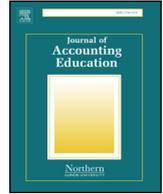


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An accounting ethics case from multiple perspectives

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ABSTRACT

This case addresses ethical accounting issues often faced by the accounting profession using the activities of the investment group WWM, Inc. Based on the actions of real individuals and their companies, WWM, Inc. helps financially-distressed businesses obtain loans from financial institutions via a “Leveraged Asset Plan,” which provided necessary collateral for loans. Acting as a member of an Accounting Regulatory Board, you will examine the circumstances surrounding this company from multiple ethical perspectives and professional codes of conduct. The goal of the case is to (1) increase your understanding of ethical frameworks and professional codes of conduct and (2) learn how to apply these ethical frameworks to decision making.

1. The case

1.1. Part 1 Background

Dale Perez had a successful career (as a securities broker). His life-long friend, Jeffrey Jones also had a successful career (as a salesman) who could sell anything to anyone. Jeffrey convinced Dale to start a new business venture with him in Cambridge. Together, they created Cambridge Investment Group (a.k.a., CIG), a financial services company that offered both financial consulting and investment banking services. In particular, CIG provided clients with advice tailored to match their financial needs while offering an array of innovative financial products covering capital preservation, income generation, and long-term capital growth. Recently, Dale and Jeffrey identified additional client service offerings to expand their business. Jeffrey and Dale decided to contact their long-time friend, Gary Smith, to see if he would work with them. Jeffrey and Dale thought Gary would be the perfect partner because he had a strong accounting background (as a professional accountant¹) and was well-connected in the business community.

Early in his career, Gary worked at Global Ventures, an international real estate development firm that provided project management, commercial and residential real estate investment opportunities, and educational resources to investors throughout the world. Gary's responsibility was to help Global Venture's clients secure and process loans to facilitate their real estate investments. Most of his clients' loans were processed through Commerce Bank - where Gary had developed many strong business relationships over the years.

Jeffrey and Dale also knew that Gary had recently left Global Ventures to start his own professional accounting practice after the

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¹ The particular designation depends on the country. For example, in the U.S., Gary would be designated as a Certified Public Accountant (CPA). In India, Gary would be designated as a Chartered Accountant.

real estate industry started cooling down. While self-employment had flexible hours and unlimited potential opportunity, he started his business from scratch with no client base. Unfortunately, his business grew at a much slower rate than expected. Because he did not know how to develop a marketing plan, Gary was cold calling individuals and businesses to increase his client list. Large, profitable clients were unwilling to engage an unknown accounting firm, so Gary was only able to attract smaller and riskier clients. In addition, his firm was starting to incur debts for computers, software, and other necessary business resources faster than he could generate revenues. He was in danger of having to close the business due to lack of funds. Gary felt his dream of owning his own successful accounting firm slipping away.

Knowing that Gary's business was struggling, Jeffrey and Dale approached Gary about possible "opportunities." They made a financially tempting offer (twice what Gary was earning). And, to further entice Gary, they pitched their offer also as a way of not only saving his accounting firm, but helping the community.

After discussing "opportunities," the three created a separate company, WWM Inc., with the mission to help financially-distressed firms receive "special" financing. WWM offered Gary a hiring bonus of \$75,000 for his services at a time when his firm needed cash. The extra \$75,000 would help Gary keep his firm open for another year and hopefully attract more clients to avoid bankruptcy. Moreover, Gary also liked the idea of helping financially-stressed firms (like his) receive needed financing to continue operating. His primary role was to assist WWM clients in preparing the financial information that would be sent to Commerce Bank in connection with their respective loan applications.

WWM helped firms that had difficulty obtaining bank loans – typically due to cash-flow, collateral, or credit problems – via a program called the "Leveraged Asset Plan" (LAP), which provided property for WWM's clients to use as collateral for loans. The LAP worked as follows: WWM directed clients to purchase treasury bonds (or other low-risk financial instruments) on margin to be held in a securities dealer's brokerage account (at CIG). Because of the interlocking nature of CIG (which was controlled by WWM), it appeared the full market value of the securities was available to the bank as collateral for the loan.

As part of the LAP program, WWM required its clients to sign a separate agreement whereby they "borrowed" funds from WWM for the full value of the financial instruments – plus a "small" 10% service fee and a 10% "hold back" (money that is held by WWM to cover repayment of the loan in case the client defaults). However, funds were never extended by WWM because the loan was made directly to the client from the bank. WWM's revenue stream was based solely on the 10% service fee. Commerce Bank was unaware of these agreements.

To illustrate WWM's loan process, assume that Gopher Enterprises needs \$80,000 in cash to finance its purchase orders. Gopher does not have the required credit or collateral to obtain a business loan through normal banking procedures. The following steps detail the process that Gopher (and other WWM clients) must follow.

Step 1. WWM advises Gopher to obtain \$100,000 of 10% margined treasury bonds through CIG's brokerage services (so the cost to Gopher would be \$10,000). CIG will then hold these margined bonds in a Securities Dealer's Brokerage Account and all margin risks are borne exclusively by Gopher.

Step 2. WWM then creates false documents showing Gopher as the sole (and complete) owner of the \$100,000 bonds, when in fact the bonds were held on margin. WWM sends these documents on behalf of CIG and uses Gary's bank relationships to help Gopher obtain a \$100,000 loan from Commerce Bank.

Step 3. The bank loan proceeds are distributed as follows. \$80,000 is distributed to Gopher, \$10,000 is "held" by WWM in an interest escrow account (a common practice for legitimate loans), and \$10,000 is paid to WWM as a loan processing fee. Of the \$10,000 loan processing fee, Gary Smith receives a commission of 25 percent (\$2,500) while Dale and Jeffrey share equally the remaining 75 percent (\$7,500).

Things seemed to be going well for WWM. During its first year of operations, WWM processed five loans. The loan amounts range from \$100,000 to \$2.5 million, including a \$140,000 loan for Gary to keep his business going.

Task 1.1.1

Evaluate the loan processes from the perspectives of WWM, CIG, and Commerce Bank. Were any of these practices fraudulent? That is, do you think the parties knew they were engaging in a fraud? Is it possible to perpetrate a fraud without realizing it?

Task 1.1.2

Evaluate Gary's actions from the perspective of different ethical frameworks. [Appendix A](#) provides a summary of selected ethical frameworks for your consideration as you address the following questions.

- Why are Gary's actions **not** unethical?
- Why are Gary's actions unethical?

1.2. Part 2 One year later

Because of the financial (and mental) stress of Gary's struggle to develop a successful accounting firm and his rationalization that he was helping the community, Gary Smith was blinded to the fact that the WWM financing scheme was fraudulent. He felt he was just serving the greater good as well as providing for his family. Unfortunately, by the end of the first year of operations, three of the five loans (including Gary's loan) that were processed by WWM had defaulted. During the ensuing review, Commerce Bank

discovered WWM's fraudulent scheme and decided to press criminal charges against all three partners.

Gary Smith, Jeffrey Jones, and Dale Perez were all charged in a 4-count indictment and faced up to 25 years in prison. The indictment first charged them with conspiracy² to commit bank fraud. The individuals were also charged with 2 counts of bank fraud – alleging that the three defendants knowingly and willfully devised and intended to defraud Commerce Bank by providing false and fraudulent financial information to Commerce Bank in connection with the applications for loans by clients of WWM, in order to induce Commerce Bank to grant loans to the individual clients. Finally, the individuals were charged with aiding and abetting bank fraud.³

Task 1.2

Evaluate Gary's actions from the perspective of an Accounting Regulatory Board. Participation in illegal acts can lead to disciplinary sanctions against the professional accountant. In many countries, a professional accountant may be required to appear before a disciplinary committee to defend his/her actions. Boards typically have the discretion to either wait for the final court resolution of the matter, which may take several years, or start a disciplinary hearing to prevent the accountant from practicing even before the final legal resolution.

- a. You have been hired to provide a brief (i.e., memo) to the Accounting Regulatory Board on why Gary's actions and conduct **do not** violate the jurisdiction's professional code. As part of your brief, make sure you describe how he might explain his actions and conduct to the Board (i.e., use Task 1.1.2 logic to justify his actions).
- b. You have been hired to provide a brief to the Board on why Gary's actions and conduct **do** violate the jurisdiction's professional code. What are the implications of allowing Gary to continue practicing as a professional accountant while awaiting the outcome of the trial?

To help you with the task, [Appendix B](#) presents two different codes for the accounting profession, the American Institute of Certified Public Accountants (AICPA) Code of Professional Conduct and the International Ethics Standards Board for Accountants (IESBA) Code of Ethics for Professional Accountants.

1.3. Part 3 Criminal resolution

While all three defendants asserted that they were not guilty of any of these charges, the facts appear to support otherwise. Specifically, the defendants knowingly and willingly did not disclose to Commerce Bank that the securities were purchased on margin by CIG to induce the bank to grant loans to the defendants' clients. Moreover, WWM on behalf of CIG sent monthly reports to Commerce Bank falsely showing the face value of the bonds as solely owned by the defendants' clients. Thus, the defendants fraudulently made it appear that the full market value of the securities was available as collateral for the bank's loan, when, in fact, the collateral was insufficient. The case for Gary was criminally adjudicated when he pled guilty to one count of bank fraud. Gary completely cooperated with the authorities and as part of his sentence had to perform community service and outreach. Following his guilty plea, a complaint was filed (with the State Board of Accountancy) against Gary which resulted in his case being placed on the Accounting Regulatory Board disciplinary committee's agenda.

Task 1.3

Continuing to evaluate Gary's actions from the perspective of an Accounting Regulatory Board, you are now to assume the role as a member of your local Accounting Regulatory Board. Board members (or a committee thereof) are responsible for reviewing complaints about licensees and determining appropriate actions (a.k.a., punishment) based on local laws and regulatory guidelines. As such, you are a member of the disciplinary committee that is hearing Gary Smith's case. He has been convicted of committing an illegal act (bank fraud) therefore charged with violating the relevant professional code. Based on the facts presented in the case, what is your recommendation as to the appropriate punishment (if any) that should be imposed on Gary and what is your reasoning for your recommendation? Some specific questions to consider are:

1. Did Gary know he was violating a professional code⁴ when he committed the illegal act? Does that matter when determining his punishment?
2. Do you think this was a one-time occurrence for Gary and that he will not engage in fraud in the future?
3. Do you think Gary should be allowed to continue to work as a professional accountant? As part of your answer consider the following questions. Do you think people who make a mistake should be forced to lose their career permanently? Can people learn from their mistakes and return to a trusted position once they have served their debt to society?
4. Consider your evaluation of different ethical frameworks in Task 1.1.2. How does your analysis of those different ethical frameworks affect your decision as a Board member?

² A conspiracy is simply an agreement between two or more persons to knowingly and willfully engage in conduct that would violate the law.

³ Aiding and abetting bank fraud is an offense where a defendant intends, encourages, or materially assists another to commit bank fraud.

⁴ Depending on where the case is being used, the Professional Code may refer to the AICPA Code of Professional Conduct, the IESBA Code of Ethics for Professional Accountants, or whatever local Code is relevant to the specific location. We have included excerpts of the AICPA and IESBA Codes in [Appendix B](#).

5. What have you learned about the relation between business and ethics as a result of working on this case? Be sure to include a discussion of the responsibilities of all participants in any given situation.

To help guide your recommendation, [Appendix C](#) summarizes the Board's prior disciplinary actions for a variety of offenses.

1.4. Part 4 Fraud triangle and fraud diamond

The fraud triangle is a common framework used to describe the elements that are typically present when a fraud takes place. Many research studies suggest that fraud is more likely to occur when someone has an *incentive* (pressure) to commit fraud, weak controls or oversight provide an *opportunity* for the person to commit fraud, and the person can *rationalize* the fraudulent behavior (attitude). This three-pronged framework (commonly known as the fraud triangle) has been formally adopted by the U.S. auditing profession as part of AS 2401.

[Wolfe and Hermanson \(2004\)](#) expanded the fraud triangle framework into a fraud diamond by including a fourth element (*capability*). Capability refers to the personal traits and abilities of a person that determine whether the person can make the potential fraud (due to the presence of the other three elements) a reality. These traits include intelligence, access due to position in the company, confidence, immunity to stress, effectiveness at lying, and coercion skills. For example, in order for someone to have the capability to be able to commit a fraud, the person must be smart enough to understand and exploit internal control weaknesses and then use his/her position, function, or authorized access to his/ her personal advantage. If collusion is required, a person must have a persuasive personality to be able to convince others to go along with a fraud or to simply look the other way. If deceiving auditors or supervisors is required, the person must have the knowledge and ability to tell a convincing lie.

Task 1.4

Typically, all three elements of the fraud triangle (or the four elements of the fraud diamond) are present when a fraud is found to have taken place, but not always recognized until after the identification of the fraud. Do you think each element of the fraud triangle or fraud diamond was present in this case? Why or why not? Does your evaluation of the fraud triangle/diamond affect your evaluation of Gary's actions and his punishment? Explain your reasoning. [Wolfe and Hermanson \(2004\)](#) and [ACFE \(2018\)](#) provide descriptions of the fraud triangle and fraud diamond.

2. Case learning objectives and implementation guidance

2.1. Overview of case

This case requires students to evaluate the actions of a professional accountant (Gary Smith). Specifically, based on a real-life situation, students must first determine whether the professional accountant has committed fraud. Unlike many self-serving fraudsters, this professional accountant's fraud helped numerous small organizations obtain the necessary capital to continue business operations. Students must then evaluate his actions using a variety of ethical frameworks and professional codes to determine (1) if Gary has acted unethically or not unethically (2) if Gary has violated professional codes and (3) the appropriate disciplinary action with respect to Gary's accounting license. Finally, students must respond to several questions to help them formulate their opinions on ethics and business.

2.2. Learning objectives

The Pathways Commission calls for accounting education to build skills in ethical decision making and responsible judgment ([The Pathways Commission, 2012](#), 133). Moreover, researchers show that ethics education in accounting "improves students' ability to formulate ethical judgment and play[s] an important role in highlighting the importance of high ethical standards" ([Liu, Yao, & Han, 2012](#), pp. 674 & 681). Finally, educators believe cases offer the most effective method for ethics instruction (see [Blanthorne, Kovar, & Fisher, 2007](#)). Accordingly, we developed an ethics case based on a real-world scenario⁵ that has an usual twist (which is revealed in the *Epilogue*).

Like many accounting fraud cases that primarily focus on "cooking the books," the fraudsters in this case cooked the investment statements that were sent to the bank, which is obviously illegal. However, that is not the primary focus of this case. Instead, we first wanted an interesting way to introduce students to a variety of ethical frameworks and professional codes.⁶ We wanted students to learn the different between fraud and ethics. Then, we wanted to help students understand why accountants may be tempted by the "dark side" and participate in criminal activity. Many students come out of their education assuming accounting and law are "textbook" – that is, what is right and wrong is always clear. We also wanted them to consider whether an accountant can go back to the "light side" after wrongdoing – just like Gary did. These are issues that accountants across the world often face.

⁵ As described in the research methods section, the case is based on a series of interviews and informal discussions with the accountant that committed this fraud in the real world.

⁶ Extant cases examine ethical dilemmas around whistle blowing ([Taylor & Guthrie, 2013](#)), inventory ([Long, Mertins, & Searcy, 2013](#)), and asset impairment ([Persellin, Shaub, & Wilkins, 2014](#)). The first of these cases has students use a code of conduct from a hospital, while the second case uses the AICPA's Code of Professional Conduct, respectively. The third case briefly references the AICPA Ethics Decision Tree as well as a variety of ethical frameworks in the answer key.

Table 1
Case learning objectives and tasks.

Learning objectives	Task 1.1.1.	Task 1.1.2.	Tasks 1.2 & 1.3.	Task 1.4.
LO1 Ability to identify and analyze relevant facts for a given situation.	X		X	X
LO2 Knowledge of multiple ethical frameworks to evaluate a person's actions.		X	X	
LO3 Knowledge of the AICPA and IESBA Codes of Professional Conduct to evaluate a person's actions.			X	
LO4 Knowledge of the fraud triangle and diamond framework.				X
LO5 Critical thinking skills based on professional codes and ethical frameworks.		X	X	X

The case provides students with an opportunity to improve their:

- ability to identify and analyze relevant facts for a given situation.
- knowledge of multiple ethical frameworks (including Utilitarianism, Kantian deontology, Virtue ethics, Pluralism, Particularism, Moral decision making) to evaluate a person's actions.
- knowledge of professional codes of conduct/ethics (specifically, the AICPA Code of Professional Conduct and the IESBA Code of Ethics for Professional Accountants) to evaluate a person's actions.
- knowledge of the fraud triangle and fraud diamond and
- critical thinking skills based on professional codes and ethical frameworks.

Table 1 links learning objectives to the tasks.

If instructors would like to enhance students' written and/or oral communication skills, the requirements can be completed as noted in *Implementation Guidance* by having the students develop written responses or participate in a debate format activity, respectively.

2.3. Implementation guidance

This case is appropriate for use across the accounting curriculum – wherever there is a focus on accounting ethics.⁷ It may also be used in general business classes that have an ethics component such as Environment of Business, Organizational Behavior, or Strategy. The case can be used in either undergraduate or graduate level classes. We recommend that the case be provided to students one part at a time, so that students can complete the tasks based on the information known at a particular point in time—just like in the real world.

The case requires that students understand the definition of fraud. Students also need to be familiar with several ethical frameworks (such as Kant's Categorical Imperative, Utilitarianism, Virtue Ethics, and Pluralism) and be familiar with the appropriate professional codes (specifically, the AICPA Professional Code of Conduct and/or the IESBA Code of Ethics for Professional Accountants). If students are not yet familiar with ethical frameworks or the professional codes, instructors can direct them to [Appendices A](#) and/or [B](#) which present an overview of the relevant ethical frameworks and professional codes, respectively.

Task 1.1.1 requires students to recognize that the *intentional* preparation of false documents as collateral for a bank loan is fraud. That is, it is impossible to commit a fraud “by accident.” The fact that the deception was done *intentionally* makes it a fraud rather than an innocent mistake, even if the perpetrators did not think they were committing a fraud while they were perpetrating it.

Task 1.1.2 requires students to evaluate the actions of Gary from two different perspectives using ethical frameworks why Gary's actions are not unethical and why they are unethical. While it is clear that the central actors are guilty of committing a fraud, an argument can be made that the motives may have been more than just self-serving since they were helping troubled businesses.

Task 1.2 requires students to prepare briefs for the disciplinary board arguing why Gary's actions do (or do not) violate the jurisdiction's professional code (e.g., the AICPA Code of Professional Conduct and/or the IESBA Code of Ethics for Professional Accountants). Many students have not been exposed to the professional codes, which contain important information that shapes accountants' careers. Instructors may also want to extend Task 1.2 by having students use a professional code from their own country (if not the U.S.) and/or having students compare/contrast different professional codes.

Next in Task 1.3, students recommend an appropriate action for Gary's professional license (completion of CPE hours, fine, probation, revocation, and/or surrender). Students can use the summary of outcomes of the disciplinary hearings in [Appendix C](#) to determine the available choices and make a recommendation. To help guide students' analysis, we present several questions designed to increase students' ethical awareness and develop their own ethical values (see [Liu et al., 2012](#)). While there are no correct or incorrect answers, students should consider all relevant facts when deciding the proper punishment.

Task 1.4 asks the students to think critically about the facts of the case and determine whether or not each of the three elements of the fraud triangle (or four elements of the fraud diamond) were present when the fraud took place. Students should examine each element to see how it impacts their evaluation of Gary's actions.

⁷ The case has been used in fraud examination, accounting information system, and auditing courses.

After completing the tasks, we recommend devoting 50–60 min to discuss students' answers.⁸ The class discussion should open with an analysis of what exactly happened here. Who gained? Who lost? Was there any harm done? Students will easily see the violation of the professional codes and will likely find ethical issues rather quickly and rush to judgment, rather than taking a measured critical approach to understand all the issues and motivations. As this occurs, the instructor acting as a devil's advocate can point out that the businesses that got the loans employ people and support families. Also, borrowers pay a risk premium as part of their loans that should be sufficient to mitigate any harm to the bank. After all, loan defaults are just part of a bank's business. Another approach to justifying Gary's actions is that the bank was at fault too for not performing due diligence and making sure that the collateral had the stated value instead of just taking WWM's word on it. This discussion can get pretty lively.

Another approach that can be used to help students critically evaluate the issue from multiple perspectives is to use a debate format. One side will take the position that Gary's behavior was unethical and the other side argues that his behavior was ethical. For an added twist, we suggest a Sophist debate. That is, students prepare for both sides of the debate and do not know which side they will argue until just before the debate begins. This will require them to think through both sides of the issue and the rationalizations that Gary might have used to justify his actions. Real-world experience with this approach indicates that the Sophist debate also enhances students' critical thinking skills as they must move past the obvious to support their side (i.e., students understanding is improved and arguments are more thoroughly developed).

To use the Sophist debate format, divide the class into debate teams of three to four students each⁹ and have each team prepare both sides of the resolution (be it resolved Gary Smith's actions were ethical) for debate. When the class meets select two teams for the in-class debate and toss a coin to decide which team argues for the affirmative and which team argues against the resolution. The rest of the class can serve as the judges of the debate. Typically, the judges will "vote with their feet." That is, at the end of the debate, ask the class to walk to the side of the room that is closest to the team they thought did the best job of debating the issues.

Assuming the class consensus is Gary's actions were unethical, the discussion will move to what should be done about it. Specifically, what professional codes were violated, what laws were broken, and what should be the appropriate consequence? The discussion here should include what are the goals of the consequences. These could be punishment of bad behavior, restitution, deterring others from committing the same offense, saving the reputation of the accounting profession, ensuring accountability of practicing (and professional) accountants, and others. The idea is to encourage the students to consider the ripple effects of one person's behavior on their profession and society at large. In addition, the instructor should emphasize that intent is the difference between a mistake and fraud.

The session can conclude by revealing what action was taken (as described in the *Epilogue*). Instructors should ask students whether they think the Board's punishment in real-life was the correct decision? The class may also want to consider whether such a "light sentence" negatively impacts the accounting profession as a whole or affects individual accountant's choices. The question is similar to whether capital punishment is a deterrent to violent crime. Moreover, instructors may wish to point out that while Gary was able to retain his accounting license, [Appendix C](#) indicates that this is not usually the case for his crime. Instructors may want to discuss the very different punishments (i.e., 1 day in prison, 3 years in prison, not guilty) for all three defendants. Finally, instructors should conclude with a discussion of the difference between fraud and ethics (where fraud is intended to take advantage of another individual and ethics is a violation of moral standard).

2.4. Customizing the case

The difficulty of the case can be easily tailored to the appropriate skill level of the students by varying the assignment requirements and provided information. To *increase the difficulty* of the case, instructors can implement one or more of the following ideas:

- Make students identify and/or research professional codes (from one or many countries) and ethical frameworks themselves.
- Use the Sophist debate format described above.
- Eliminate the specific questions from Tasks 1.2 and 1.3 and ask the students to identify factors that they would consider when determining Gary's punishment.
- Require students to draw a process map of the situation. [Fig. 1](#) depicts a process map. Instructors may wish to emphasize that process maps can be used to uncover/document potential frauds.

To *simplify* the case, instructors can implement one or more of the following ideas:

- Have students complete the requirements in teams.
- Provide/Assign different ethical frameworks and professional codes as well as (ethical/unethical) perspectives to different groups and have them present their arguments to the rest of the class.

⁸ The time to complete the entire case depends on how the instructor chooses to assign the case. It takes longer if students must research ethical frameworks and professional codes themselves and/or write a paper or prepare for a (Sophist) debate. Shorter times can be achieved by providing the frameworks and just using a class discussion (after students read the materials on their own).

⁹ The number of teams depends on the class size.

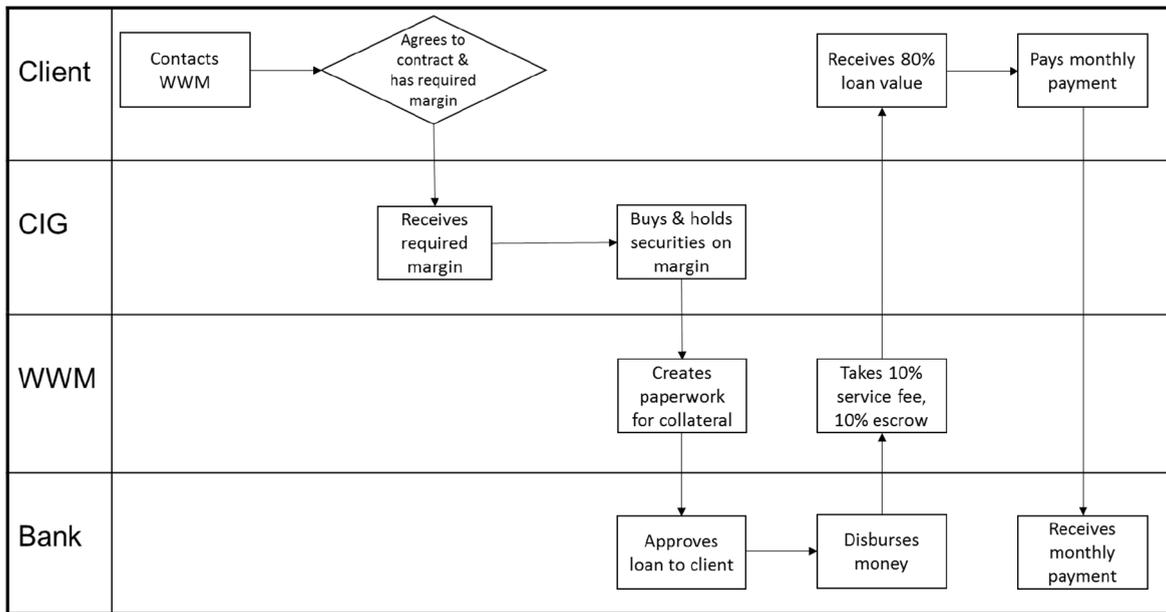


Fig. 1. Process map of the leveraged asset plan process.

2.5. Evidence of efficacy and feedback

We have used this case in a variety of courses at five universities over the course of ten years. The case has been implemented using a variety of methods including class debate, Sophist debate, written, in/out of class assignments, and class presentations. Based on the feedback of students, the case materials have been updated. Overall, students indicated they enjoyed the case and learned from the experience regardless of the implementation method.

To determine if the most recent version of the case enhanced students’ knowledge of ethics, we administered a survey before assigning the case and after case completion. The first class surveyed (University 1) was an undergraduate, junior-level, accounting information systems class at a large state university. The systems class was taught from a fraud perspective, covered business processes and internal controls, and culminated with the assignment of this case. The second class surveyed (University 2) was an undergraduate, junior-level, accounting information systems class at large private university. This class emphasized the professional and legal responsibilities of accountants and auditors and therefore covered both business processes and internal controls. Instructors at Universities 1 and 2 both had groups of students work sequentially through the readings and requirements in class using [Appendices A and B](#).

The third class surveyed (University 3) was an undergraduate, senior-level, auditing class at a small private university. Students at this particular university are required to complete four philosophy courses as well as a general ethics course as part of the university’s core requirements. In addition, the accounting program places a strong emphasis on ethics throughout its curriculum as well as requiring a separate business ethics course. The instructor had students individually complete the case requirements outside of class and then discussed student answers in class.

[Table 2](#) provides formal student feedback about the case from all three universities. Panel A reports students’ perceptions regarding their knowledge of ethical frameworks, the AICPA’s Code of Conduct,¹⁰ and the fraud diamond. As expected, students report a higher perceived level of knowledge after completing the case.

[Table 2](#), Panel B questions test specific knowledge learned. Based on the results, most of the students at Universities 1 and 3 already knew that fraud is an *intentional act* prior to case assignment, so it was not possible to significantly increase their knowledge about this point. However, at University 2, the results show that only half (55%) of the students were aware of this point both prior to and after the case. We surmise this lack of improvement is because the instructor did not stress the fact while going over the case during class. To address this disparity, we updated the teaching notes to remind the instructor to stress this difference when reviewing the case in class.

In addition, the case significantly increased students’ knowledge about specific ethical frameworks (utilitarianism and pluralism) as well as elements of the fraud diamond. Interestingly, the improvement in knowledge about ethical frameworks was significant at all universities. However, the level of knowledge at pluralism at University 3 was much lower than the other two universities. Although the students at University 3 had completed multiple philosophy and ethics classes, the instructor at University 3 assigned [Appendix A](#) as an out-of-class reading, while the other two instructors worked through the case in class. While the case was discussed

¹⁰ When we originally tested this case in the classroom it was at three U.S.-based universities. So, the survey questions referred to the AICPA Professional Code of Conduct.

Table 2
Measures of efficacy.

		University 1		University 2		University 3	
		Before case n = 25	After case n = 35	Before case n = 63	After case n = 63	Before case n = 75	After case n = 74
<i>Panel A: Perceptions of knowledge before and after case completion</i>							
A variety of frameworks can be used to evaluate the actions of individuals as ethical/moral or not. I would rate my level of knowledge about these frameworks as:	Novice	6 (24%)	0 (0%)	16 (25%)	3 (5%)	18 (24%)	2 (3%)
	Adv. Beginner	5 (20%)	6 (17%)	15 (24%)	18 (29%)	35 (47%)	24 (32%)
	Competent	10 (40%)	20 (57%)	19 (30%)	20 (32%)	17 (23%)	33 (45%)
	Proficient	3 (12%)	9 (26%)	12 (19%)	19 (30%)	4 (5%)	15 (20%)
	Expert	1 (4%)	0 (0%)	1 (1%)	3 (5%)	1 (1%)	0 (0%)
	Average	2.52	3.09 [*]	2.48	3.01 ^{**}	2.13	2.82 ^{**}
The AICPA has developed a Code of Professional Conduct. I would rate my level of knowledge about this Code as:	Novice	12 (48%)	2 (6%)	39 (61%)	7 (11%)	17 (23%)	6 (8%)
	Adv. Beginner	8 (32%)	16 (46%)	14 (22%)	17 (27%)	45 (60%)	39 (53%)
	Competent	3 (12%)	13 (37%)	8 (13%)	24 (38%)	9 (12%)	23 (31%)
	Proficient	2 (8%)	4 (11%)	2 (3%)	10 (16%)	3 (4%)	6 (8%)
	Expert	0 (0%)	0 (0%)	0 (0%)	5 (8%)	1 (1%)	0 (0%)
	Average	1.80	2.54 ^{**}	1.57	2.83 ^{**}	2.01	2.39 ^{**}
The fraud diamond is a common framework that is used to describe the elements of fraud. I would rate my level of knowledge about this framework as:	Novice					33 (44%)	5 (7%)
	Adv. Beginner					17 (23%)	17 (23%)
	Competent	N/A	N/A	N/A	N/A	20 (27%)	29 (39%)
	Proficient					5 (7%)	21 (28%)
	Expert					0 (0%)	2 (3%)
	Average					1.96	2.97 ^{**}

		University 1		University 2		University 3 ¹	
		Before case n = 25	After case n = 35	Before case n = 63	After case n = 63	Before case n = 75	After case n = 74
<i>Panel B: Correct responses to questions asked before and after case completion</i>							
What is the difference between fraud and a mistake? Answer: Intention		24 (96%)	34 (97%)	35 (55%)	35 (55%)	74 (98.7%)	74 (100%)
Which ethical framework evaluates the morality of a person's actions based on how they "create the greatest good for the greatest number" Answer: Utilitarianism		10 (40%)	34 (92%) ^{***}	4 (6%)	46 (73%) ^{***}	44 (59%) ^{***}	65 (88%) ^{***}
Which ethical framework holds that there are a number of morally relevant considerations for determining whether an action is right or wrong? Answer: Pluralism		2 (8%)	22 (59%) ^{***}	0 (0%)	32 (51%) ^{***}	0 (0%)	7 (10%) ^{***}
List the four elements of the fraud diamond. Answer: Pressure, Opportunity, Rationalization, Capability		N/A	N/A	N/A	N/A	Average 1.17	Average 2.61 ^{***}
Note: average score indicates number of correct answers (out of four)							

	University 1	University 2	University 3
	Average answer n = 35	Average answer n = 63	Average answer n = 74
<i>Panel C: Answers to questions after case completion</i>			
The Cambridge Investment Group case was very challenging.	4.94	4.08	4.14
The experience of completing the Cambridge Investment Group case increased my knowledge of ethical frameworks.	2.20	1.98	3.77
The experience of completing the Cambridge Investment Group case increased my knowledge of how to evaluate the actions of individuals as moral or not moral.	2.29	2.40	3.58
The experience of completing the Cambridge Investment Group case increased my knowledge of the AICPA's Code of Professional Conduct.	2.51	2.13	3.79
The experience of completing the Cambridge Investment Group case increased my knowledge of the fraud diamond framework	N/A	N/A	3.60

(continued on next page)

Table 2 (continued)

I enjoyed completing the Cambridge Investment Group case.	2.09	2.53	3.49
The experience gained from completing the Cambridge Investment Group case will help me think about the impact of my actions that I take in the future.	2.29	2.16	3.63
The Cambridge Investment Group case reflected a realistic scenario.	1.69	1.65	2.75

Students answered the questions using a 7 point Likert scale with the following descriptions

1 = Strongly Agree

2 = Agree

3 = Agree Somewhat

4 = Undecided

5 = Disagree Somewhat

6 = Disagree

and 7 = Strongly Disagree.

N/A = This data was not collected at University 1 and University 2 as an earlier version of the case (prior to the addition of the fraud diamond material) was used at these universities. The case used at University 3 included the addition of the new material.

* Indicates that the answers are significantly different at the 5% levels (two-tailed), respectively.

** Indicates that the answers are significantly different at the 1% levels (two-tailed), respectively.

*** Indicates that the answers are significantly different at the 1% level (two-tailed).

¹ The professor at University 3 assigned [Appendix A](#) as homework. While the students discussed several of the frameworks during class, pluralism was not discussed. Therefore, students most likely did not read [Appendix A](#) at home and since it was not discussed, they did not remember the word for that particular framework when filling out the survey. Given the strong results of the classes at the first two universities, we believe the results for university three are an outlier and would be different if the professor at University 3 had discussed pluralism.

in-class at University 3, pluralism was not mentioned. Therefore, we surmise the students simply failed to recall the specific word for the particular framework (from their philosophy classes), and had not read [Appendix A](#). Given the strong results of the classes at the first two universities, we believe the results for University 3 are an outlier, and would be different had the instructor at University 3 dedicated slightly more class time to [Appendix A](#). These results suggest that instructors must take care to ensure that all relevant ethical frameworks are discussed to help students have been exposed to each of them – even when the students have completed additional philosophy and ethics classes.

Finally, [Table 2](#), Panel C reports students' perceptions about the case. In general, students found the case not too difficult to complete realistic increased their knowledge of ethics and the AICPA Code of Conduct would affect future their ethical decisions and an enjoyable experience. The case appeared to have a more positive impact on junior-level student perceptions (i.e., Universities 1 and 2) than senior-level student perceptions (University 3), reflecting the fact that more advanced students are more likely to have been exposed to ethical frameworks and professional codes. This is interesting given that Panel B reveals that senior-level student knowledge (University 3) of the case materials did increase significantly. The fact that University 3 students have taken multiple philosophy and ethics classes may be tempering their responses, or it may also be due to the shortened period of time dedicated to the class by the professor who used it at University 3.

Anecdotal evidence supports the positive survey results. The case provided a forum for a lively class discussion about different ethical frameworks, professional codes, and varying viewpoints. Students verbally stated that they enjoyed completing the case and were astounded with the actual outcome of the case. Instructors using the case also found it a fun way to introduce ethical decision-making into the classroom. The professor at University 3 anecdotally noted that the discussion among the non-traditional (mid-20s or older) students in the class about the appropriate punishment for Gary differed significantly from the discussion among the more traditional (19–22 year old) students. The non-traditional students perceived Gary's situation as punishable, but also forgivable (allowing him to keep his license after a suspension). The traditional students, on the other hand, were more inclined to revoke Gary's CPA license permanently as they followed a more textbook approach to the case.

3. Suggested solutions

Suggested solutions are available upon request from any of the authors.

4. Epilogue

Gary pled guilty to one count of bank fraud and was sentenced to one day in Federal Custody. Jeffrey, the ringleader, was found guilty on all four counts and was sentenced to three years in Federal Prison. Dale was found not guilty on all counts. Gary served his sentence and then was investigated for bank fraud by the State Accounting Disciplinary Board. He retained his professional accounting license, without any restrictions, but was fined \$500 after arguing to the Board that he willfully committed fraud out of a desire to help others. Gary was also serving as an unpaid consultant with the FBI on other Bank Fraud cases, and operated an outreach

campaign at numerous high schools and universities to help students understand just how easy lapses in ethical judgment can become far worse. Gary has recently developed a highly successful accounting services practice, and has stayed on the “light side.”

5. Research methods

The information for this case was collected through publicly available documentation from the federal courts and from personal interviews with the individuals involved in the fraud. Please see *United States v. Gary Cerasi* No. 04-CR-00581 (N.D. Ohio Feb. 2, 2005).

Appendix A. Ethical frameworks

In order to provide a suitable framework for an ethical analysis, you will need to draw upon not only your own personal ethics, but also upon a broader ethical framework. The purpose of this appendix is to strengthen your ability to analyze complex business situations based on a sample of ethical frameworks. We briefly describe several ethical frameworks that could be used below.

Ethical frameworks used to evaluate business situations are always evolving. Traditionally, frameworks based on utilitarianism, Kantian deontology, and virtue ethics were the most widely used. However, more recently pluralism and particularism have emerged as alternate approaches to moral reasoning in business contexts (Arnold, Audi, & Zwolinski, 2010). Unfortunately, there is no real consensus on which is the best ethical framework because there are considerable challenges in applying any “master theory” to ethical issues in business. What follows is a brief overview of the above mentioned approaches to ethical decision making. These possible ethical approaches that could be used in this case include:

- Utilitarianism,
- Kantian Deontology,
- Virtue Ethics,
- Moral Decision-Making (i.e., Pluralism and Particularism).

Utilitarianism is a consequential approach to determining the rightness or wrongness of a particular act. It focuses on maximizing the good to be realized resulting in happiness or pleasure. It has been distilled to phrases such as “create the greatest good for the greatest number.”

Kantian deontology can be summarized as a person is acting morally if his/her action would be right conduct for any other person in the same circumstances. Kant (1993) asserts that people are not to be treated as merely a means to an end, but also as ends in and of themselves. This means that it is okay to use people as a means to accomplish goals as long as one respects them and also advances their good at the same time. If one acts as if his/her conduct was establishing a universal moral law governing others in a similar situation then the act is moral.

Virtue ethics has three primary concepts: excellence or virtue, practical or moral wisdom, and happiness. Virtue includes emotions, attitudes, values, desires, expectations, and sensibilities. Practical wisdom is the experience or knowledge that enables the person possessing it to do the right thing in any given situation. This involves assessing the situation, weighing the alternatives and selecting the moral option. Happiness is the outcome of living a life in accordance with high moral standards. Thus, if one lives in harmony with virtuous behavior, then one lives a good life. Virtue ethics is concerned with being a habitually moral person who applies wisdom to the process of making moral decisions.

Pluralism and particularism are two more contemporary ways to look at ethical issues. Unlike traditional frameworks (e.g., utilitarianism and Kantian deontology) which look at one relevant value regarding determination of rightness or wrongness of actions, pluralists believe that in any given situation there are a number of morally relevant considerations for determining whether an action is right or wrong (Timmons, 2002). Ethical/moral theories are more like maps that are useful as tools to assist us in answering questions about particular situations (Schmidtz, 2006). Thus, it will be necessary to use judgment and wisdom to arrive at the morally acceptable conclusion as opposed to applying one specific theory and deriving an answer. Pluralism may be expressed as a set of principles (Audi, 2004) such as justice, non-injury, fidelity, reparation, beneficence, self-improvement, gratitude, liberty, and respectfulness.

Similarly, particularism also holds that there are a number of morally relevant considerations that need to be taken into account. However, unlike pluralism, these considerations cannot necessarily be captured in a set/list of moral principles. Particularism holds that coming to a morally correct decision is a process of taking into account all of the morally relevant features of the given situation in the circumstances where the action is to take place (Dancy, 2000). An example of this is that while it is not appropriate to lie about the circumstances surrounding a mistake on the job, if it was necessary to lie in order to prevent someone from being harmed/fired it would be allowable. In the first case lying is wrong, in the second case it is not only permissible, but the morally correct action to take. If one attempts to apply the principle that lying is wrong to both situations the result will be a morally reprehensible outcome in one of the situations. One could go so far as to say that in some cases, like refusing to reveal Anne Frank’s hiding place to the Nazis, for instance, lying is the only acceptable solution.

In the end, there is no universally agreed upon approach to ethical decision making. A blend of the various ethical theories and frameworks seems to be an approach that has merit incorporating the particular circumstances of the situation and applying moral judgment to arrive at a moral course of action.

Appendix B. Professional codes

Within the U.S., certified public accountants (licensed professional accountants) are regulated by the American Institute of Certified Public Accountants (AICPA) Code of Professional Conduct which requires licensees to “...exercise sensitive professional and moral judgments in all their activities”. Outside of the U.S., many professional accountants are regulated by the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA, 2016), which requires professional accountants to comply with the fundamental principles of integrity, objectivity, professional competency and due care, confidentiality, and professional behavior.

The following links provide the necessary resources to complete the case.

AICPA Code of Professional Conduct

pub.aicpa.org/codeofconduct/ethicsresources/et-cod.pdf

IESBA Code of Ethics for Professional Accountants:

http://www.ifac.org/system/files/downloads/IESBA_Fact_Sheet.pdf (IFAC, 2010) and

<https://www.ethicsboard.org/iesba-code/table-contents> (a free sign-in is required) (Students should focus on Part A.)

Appendix C. Disciplinary hearings results

Following are a sample of actions taken by the Accounting Regulatory Board as a result of formal hearings.

Violation	Board actions	Number
Fraud or deceit in obtaining a license.	CPA certificate revoked.	1
Gross negligence in the practice of public accounting.	CPA certificate revoked.	1
Unlawful practice.	CPA certificate revoked.	1
Failure to respond to Board communications.	Fine of \$5000 (3) ^a Fine of \$1000 (2)CPA certificate revoked (2).	7
Failure to return client records.	Fine of \$500 (1)Fine of \$1000 & completion of Board PSR course (1).	2
Failure to comply with professional auditing standards.	Fine of \$1000 and completion of 16 additional CPE credits in auditing.	1
Failure to respond to Board communications concerning a complaint.	CPA certificate revoked.	2
Failure to respond to Board communications and failure to comply with continuing education verification requirements.	Fine of \$500 (3)CPA certificate revoked (1).CPA certificate surrendered (1).	5
Convicted of conspiracy to engage in a pattern of corrupt activity.	CPA certificate revoked.	1
Convicted of Filing a False Claim against the Government in violation of Title 18 section 287 US Code.	CPA certificate revoked.	1
Convicted of 61 counts for 15 separate felonies related to RICO and various fraud charges.	CPA certificate and firm registration revoked.	1
Convicted of money laundering conspiracy.	CPA certificate revoked.	1
Convicted of aggravated theft and forgery.	CPA certificate revoked.	3
Convicted of conspiracy to defraud the United States.	Fine of \$1000, CPA certificate suspended.	1

^a If accountants are disciplined differently, the number receiving a specific punishment is indicated in parentheses. For example, (2) would indicate that 2 accountants received that punishment.

Violation	Board actions	Number
Convicted of failure to file an income tax return and attempting to evade or defeat tax.	CPA certificate revoked. Board reinstatement granted. ¹	1
Convicted of aiding and abetting the filing of a false tax return.	Fine of \$1000 & CPA certificate suspended for duration of probation (1). CPA certificate revoked (3).	4
Convicted of attempted child prostitution.	CPA certificate revoked.	1
Convicted of felony theft.	CPA certificate revoked.	1
Convicted of receiving stolen property.	CPA certificate revoked.	1
Convicted of wire fraud and/or bank fraud.	CPA certificate revoked.	5
Aiding in a bribery conspiracy.	Surrender of CPA certificate accepted.	1
Conviction of gambling and records maintenance.	CPA certificate revoked	2
Suspension from practice before the Securities and Exchange Commission for one year.	Fine of \$1000 & CPA certificate suspended for half year (1). Fine of \$1000 & CPA certificate suspended for one year (1). Fine of \$1000 & CPA certificate suspended for 1.5 years (1). CPA certificate revoked.	3
		1

Suspension from practice before the Securities and Exchange Commission for 18 months.		
Privilege to practice before the IRS suspended indefinitely.	CPA certificate revoked.	1
Conduct discreditable to the public accounting profession arising from an SEC order.	CPA certificate revoked.	1
Conduct discreditable to a holder of an registration as a result of her resignation from the Bar with discipline pending.	CPA certificate revoked.	1
Failure to comply with firm registration requirements, failure to obtain permit, failure to respond to Board communications.	Fine of \$5000 (1). CPA certificate revoked (1) CPA certificate and firm registration revoked (1).	3
Convicted of failure to file an income tax return and attempting to evade or defeat tax.	CPA certificate revoked. Board reinstatement granted.	1

¹ Instances where the Board reinstated the license have been highlighted in black.

Violation	Board actions	Number
Failure to comply with peer review standards.	Fine of \$1000 & 24 CPE credits in accounting and auditing accelerated peer review (1). Surrender of firm registration (1).	2
Convicted of failure to file an income tax return and attempting to evade or defeat tax.	CPA certificate revoked. Board reinstatement granted.	1
Failure to respond to Board communications fraud or deceit in obtaining a license.	Fine of \$1000.	1
Failure to comply with continuing education verification fraud or deceit in obtaining a license.	Fine of \$500 (1). Fine of \$1240 (1) CPA certificate revoked (1).	3
Failure to obtain a permit, unlawful practice.	Fine of \$5000. CPA certificate revoked. Board reinstatement granted	1
Failure to obtain permit, failure to respond to Board communications.	CPA certificate revoked.	2
Failure to comply with firm registration requirements, failure to obtain permit, unlawful practice.	CPA certificate and firm registration revoked.	1
Failure to obtain a permit, unlawful practice, failure to comply with professional auditing standards	CPA certificate revoked.	1

Appendix D. Supplementary material

Supplementary data associated with this article can be found, in the online version, at <http://dx.doi.org/10.1016/j.jaccedu.2018.04.003>.

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