Daniels Fund Ethics Initiative Principles Case:
Accounting Internship

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Since he watched Shawshank Redemption and worked at his dad's small accounting firm one summer, Jeff wanted to pursue a career as an accountant. After solid but unspectacular academic performance in high school, Jeff received and accepted a modest scholarship at the nearby state university. Once he completed the general degree requirements, he applied to and was accepted into the business college. That semester, Jeff began taking accounting courses. Because he excelled in those courses, Jeff became familiar to the accounting faculty. He joined Beta Alpha Psi (the accounting fraternity) and soon was elected its vice president.

Although he'd now spent several summers working at his dad's firm, Jeff knew it was time for a summer internship with a larger and more prestigious firm. Such an internship could serve as a prelude to a job upon graduation--one that would launch his career while he continued to work toward a CPA.

Jeff asked several of his favorite accounting instructors to suggest possible firms for a summer internship. Based on their collective recommendations, he applied for an internship at Shepherd & Herdman, a local accounting firm recognized for its long-standing and excellent internship program. The glowing letters of recommendation Jeff received from his professors ensured his selection. Jeff was thrilled to accept the internship offer and was impatient to begin working at Shepherd & Herdman.
Fred Herdman and his partner, Nat Shepherd, had enrolled in the same cost accounting course at Midwest State University more than three decades earlier. They soon became good friends. After several beers one night, they joked about starting their own accounting firm. Eventually, that joking grew into a serious possibility. When neither was satisfied with the job offers they received after graduation, they decided it was time to introduce the world to Shepherd & Herdman.

Although their friendship has survived three decades of business partnership, Fred slowly and secretly began to resent Nat, who had attracted and retained their firm's most lucrative clients. Fred also knew that Nat was the more personable and technically competent accountant. In contrast to the far more likable Nat, Fred was arbitrary, ill-tempered, ill-mannered, prickly, and arrogant. Thus, Fred increasingly was recognized for the perpetual and growing chip on his shoulder.

Although far more comfortable with Nat, Jeff was assigned to work with Fred. Despite Fred’s confrontational and often demeaning interpersonal style—especially when addressing subordinates—Jeff believed he could learn much about ‘being an accountant’ by observing Fred.

Since launching their partnership, Fred and Nat have taken year-end bonuses predicated on both client worth and annual client billings. Although Nat is more personable, Fred has clients who appreciate and encourage his aggressive behavior, especially when resolving day-to-day accounting problems, such as customers with delinquent accounts and vendors who might be overcharging. Nonetheless, Fred’s billings have declined somewhat during the last year due to modest client defections. Fred is concerned his bonus check will reflect this reduced revenue because he was depending on it to pay for a new sports car.

To ensure a bonus check sufficient to cover the car’s cost, Fred instructs Jeff to inflate the hours Fred billed his half-dozen most lucrative clients. These clients are unlikely to notice the additional cost, as their bills are complex due to the extensive work performed regularly on their behalf. In addition, Fred instructs Jeff to inflate the accounts receivable and gross revenue on these clients as well as to delay paying certain expenses. Such ‘creative accounting’ will falsely magnify overall net income (which will be reflected in the equity section of the balance sheet), thereby falsely magnifying overall client worth (a major component of the bonus calculation).

Fred insists that Nat should never learn about these accounting practices and hints that Jeff’s continued discretion would be rewarded with either a job after graduation or a fantastic letter of recommendation. However, should Nat learn of these practices, Fred simply would plead ignorance and blame the improper practices on Jeff’s professional incompetence.

Although Jeff hoped to begin his career with a larger accounting firm, he knew he could do far worse than starting at Shepherd & Herdman. Certainly, a superb letter of recommendation would boost the likelihood Jeff would land his ‘dream job’. In addition, Jeff generally believed in following his supervisor’s instructions and already recognized that crossing the mean-spirited and vindictive Fred Herdman was a recipe for personal disaster regardless of the circumstances. Thus, Jeff followed Fred’s instructions.