



## **AN ANALYSIS OF BUSINESS STUDENTS' UNDERSTANDING OF FRAUDULENT FINANCIAL REPORTING**

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### **Abstract**

This study seeks to examine the ability of students to recognize the conditions that lead to fraudulent financial reporting and the willingness of students to participate in that fraud. Given the much-publicized failures at such companies as Enron and MCI WorldCom, as well as the Arthur Anderson accounting firm, it was theorized that students would have a high level of awareness of generally accepted accounting principles and ethical issues.

A questionnaire was developed using the guidelines established by the National Commission on Fraudulent Financial Reporting (known as the Treadway Commission) and was administered to senior business majors at three universities. The most obvious finding demonstrates that accounting majors exhibited the highest level of understanding of this topic, while computer information system majors had the lowest level.

Overall, the results of the survey suggest that more attention is needed in educating business students on fraudulent financial reporting. Proposed suggestions to help business students identify fraudulent reporting are offered by the authors and include findings from others, including the Treadway Commission. If students learn more about fraudulent reporting during their college careers, the financial reporting process will once again obtain the confidence of the investing public and avoid further governmental regulation.

### **An Analysis of Business Students' Understanding of Fraudulent Financial Reporting**

#### **Introduction**

In 1987, the National Commission on Fraudulent Financial Reporting (also known as the Treadway Commission) issued an in-depth study of fraudulent financial reporting. The report described how fraudulent financial reporting could be prevented and detected.

One of the ways cited by the Treadway Commission to prevent fraudulent financial reporting was related to the academic community. The academic community was encouraged to include more information on fraudulent financial reporting in the business curricula.

Recent scandals have alerted the public that fraudulent financial reporting is still a significant problem. Enron and WorldCom have issued restatements of their financial statements totaling approximately eight billion dollars. Some executives working for Enron and WorldCom have been charged with committing frauds.

The scandals negatively impacted financial markets; specifically, the scandals caused users of financial reporting to question the trustworthiness of the financial statements of all corporations. Arthur Andersen, a well-respected public accounting firm and one of Big Four firms of public accounting, was the auditor for a number of entities involved in fraudulent financial reporting. The effect on Arthur Andersen was devastating. Their complicity with the scandals ultimately destroyed them.

This study examines how business schools educate business students about fraudulent financial reporting. A survey was administered to senior business majors in various disciplines to evaluate their understanding of fraudulent financial reporting (see Appendix).

The survey was used to identify if broad emphasis has been placed on fraudulent financial reporting. Students graduating from all business disciplines have the potential to become members of senior management. Since senior management bears ultimately responsibility for financial reporting, business students must be able to identify fraudulent financial reporting and its consequences.

## **Background**

The Treadway Commission's recommendations to the academic community have been tested in various statements of the survey instrument used in this study. Although the statements presented in this survey are not comprehensive, they do provide a basis for understanding how students comprehend fraudulent financial reporting. The following recommendations appeared in the Treadway Commission Report (NCFRR 1987 p. 80):

- 1. Throughout the business and accounting curricula, educators should foster knowledge and understanding of the factors that may cause fraudulent financial reporting and the strategies that can lead to a reduction in its incidence.*
- 2. The business and accounting curricula should promote a better understanding of the function and importance of internal controls, including the control environment, in preventing, detecting, and deterring fraudulent financial reporting.*

3. *Business and accounting students should be well-informed about the regulation and enforcement activities by which government and private bodies safeguard the financial reporting system and thereby protect the public interest.*
4. *The business and accounting curricula should help students develop stronger analytical, problem solving, and judgment skills to help prevent, detect, and deter fraudulent financial reporting when they become participants in the financial reporting process.*
5. *The business and accounting curricula should emphasize ethical values by integrating their development with the acquisition of knowledge and skills to help prevent, detect, and deter fraudulent financial reporting.*

### **Discussion of the Treadway Commission's Recommendations**

**Recommendations One and Two:** Understanding the prevention and detection of fraudulent financial reporting. The survey tested these recommendations in the following survey statements:

- Fraudulent financial reporting involves using improper accounting techniques to mislead the public.
- Corporate culture is a leading factor in aiding individuals to commit fraudulent financial reporting.
- Fraudulent financial reporting occurs more often in large corporations than compared to small corporations.
- Audit committees of the Board of Directors should be comprised of independent members who are active and informed of corporate accounting practices.
- Management override of internal control policies can lead to improper accounting practices.

The prevention and detection of fraudulent reporting is important because the financial reporting process relies on the integrity of the reported information. As such, the Treadway Commission identified the control environment, “tone at the top,” as the most important factor in preventing fraudulent financial reporting (NCFRR 1987). Since senior management’s attitudes toward the accounting process and internal controls define the control environment, management provides the first defense to fraudulent financial reporting. However, most fraudulent financial reporting involves senior management, most notably, the CEO and CFO (Committee of Sponsoring Organizations 1999).

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) released a study in 1999 that identified the CEO and CFO as being involved in 83 percent of the enforcement cases brought forward by the U.S. Securities and Exchange Commission [SEC] (COSO 1999). Ernst & Young, a member of the Big Four public accounting firms, issued the findings of its general international fraud study (not limited to fraudulent financial reporting), which found that employees committed 82 percent of frauds with management being involved in one third of those (Ernst & Young 2000).

Additionally, new information on executives from Enron and WorldCom support this finding. Buford Yates, former accounting director for WorldCom, issued this statement “I came to believe that the adjustments I was being directed to make in WorldCom’s financial statements had no justification and contravened generally accepted accounting principles” (White 2002). The U.S. Justice Department has accepted a guilty plea for fraud from a former Enron executive, Michael Kooper, and issued charges against Andrew Fastow, former CFO of Enron, for their participation in the frauds carried out at Enron (Associated Press 2002).

The boards of directors for corporations play an important role in helping (encouraging) management to set the proper “tone at the top.” A board needs to be sensitive to management’s attitude about the control environment. The board can instruct management to provide strong internal control policies (including limiting management override of such policies). Directors can ensure codes of conduct are established and functioning. With these measures the board helps management provide a structure for ethical decisions within the firm. Additional preventive and detective controls include:

- Use internal controls as your first line of defense (Carpenter 2001).
- Allow internal auditors to report directly to the audit committee of the board of directors (Carpenter 2001).
- Audit committee members should be independent of the firm; for example, employees or individuals who are family members of the owner/founder are not independent (NCFRR 1987).
- Audit committees should meet at least quarterly (Beasley 2000).
- Appropriate segregation of duties.
- Perform ratio analysis on firm account balances.
- Hold management accountable to the same standards of misconduct as non-management (Carpenter 2001).
- Use fraud detection software (Carpenter 2001).
- Effectively communicate ethics and fraud programs to the employees to ensure that employees perceive the programs to be working (Carpenter 2001).

Understanding situations that lead to or may indicate fraudulent reporting are critical in combating improper reporting. The COSO study shows that fraudulent reporting is most often committed through improper recognition of revenues and improper valuations of assets (1999). Consistent with the COSO findings are the recent cases of Enron and WorldCom. Enron chose to misstate assets and liabilities by using special purpose entities to keep the activities off the balance sheet. WorldCom improperly capitalized expenses as assets. Both techniques led to fictitious increases in earnings (COSO 1999).

It also appears that fraudulent reporting occurs most often in smaller public corporations (COSO 1999). Smaller public corporations usually have less than \$100 million in assets and are not listed on the New York Stock Exchange (COSO 1999). Other red flags for fraud include:

- Unusual or complex transactions
- Emphasis of management on short term earnings
- Pressure to meet stock analyst expectations
- Accounting estimates for valuing things such as warranty expenses
- Large adjusting entries at the end of the quarter or year that involve revenue or asset accounts (COSO 1999)
- Weak internal controls
- A weak or non-active board of directors
- Incentive compensation plans structured on high financial performance (unless noted, the above are from NCFFR 1987)

**Recommendation Three:** Regulations and Enforcement. The survey tested this recommendation in the following statements:

- Revenue recognition principles can be altered to meet earnings estimates established by management.
- Criminal and civil penalties are associated with fraudulent financial reporting.
- Corporations can capitalize and depreciate costs that are not expected to generate future benefits.

To comply with the regulations of the SEC, financial statements must be issued in accordance with generally accepted accounting principles (GAAP). When public corporations issue financial statements that contain intentional misstatements that vary from GAAP, the individuals who knowingly disregarded GAAP have committed fraud and the reporting corporations are exposed to the consequences related to fraudulent financial reporting. The Justice Department and the SEC can bring enforcement actions against both individuals and corporations. Criminal charges are issued by the Justice Department while the SEC can issue civil charges.

The regulation and enforcement activities related to fraudulent financial reporting have become more stringent under the Sarbanes–Oxley Act of 2002. The Sarbanes–Oxley Act of 2002 is a legislative response to the numerous cases of fraudulent financial reporting that began with Enron.

The Act created a new entity to help reduce the risk of fraudulent reporting: the Public Company Accounting Oversight Board. The Board will help monitor the public accounting industry and help to issue new regulations for the SEC. The Act also provides tougher penalties for those who commit fraudulent acts. Prison sentences for those involved in fraudulent reporting activities have doubled; each possible act can carry a ten-year penalty.

Additionally, the Act requires the CEO and CFO to be more accountable for the reporting process. The CEO and CFO must sign a “statement of oath” asserting that the accounting information is fairly presented and that relevant accounting issues have been communicated to the board of directors. If the CEO and CFO knowingly issue materially false statements to the public, they are now liable for monetary damages up to \$500,000 and may be sentenced to a prison term of up to five years.

The Sarbanes-Oxley Act also created new civil penalties for fraudulent financial reporting. The SEC can now bar those who participate in such activities from serving as officers or directors for any public corporation and require them to relinquish any monetary gains from fraudulent financial reporting.

**Recommendations Four and Five:** Develop analytical skills and ethical values. The survey tested these recommendations in the following statements:

- It is unethical to commit an act leading to fraudulent financial reporting.
- Warning signs associated with possible fraudulent reporting include a management emphasis on the short term and high incentives awarded for financial performance.
- Independent audits of public corporations are the best way to prevent fraudulent financial reporting.

Ethical decisions need to be fostered within the business curricula. Business curricula should significantly review ethical guidelines such as the AICPA Code of Professional Conduct and other applicable codes of conduct. Case studies and current events that involve fraudulent financial reporting should be discussed in order to identify ethical dilemmas and illustrate how proper ethical decisions could have lead to better outcomes.

According to the AICPA, 17,000 audits are completed properly each year. However, employees must realize that they play an important role in combating fraud and often have a better chance to discover fraud than auditors. Employees should use their inside knowledge of how the firm operates to analyze financial information and not leave the task solely to the auditors.

For fraudulent financial reporting to be discovered, financial information needs to be evaluated with analytical procedures such as ratio analysis, horizontal analysis, and vertical analysis. The results can enhance the ability of the firm and its auditor to determine if there are potential problems in a particular account group. Accounting transactions that are complex and require subjective estimates should be critically evaluated. Firm and auditor efforts should emphasize the above areas to discover and correct financial reports before they are issued and ensure that transactions are appropriately approved, executed, and documented.

## Survey Institutions and Responses

The survey was administered at three universities to college seniors of varying disciplines. The universities included in the experiment were Louisiana Tech University, Grambling State University, and Southern Arkansas University. The three universities have diverse missions and student bodies. Louisiana Tech University is a national university that emphasizes research. Grambling State University is a historically black university that emphasizes teaching. Southern Arkansas University is a regional university that emphasizes teaching. Both Louisiana Tech and Grambling State are AACSB accredited and Southern Arkansas University is seeking AACSB accreditation.

The survey was administered to a total of fifty-eight students. Of the 58 respondents, 24 were Louisiana Tech students, 12 were Grambling students, and 22 were Southern Arkansas students. The classes surveyed were randomly chosen from sections of capstone business classes at the respective universities. The classes surveyed were required courses for all business majors at the respective institutions.

The capstone courses surveyed were Business Administration Capstone at Louisiana Tech, Strategic Management at Grambling, and Management Strategy and Policy at Southern Arkansas. The surveys were administered in the students' usual classroom prior to the day's lecture. The survey was supervised and completed in the presence of Shane Warrick, a co-author of this study. Students in the surveyed classes voluntarily completed the surveys.

The completed surveys were evaluated according to the overall results and a cross tabulation of demographic data. An appropriate answer was identified for each survey statement by the researchers prior to the completion of the surveys. Student responses were then compared to the appropriate answers (Appropriate answers are bolded in the Appendix to this study.). Percentages identified in the summary of results are related in the favorable/positive manner (as seen in Table 1). For example, 72 percent of the respondents identified the appropriate answer to statement one of the questionnaire.

The surveys were evaluated statistically to estimate the mean score of the population for the respondents as a whole and by major. An interval estimate was established at a significance level of five percent; this was done to establish that 95 percent of all samples taken for this survey would be expected to contain the estimated population mean. Excel was used in the calculation of the population mean. The relevant formulas for interval estimation are:

$$\text{Sample mean} = \sum x_i/n$$

$$\text{Sample variance} = \sum (x_i - \bar{x})^2 /n-1$$

→

$$\text{Sample standard deviation} = \sqrt{s^2}$$

$$\text{Confidence Interval for the estimated population mean} = \pm t_{\alpha/2} (s/\sqrt{n})$$

The survey contained four questions that required adjustment so that an overall total score could be computed for the survey: statements 2, 6, 9, and 11. The statements adjusted are as follows:

- Statement 2: Revenue recognition principles can be altered to meet earnings estimates established by management.
- Statement 6: Fraudulent financial reporting occurs more often in large corporations than compared to small corporations.
- Statement 9: Independent audits of public corporations are the best way to prevent fraudulent financial reporting.
- Statement 11: Corporations can capitalize and depreciate costs that are not expected to generate future benefits.

The appropriate response to each of the above statements is the lowest score on the Likert scale (strongly disagree). Converting these scores to match the other nine statements, to which the appropriate answer is the highest score on the Likert scale, required an algebraic expression of:

$$X_i = 6 - X_i$$

The conversion allowed each of the four statements with strongly disagree answers to be comparable in point value to the strongly agree answers. With all of the statements equally weighted, the maximum survey score is 55 points (5 points for each of the eleven statements).

### **Evaluation of Survey Results**

The respondents to the survey show a better understanding of fraudulent financial reporting by achieving a higher score on the survey. The highest expected score for the survey was 55 points. A statistical analysis shows that the expected mean score for the population would be between 38 and 40 points.

The highest score on the survey was 49 points, and the lowest score was 31 points. In terms of frequency, there were three scores of 49 points. Two accounting majors and a marketing major achieved the high score.

The cross tabulation by major indicates that the estimated mean of the survey scores is higher for accounting majors than other majors at the 95 percent confidence level. Accounting majors would expect a mean score between 38 and 48 points. The relatively wide range of the estimate for accounting majors is reflective of the small sample size for accounting majors; only eight of the 58 respondents were accounting majors.

The lowest estimated mean score by major, excluding finance majors, was for CIS majors (The finance majors were excluded because only three of the respondents were finance majors.). This outcome may be due to the fact that CIS majors devote more time to information management and less time to financial analysis than do other business majors.



It is interesting to note that the mode score on the survey was 38 points and the average score was 39 points. This finding indicates that the survey results for each respondent are consistent with the results for the respondents as a whole. Any outliers would have a minimal effect on the results of the survey.

#### Overall Survey Results

Confidence Interval	38.29 to 40.43
Mean point estimate	39.36
Median	39
Mode	38
Minimum score (out of total 55 points)	31
Maximum score (out of total 55 points)	49
Respondents	58

#### Cross Tabulation by Business Major\*

	Accounting	Management	CIS	Marketing	Finance
Confidence Interval	38.00 to 48.25	36.51 to 41.49	36.94 to 39.76	37.33 to 41.91	30.5 to 44.84
Mean point estimate	43.13	39	38.35	39.62	37.67
Median	44.5	39	38	39	36
Mode	49	41	39	38	36
Minimum score	31	34	33	33	36
Maximum score	49	45	45	49	41
Respondents	8	9	23	13	3

\* There were only 56 usable responses for business major classifications.

A detailed review of each statement provides further insight to the respondent answers on the survey (a complete review of all statements can be found in Table 2).

**Statement 1:** It is unethical to commit an act leading to fraudulent financial reporting.

	Strongly Agree	Agree	Uncertain	Disagree	Strongly Disagree
Respondents Answering in Section	<b>42</b>	13	2	0	1

The ethical background of the students was obtained in this statement regarding fraudulent reporting. The majority of the respondents realize it is unethical distribute false information in the financial reporting process. This would indicate that business schools are applying the fifth recommendation (teach ethics) of the Treadway Commission broadly throughout their curricula. However, the remaining survey results show that more attention should be focused on the specifics of fraudulent financial reporting.

**Statement 2:** Revenue recognition principles can be altered to meet earnings estimates established by management.

	Strongly Agree	Agree	Uncertain	Disagree	Strongly Disagree
Respondents Answering in Section	3	14	19	13	<b>9</b>

The revenue recognition principle states that revenue is recognized when earned, not according to the desires of management. The students would fail to follow procedures according to GAAP according to this statement. Only sixteen percent of the respondents answered appropriately for the statement. More emphasis is needed in this area for all majors, particularly the accounting majors of whom only 38 percent answered this question appropriately.

**Statement 3:** Fraudulent financial reporting involves using improper accounting techniques to mislead the public.

	Strongly Agree	Agree	Uncertain	Disagree	Strongly Disagree
Respondents Answering in Section	<b>27</b>	23	5	1	2

This was the best understood of the recommendations for preventing and detecting fraudulent reporting. The students understand that fraudulent reporting involves intentionally misleading the public. This would indicate an understanding of the ethical issue in fraudulent reporting.

**Statement 4:** Criminal and civil penalties are associated with fraudulent financial reporting.

	Strongly Agree	Agree	Uncertain	Disagree	Strongly Disagree
Respondents Answering in Section	26	23	8	1	0

This was the best understood of the recommendations for educating students on the regulations concerning fraudulent financial reporting. This would also indicate an understanding of the ethical issue underlying fraudulent reporting. However, other responses indicate a willingness to participate in fraudulent financial reporting.

**Statement 5:** Corporate culture is a leading factor in aiding individuals to commit fraudulent financial reporting.

	Strongly Agree	Agree	Uncertain	Disagree	Strongly Disagree
Respondents Answering in Section	6	28	16	8	0

Only ten percent of the respondents recognized that corporate culture is a leading factor associated with fraudulent financial reporting. The Treadway Commission identified the tone set by management to be the most important factor to prevent fraudulent reporting. The Enron situation demonstrates how a weak control environment can have a devastating effect (see Statement 8 and the article “The Rise and Fall of Enron”).

**Statement 6:** Fraudulent financial reporting occurs more often in large corporations than compared to small corporations.

	Strongly Agree	Agree	Uncertain	Disagree	Strongly Disagree
Respondents Answering in Section	4	18	16	17	3

The students did not realize that fraudulent reporting occurs more often in small corporations, possibly due to deficiencies in internal control. Segregation of duties in particular is often limited or nonexistent. Beasley (2000) suggested that a lack of funding for fraud detection in small businesses is an additional contributing factor to deficiencies in internal control.

**Statement 7:** Audit committees of the Board of Directors should be comprised of independent members who are active and informed of corporate accounting practices.

	Strongly Agree	Agree	Uncertain	Disagree	Strongly Disagree
Respondents Answering in Section	17	30	8	3	0

Active audit committees are one of the best defenses against fraudulent reporting. Twenty nine percent of the respondents agreed with the new Sarbanes – Oxley Act of 2002, which will require public corporations to enlist independent members for the audit committee. The independent members should encourage a better auditing process.

**Statement 8:** Warning signs associated with possible fraudulent reporting include a management emphasis on the short term and high incentives awarded for financial performance.

	Strongly Agree	Agree	Uncertain	Disagree	Strongly Disagree
Respondents Answering in Section	10	23	20	4	1

Business students should understand that these types of incentives are warning signs that fraudulent financial reporting may exist.

Understanding the warning signs of fraudulent reporting can help deter its occurrence. In “The Rise and Fall of Enron” (Thomas 2002) documents how Jeffrey Skilling, the CEO of Enron, created a environment conducive to fraudulent reporting by allowing merit-based bonuses with no cap that allowed traders to “eat what they killed” and encouraged employees to “do deals” to receive high performance evaluations. Additionally, if an employee received a low performance rating, it was known that the employee would lose their job, demonstrated by the fact that approximately 15 percent of the employees were being replaced each year.

**Statement 9:** Independent audits of public corporations are the best way to prevent fraudulent financial reporting.

	Strongly Agree	Agree	Uncertain	Disagree	Strongly Disagree
Respondents Answering in Section	16	20	17	5	<b>0</b>

No respondent strongly disagreed that an independent audit was the best way to prevent fraudulent financial reporting. This included the accounting majors who should have realized that audits only provide reasonable assurance that there are no material misstatements, although auditing standards recently promulgated by the Auditing Standards Board and the provisions of the Sarbanes/Oxley Act have increased the auditors' responsibility for the detection of fraud.

Business educators will need to place additional emphasis on developing the analytical skills needed to meet increased expectations for the prevention and detection of fraud. Increased analytical skills will also give students confidence in their ability to evaluate financial information for themselves.

**Statement 10:** Management override of internal control policies can lead to improper accounting practices.

	Strongly Agree	Agree	Uncertain	Disagree	Strongly Disagree
Respondents Answering in Section	<b>15</b>	23	15	4	1

Only twenty-six percent of the respondents strongly believed that management override of internal controls foster fraudulent financial reporting. The respondents show a tendency to believe that management is honest in using their discretion to override internal controls. However, the COSO report found that over 80 percent of the fraudulent reporting cases filed with SEC involved the CEO and/or CFO (COSO 1999).

**Statement 11:** Corporations can capitalize and depreciate costs that are not expected to generate future benefits.

	Strongly Agree	Agree	Uncertain	Disagree	Strongly Disagree
Respondents Answering in Section	3	22	18	12	<b>3</b>

Even after the publicity of WorldCom only five percent of the respondents were able to handle the matching principle statement correctly. WorldCom violated this basic GAAP principle when it capitalized its line charges to increase its earnings. The three respondents answering this statement correctly included one accountant, a management major, and a CIS major. It was also interesting that all three of the finance majors agreed that corporations could depreciate period costs. Students need to be reminded that only expenditures that provide future use and benefit should be capitalized, such as the cost of equipment.

### **Conclusions**

The results indicate that business students need further instruction about fraudulent financial reporting. Students may comprehend the unethical nature of fraudulent financial reporting but still may commit or unknowingly allow fraudulent financial reporting to occur. According to the cross tabulation by major, even accounting majors struggle with applying their knowledge of fraudulent financial reporting.

Student understanding of fraudulent financial reporting can be improved by emphasizing the generally accepted accounting principles, assumptions, and constraints that form the conceptual framework for financial reporting. Information that is derived by objective (verifiable or concrete) methods is more easily grasped than information that is derived by subjective (estimated) methods. When students increase their understanding of generally accepted accounting principles, they are better equipped to avoid and detect fraudulent financial reporting.

Finally, the recommendations of the Treadway Commission should continue to be addressed. Business students should learn from these suggestions and the mistakes of the past. Hopefully, this will decrease the chances for mistakes and reduce fraudulent financial reporting in the future.

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**Table 1**

**Survey Totals with Appropriate Answer Percentages**

Statement	Strongly Disagree	Disagree	Uncertain	Agree	Strongly Agree	Appropriate Answer Percentage
1	1	0	2	13	42	72
2	9	13	19	14	3	16
3	2	1	5	23	27	47
4	0	1	8	23	26	45
5	0	8	16	28	6	10
6	3	17	16	18	4	5
7	0	3	8	30	17	29
8	1	4	20	23	10	17
9	0	5	17	20	16	0
10	1	4	15	23	15	26
11	3	12	18	22	3	5

\*\* Actual number of respondents answering in each section, total respondents of 58.

**Table 2****Survey Totals for the Research Questionnaire by Response**

The chart below shows the actual number of respondents answering in each section. There were a total of 58 respondents answering the survey.

	<b>Appropriate Answer in Bold</b>	Strongly Agree	Agree	Uncertain	Disagree	Strongly Disagree
1	It is unethical to commit an act leading to fraudulent financial reporting.	<b>42</b>	13	2	0	1
2	Revenue recognition principles can be altered to meet earnings estimates established by management.	3	14	19	13	<b>9</b>
3	Fraudulent financial reporting involves using improper accounting techniques to mislead the public.	<b>27</b>	23	5	1	2
4	Criminal and civil penalties are associated with fraudulent financial reporting.	<b>26</b>	23	8	1	0
5	Corporate culture is a leading factor in aiding individuals to commit fraudulent financial reporting.	<b>6</b>	28	16	8	0
6	Fraudulent financial reporting occurs more often in large corporations than compared to small corporations.	4	18	16	17	<b>3</b>
7	Audit committees of the Board of Directors should be comprised of independent members who are active and informed of corporate accounting practices.	<b>17</b>	30	8	3	0
8	Warning signs associated with possible fraudulent reporting include a management emphasis on the short term and high incentives awarded for financial performance.	<b>10</b>	23	20	4	1
9	Independent audits of public corporations are the best way to prevent fraudulent financial	16	20	17	5	<b>0</b>



	reporting.					
10	Management override of internal control policies can lead to improper accounting practices.	<b>15</b>	23	15	4	1
11	Corporations can capitalize and depreciate costs that are not expected to generate future benefits.	3	22	18	12	<b>3</b>

## Appendix A

### Research Questionnaire

The following survey is designed to examine the perception of senior business majors on the subject of fraudulent financial reporting. Please answer the questions honestly. Choose the answer choice that most appropriately fits the statement presented.

		Strongly Agree	Agree	Uncertain	Disagree	Strongly Disagree
1	<b>It is unethical to commit an act leading to fraudulent financial reporting.</b>	<b>5</b>	4	3	2	1
2	Revenue recognition principles can be altered to meet earnings estimates established by management.	5	4	3	2	<b>1</b>
3	<b>Fraudulent financial reporting involves using improper accounting techniques to mislead the public.</b>	<b>5</b>	4	3	2	1
4	Criminal and civil penalties are associated with fraudulent financial reporting.	<b>5</b>	4	3	2	1
5	<b>Corporate culture is a leading factor in aiding individuals to commit fraudulent financial reporting.</b>	<b>5</b>	4	3	2	1
6	Fraudulent financial reporting occurs more often in large corporations than compared to small corporations.	5	4	3	2	<b>1</b>

7	Audit committees of the Board of Directors should be comprised of independent members who are active and informed of corporate accounting practices.	<b>5</b>	4	3	2	1
8	Warning signs associated with possible fraudulent reporting include a management emphasis on the short term and high incentives awarded for financial performance.	<b>5</b>	4	3	2	1
9	Independent audits of public corporations are the best way to prevent fraudulent financial reporting.	5	4	3	2	<b>1</b>
10	Management override of internal control policies can lead to improper accounting practices.	<b>5</b>	4	3	2	1
11	Corporations can capitalize and depreciate costs that are not expected to generate future benefits.	5	4	3	2	<b>1</b>