rubric can be used for assessment. Suggested solutions to the case questions and ideas to scale the case difficulty can be found in the Teaching Notes.

### Evidence of Effectiveness

To obtain evidence regarding case efficacy and student perception feedback, we tested the case during one undergraduate accounting information systems course, three undergraduate financial statement auditing courses, and one graduate financial statement auditing course. One hundred ninety-two students participated in the case, with 175 students providing specific quantitative and qualitative feedback.

All students completed pre- and post-case questionnaires to provide direct evidence of learning from the case materials. One week prior to the case assignment, students were given a five-question self-assessment directly related to the case learning objectives documented above. The pre-assessment was given closed book with no notes, and there was no detailed discussion regarding nonfinancial measures at that point in the curriculum. The average pre-case self-assessment score for the learning objectives was 2.12 (on a five-point Likert scale ranging from 1 = strongly disagree to 5 = strongly agree). Upon completion of the case, all participating students were asked to complete a follow-up post-case assessment. The post-assessment was also given closed book with no notes. The average post-case self-assessment score for the learning objectives was 4.15 (on a five-point Likert scale ranging from 1 = strongly disagree to 5 = strongly agree).
<table>
<thead>
<tr>
<th>#</th>
<th>NFM NAME</th>
<th>2016</th>
<th>2015</th>
<th>2014</th>
<th>2013</th>
<th>FS LINK 1</th>
<th>FS LINK 2</th>
<th>FS LINK 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Number of stores (total)</td>
<td>349</td>
<td>323</td>
<td>292</td>
<td>260</td>
<td>Revenues</td>
<td>Cost of Sales (occupancy costs)</td>
<td>Land, Buildings, and Equipment</td>
</tr>
<tr>
<td>2.</td>
<td>Square footage (000s)</td>
<td>29,792</td>
<td>28,610</td>
<td>27,061</td>
<td>26,017</td>
<td>Revenues</td>
<td>Cost of Sales (occupancy costs)</td>
<td>Land, Buildings, and Equipment</td>
</tr>
<tr>
<td>3.</td>
<td>Number of employees</td>
<td>72,500</td>
<td>72,500</td>
<td>67,000</td>
<td>62,500</td>
<td>Revenues</td>
<td>Cost of Sales (wage expense)</td>
<td>SG&amp;A Expense (benefits)</td>
</tr>
<tr>
<td>4.</td>
<td>Number of trademarks</td>
<td>166</td>
<td>147</td>
<td>156</td>
<td>152</td>
<td>Revenues</td>
<td>Other Assets (intangible assets)</td>
<td>SG&amp;A Expense (legal expense)</td>
</tr>
</tbody>
</table>
objectives was 4.10 (based on the same five-point Likert scale), which represents a 93 percent improvement in self-assessed knowledge. These assessments support learning objectives/outcomes LO1 through LO4 (see Table 4).

In additional untabulated results, students indicated they increased their knowledge of NFMs by completing the case (97 percent), found the case interesting (94 percent), enjoyed working through the case materials (85 percent), and would recommend the case be used in future courses at their university, as well as other universities (95 percent). Furthermore, students found the case difficulty appropriate for their level of education and experience (95 percent), and believed the instructions to be clear (89 percent). The consistent note for improvement for future uses of the case was to allot as much time as possible for reviewing financial statements for NFMs. Once students understood the definition of a NFM and were shown examples, they consistently wanted to scour the financials for an in-depth search of NFMs. Qualitative responses suggest students achieved the learning objectives. Students liked that the case kicked off with a real-world example (i.e., Nordstrom), and that the case incorporated the use of Microsoft Excel to both summarize and analyze NFMs. Students also appreciated the opportunity to research and identify NFMs on their own.

Our observation as instructors, as well as student feedback, suggest that this case enables students to employ higher level skillsets as they make connections between standard classroom lectures and real-world audit procedures and financial disclosures. We also witness increased

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**TABLE 4**

Student Learning and Efficacy
Self-Assessment Results (n = 175)

<table>
<thead>
<tr>
<th>LO</th>
<th>Question</th>
<th>Self-Assessment Average (Pre)</th>
<th>Self-Assessment Average (Post)</th>
<th>t-value</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>LO1</td>
<td>I understand what a nonfinancial measure (NFM) is and can explain what a NFM is to another accounting professional.</td>
<td>2.22</td>
<td>4.44</td>
<td>23.973</td>
<td>&lt; 0.001</td>
</tr>
<tr>
<td>LO1</td>
<td>I understand the usefulness of NFMs in business evaluation and in the performance of the financial statement audit.</td>
<td>2.32</td>
<td>4.40</td>
<td>21.170</td>
<td>&lt; 0.001</td>
</tr>
<tr>
<td>LO2</td>
<td>I feel confident in my ability to map NFMs to related financial statement accounts.</td>
<td>1.87</td>
<td>3.86</td>
<td>20.911</td>
<td>&lt; 0.001</td>
</tr>
<tr>
<td>LO3</td>
<td>I understand the financial reporting implications of NFMs.</td>
<td>2.08</td>
<td>3.86</td>
<td>18.087</td>
<td>&lt; 0.001</td>
</tr>
<tr>
<td>LO4</td>
<td>I understand the role and interplay of NFMs in performing a financial statement audit.</td>
<td>2.10</td>
<td>3.94</td>
<td>18.050</td>
<td>&lt; 0.001</td>
</tr>
</tbody>
</table>

Averages 2.12 4.10  
% Change 93%
student participation, interaction, and knowledge-sharing as they review financial statements for NFMs and begin to hypothesize business rationales for disclosure (or non-disclosure) of specific NFMs.

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 *Current Issues in Auditing* through the American Accounting Association's electronic publications system at [http://aaapubs.org/](http://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.

If you are a non-student-member of AAA with a subscription to *Current Issues in Auditing* and have any trouble accessing this material, please contact the AAA headquarters office at info@aaahq.org or (941) 921-7747.

REFERENCES


APPENDIX A

ciia-52147_NFM Learning Lab Template: [http://dx.doi.org/10.2308/ciia-52147.s01](http://dx.doi.org/10.2308/ciia-52147.s01)
ciia-52147_NFM Sample Grading Rubric: [http://dx.doi.org/10.2308/ciia-52147.s02](http://dx.doi.org/10.2308/ciia-52147.s02)