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Cite this article https://doi.org/10.1080/06939280500452843

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Accounting Education: an international journal
Vol. 15, No. 1, 3–10, March 2006

Why DCF Capital Budgeting is Bad for Business and Why Business Schools Should Stop Teaching it

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Introduction

As educators, we are constantly making decisions about course content. Each year, as we begin our preparations for writing our new or updated course outlines, such questions as what topics to include, modify, or exclude, are contemplated and re-contemplated. When making these decisions, an implicit or explicit decision is made on what is or is not 'essential.' Exactly what constitutes an essential topic derives partly from what is mandated, partly from what is institutionalised, and partly from what twinkles or pales 'in the eye of the beholder.' Topic mandates primarily come from the professional accounting bodies with which university accounting departments maintain links. These professional bodies exert a strong influence on course content. Any university accounting department that hopes to attain/retain the professional body's accreditation must show evidence that it is meeting the Body of Knowledge espoused by and generally encapsulated in the professional body's course outline(s). The obvious consequence is that a substantial amount of the course content is mandated and driven by the professional bodies.

Institutionalization serves to guide course content in two main ways. First, educators, either through a process of formal or informal benchmarking, frequently monitor developments in the course topic coverage of their peers and colleagues. Agreement converges around some belief about 'best practice,' which is then accepted and adopted into the course content. A second way in which institutionalization occurs is through textbook adoption. When a course textbook is specified, a resulting commitment is made to a set of topics. The fact that there are usually a small number of popular textbooks, featuring a similar set of topics, helps fuel the process of institutionalization.

The educator comprises the third influence on course content. The typical educator's response to the field of accounting's expanding subject diversity and technical complexity is to add topics to his/her course outlines. Adler and Milne's (1997) study showed that educators displayed a seemingly irresistible urge to augment course topics. In particular, 50% of the educators they interviewed, and 41% of the educators to whom they sent a mailed questionnaire stated they needed to expand course content.

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0963-9284 Print/1468-4489 Online/06/010003–8 © 2006 Taylor & Francis
DOI: 10.1080/09639280500452843

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The Engineering Economist
Published online: 30 May 2007

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