

EXAMINING MOTIVATIONAL FACTORS THAT INFLUENCE THE LIKELIHOOD OF FRAUD

by

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by

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## **Examining Motivational Factors that Influence the Likelihood of Fraud**

### **Abstract**

In partial fulfillment of my undergraduate Honors College requirements, I have conducted the research study described in this paper investigating the motivational factors that influence the likelihood of fraud. In recent past, corporate America has seen some of the largest fraud scandals in history. This research study examined motivational factors, used as independent variables, money, ideology, and coercion to see how participants responded to hypothetical scenarios in which they had to make a decision on revenue recognition. By distributing online surveys, I collected data supporting the idea that ideology potentially is a stronger motivational than money or coercion. By analyzing and running tests through SAS Analytical Software, the data directionally supported my hypotheses. After conducting further analysis, interesting facts show that those employees who have been working for six months or more are more likely to fraudulently recognize more revenue than those who have been working less than six months. This information could lead to serious insights on how companies and auditors should address different scenarios.

## Introduction

In partial fulfillment of my undergraduate Honors College requirements, I have conducted the research study described in this paper investigating the motivational factors that influence the likelihood of fraud. In recent past, corporate America has seen some of the largest fraud scandals in history. From the price fixing scandal that took place involving American owned company, Archer Daniels Midland, to the catastrophic events that happened at Enron at the turn of the 21<sup>st</sup> century, fraud has been a common aspect in the corporate world (Jackson, 2014). Legislation, such as the Sarbanes Oxley Act of 2002 (SOX), and the creation of the Public Company Accounting Oversight Board (PCAOB) have been enacted to help govern the accounting industry. Also, the Association of Certified Fraud Examiners (ACFE) releases an annual report that reviews fraudulent activity and gives statistics on this data. In the 2014 ACFE *Report to the Nations on Occupational Fraud and Abuse*, a typical “fraudster” profile was made based on a global study of over 1400 cases in more than 100 countries (ACFE, 2014). Typical demographics on potential fraudsters are between the ages of 31-45, men outnumber women 2:1 and most fraud occurs within the employees first 5 years of employment with a company (ACFE, 2014).

It is pertinent for auditors and accountants to understand why fraud occurs in order to prevent it. With this in mind, examining and expanding upon the Fraud Triangle theory of accounting will help aid auditors in their ongoing struggle to prevent fraud from occurring. The Fraud Triangle theory is a fundamental theory in the accounting literature that was developed by Donald Cressey and Edwin Sutherland in the early 1950's (Dorminey et al. 2012). The idea of the Fraud Triangle was conceived on three primary criteria that must be present for fraud to

occur: 1) a person must feel perceived pressure to commit fraud, 2) a person must see a perceived opportunity to commit fraud, 3) and, a person must rationalize their fraudulent acts to justify their actions (Dorminey et al. 2012). Wolfe and Hermanson expanded upon the fraud triangle and conducted research showing a new element that could influence the likelihood for fraud to occur which is capability. Capability is a person having “the necessary traits and abilities” to execute the fraudulent act successfully (Wolfe and Hermanson, 2004). Wolfe and Hermanson explain six components of a person that has the capability to commit fraud. First, a person in the organization with high position or entitlement has the ability to bypass internal control and use coercive acts to influence fraud. For example, a CEO or CFO may have the ability to influence decisions over when contracts take effect (Wolfe and Hermanson, 2004). This coercive act may impact the timing of recognition of expenses or revenues. Delaying or fast tracking a contract to fraudulently alter the financials of a company is an example of bypassing internal control goals that are required under Section 404 of the Sarbanes Oxley Act of 2002. Someone who has the intelligence to abuse internal controls is another component in the capability element. Intelligence differs from that of an egotistic or arrogant person. An intelligent person doesn't necessarily have to be an egoist to be capable of committing fraud. As long as the potential fraudster is knowledgeable and experienced with the controls and weaknesses within an organization they are completely capable of committing fraud. This leads us to the next point in the capability element that Wolfe and Hermanson illustrate in their research. An egotistic and arrogant person also has the capability to commit fraud. This type of person believes they are smarter than the auditing control and could work their way out of trouble if they were to get caught. Ego is a controlled factor that will play a role in my research.

Next, someone who is an effective liar and can keep track of their lies is a vital component to capability. Finally, a person with the capability to commit fraud must be able to tolerate stress very well. When committing fraud, which could lead to criminal punishment, a person must be able to deal with immense amount of stress they will go through when committing fraud.

Within the perceived pressure portion of the Fraud Triangle, a new acronym, MICE, has been developed. The acronym is a basis of motivational factors that will increase the likelihood for fraud to occur. The acronym is broken up as follows: (M) is for money, (I) is for ideology, (C) is for coercion, and (E) is for ego or entitlement. Historically, money and ego have been seen as key motivators for fraud, but theoretical discussion pieces (e.g. Dorminey et al. 2012) suggest that additional motivators may exist. Time and time again, we have seen fraud cases that either are due to some monetized incentive or the ego/entitlement that the potential fraudster possesses about them. In December of 2008, the whole world learned about a man by the name of Bernie Madoff. Mr. Madoff, Owner of Bernard L. Madoff Investment Securites LLC, was exposed in a Ponzi scheme that cost investors upwards of \$65 billion (Yang 2014). Mr. Madoff's Ponzi scheme promised high returns on investments for its clients to encourage investors. Ponzi schemes are driven by a motivated individual that uses new money from incoming investments to pay off the promised returns of older investments (Yang 2014). The residual amount that is left over is then taken as pure profit for the motivated individual. In the case of Bernie Madoff, investors made a claim for approximately \$7 billion in returns when there was only around \$200 to \$300 million to give (Yang 2014). This is a clear case in which money (M) had influenced Madoff to take the investors money for himself and commit a fraud that would land him a 150-year sentence in prison (Yang 2014). Another major fraud, which occurred in the mid-1990's,

involved Archer Daniels Midland (ADM). ADM is the nations largest producer of agricultural commodities (Henkoff and Rao, 1995). With the help of informant, Mark Whitacre, the FBI uncovered perhaps the largest price fixing scandal, involving multiple companies worldwide, in history. Mark Whitacre was the youngest executive to work at ADM and was introduced to the price fixing scandal in 1992 (Henkoff and Rao, 1995). Mr. Whitacre has been described as a “prodigious workaholic with a zest for his job” (Henkoff and Rao, 1995, p. 64). He reveled in a lavish lifestyle owning a very large home to accommodate his small car collection and providing his family with nothing but the best (Henkoff and Rao, 1995). In a personal interview I had with Mr. Whitacre, I got to hear his first take on the scandal itself and his motive for engaging in such an act. I asked Mr. Whitacre whether or not his ego or entitlement played a specific role in getting on board with the price fixing scandal at ADM. I concluded from Mr. Whitacre that his ego and entitlement played a massive role in the fraud. He told me that after all of the long hours of studying and simultaneously receiving his undergraduate and graduate degrees from Ohio State University and later receiving his doctorate degree from Cornell University, he felt that everything he was receiving was well deserved (M. Whitacre, personal communication, June 6, 2015). He was so accustomed to this new lifestyle that his ego and entitlement overcame him and his ethics. Ideology is a factor that focuses on people’s beliefs and perception on things. For example, a person may be influenced to report fraudulent records to meet a certain goal so that lower level employees will not be laid off. Coercion is the influence upper-level management has on an employee to commit fraud. For example, a CEO could negatively influence a manager or controller to engage in fraudulent reporting or else they will be fired immediately and potentially blacklisted from any other potential jobs.

The purpose of this study is to help provide insight to motivational factors besides money, which increase the likelihood for fraud to occur. Based on accounting literature, for the type of study I plan to conduct, MBA students are “entirely appropriate in studies” due to the fact they “have some accounting knowledge and investing experience” (Libbey et al. 2002). By using MBA students as proxies for managers, I can gain insight to the behavior of actual managers. Based on my findings, further research could investigate how managers and auditors could prevent these types of fraud from occurring.

In this study, I am going to primarily focus on the ideology and coercion factors of the MICE acronym. While leaving the money factor as a control for my experiment, it will provide a basis to compare results from ideology and coercion factors. With these motivational factors as the primary focus, I expect to find strong results as to what influences fraud, which can lead to research on how to better prevent these kinds of acts from happening in the future. The purpose of this study is to help provide insight to motivational factors besides money, which increase the likelihood for fraud to occur. Based on accounting literature, for the type of study I plan to conduct, MBA students are “entirely appropriate in studies” due to the fact they “have some accounting knowledge and investing experience” (Libbey et al. 2002). By using MBA students as proxies for managers, I can gain insight to the behavior of actual managers. Based on my findings, further research could investigate how managers and auditors could prevent these types of fraud from occurring.

## **Background**

The Fraud Triangle is a foundational theory used in auditing to examine white-collar crimes such as embezzlement. Donald Cressey and his mentor, Edwin Sutherland, developed

the Fraud Triangle in the early 1950's (Dorminey et al. 2012). The hypothesis that Cressey created stated that for fraud to occur, perceived pressure, perceived opportunity, and rationalization must be present (Dorminey et al. 2012). Pressure can arise from a number of different reasons. Dorminey and his colleagues look at pressure under a financial standpoint. A person could be experiencing financial struggles, which they don't feel like they could speak to anyone about (Dorminey et al., 2012). This creates the motive or the pressure for one to commit fraud. Once pressure has been established, the potential fraudster seeks out an opportunity. One might notice a weakness of internal control or they could potentially have access to confidential data, such as payroll. After the potential fraudster has recognized this opportunity, they make sure the chance of being caught is slim (Dorminey et al. 2012). After the fraud has occurred, the fraudster moves to the rationalization process. Ultimately, the fraudster begins to justify their actions and calm him or herself down by thinking that they are safe and that no one is going to find out (Dorminey et al. 2012). For instance, a fraudster could look back on their fraud and think "I needed this money much more than this company does, no one will notice that \$XXXX is missing anyhow, I will be fine."

Recently, research has been conducted to expand the fraud triangle and focus on different aspects of the triangle. This type of research includes how different motivators, controls, or environments trigger fraud to occur. Specifically in the "perceived pressure" aspect of the fraud triangle, a new acronym is used to appropriately identify different motivators for fraud offenders (Dorminey et al. 2010). Suggested by Professor Jason Thomas, the acronym MICE stands for money, ideology, coercion, and ego/entitlement (Dorminey et al. 2010). MICE



focuses on the four different motivators and how they influence fraudsters to engage in the act of committing fraud.

Typically, money and ego are the most common motivations that influence the likelihood for fraud to occur (Dorminey et al. 2012). The money aspect of the MICE acronym deals with financial incentives. When employees are faced with the opportunity to obtain extra money, it makes committing fraud sound a bit more appealing. Ideology is a less frequent motivator that influences fraud. The ideology motivational factor is derived from the ideas and values that the potential fraudster believes in. For instance, specifically cited by Dorminey and his colleagues in "The Evolution of Fraud Theory," an ideological motivator may constitute someone who is evading taxes because they believe that they "pay enough taxes" or "the government doesn't deserve their money" (Dorminey et al. 2012, p. 563). Coercion is based on situations in which upper level management is heavily influencing employees to commit fraud. The employee could also benefit from the fraudulent act financially, or conversely, their job could be jeopardized. For example, a scenario where a CEO promises an internal auditor a large stipend for falsifying records in order to avoid interference from an external auditing group would be a type of coercion. Finally, the ego/entitlement portion of the MICE acronym is built upon the self-perception one has. If a potential fraudster believes that they are "untouchable" or "too good" to be questioned, this could lead to potential acts of fraud. Dorminey and his colleagues elaborate on the ego/entitlement portion of the MICE acronym (Dorminey et al 2012).

They classify two kinds of egos as the "predator" and the "accidental fraudster." Respectively, one can intentionally commit fraudulent acts or, at the other end of the spectrum,

one can accidentally commit an act of fraud. To elaborate, the accidental fraudster is typically viewed as an upstanding citizen that is liked by many and no one would expect this person to be a potential fraudster (Dorminey et al. 2012). Contrarily, the predator is to be seen as someone who is likely to commit fraud. They are questionable in terms of their ethicality and morality and it would not be a surprise if this person would be convicted of a fraud (Dorminey et al. 2012). Bearing this accounting literature in mind, this led me to the questions I intend to look at and the development of my hypotheses.

### **Theory and Hypothesis Development**

Ideology and coercion are the focal points of this research study; therefore, it is important to understand how these motivational factors have been examined in previous accounting literature. Donegan and Ganon (2008) have conducted research on factors that cause accounting transgression based on criminology literature. Based on their research and the criminology literature view of coercion, they have concluded that coercion is “the primary social force leading to the commission of crimes” (Donegan & Ganon, 2008, p. 8). Coercion has been seen in a number of different cases in the recent history including the acts that took place at WorldCom involving Betty Vinson. In 1997, Mrs. Vinson was told to reach into a reserve account to cover a huge amount of costs and boost earnings (Pulliam, 2003). Mrs. Vinson and other staff accountants informed the higher-level managers of the improper accounting but were still told to do so. This led to one of the biggest financial frauds and ultimately the end of WorldCom.

One of the less frequent motivational factors for fraud to occur has been ideology. As previously mentioned, I have looked at different instances where money, coercion and ego/entitlement have all driven people to engage in fraudulent activity. Ideology focuses on ones beliefs and morals. What a person believes in could influence them to commit fraud. Dorminey and his colleagues view ideological fraud as someone who is committing a fraud to “achieve some perceived greater good” (Dorminey et al. 2012, p. 563).

While I have examined previous research that has shown some of these motivational factors as the reason for fraud to occur, there has been no research that has independently focused on these different motives and the influence they play on individuals. This led to the development of the goal and research questions I intend to focus on. The goal of my research project is to conduct an experiment on fraud and the MICE acronym pertaining to fraud. My research will investigate the following questions:

1. How will MBA students (used as proxies for managers) respond to different motivational factors of the MICE acronym?
2. Are there environmental factors, other than money (M), that will increase the likelihood of an individual committing fraud?
  - a. Is the ideological goal (I) of helping others out for little or no personal financial benefit an appealing reason to commit fraud?
  - b. Are coercive acts (C) by upper level management an appealing reason to commit fraud?

Bearing these questions in mind and current accounting literature, this led to the development of three different hypotheses. In my scenarios, recognizing more revenue can be seen as

behaving in a fraudulent manner (e.g., accelerating revenue recognition before the terms of the contract have been met).

There have been some recent changes dealing with employee protection from employers. Employees under coercive pressure from higher-level managers have multiple resources to help them report this coercion to individuals in a position to help. With implementations like the whistleblower hotline, created from the Sarbanes Oxley act of 2002, and other acts such as the Whistleblower Protection Enhancement act of 2012, employees have more reason to feel safe against acts of coercion. Based on this, I predict that when faced with the motivational factor of coercion, MBA students will be least likely to recognize more revenue. This leads to the first testable hypothesis:

**Hypothesis 1:** Participants will be least likely to recognize more revenue when a coercion factor is being exhibited in the scenarios.

When a participant is left with room for interpretation, this could highly influence the participant's decision in whether or not they will commit fraud. This leads to my next hypothesis, I believe that when a participant is faced with a scenario that could leave room for interpretation or a situation that is more flexible they will be more apt to commit fraud.

**Hypothesis 2:** Participants will be more likely to recognize more revenue when the scenario leaves room for interpretation.

As we have seen with previous literature, most fraud schemes include a factor of money, coercion, or ego/entitlement. However, I predict that participants that are exposed to scenarios including ideological factors will be the most likely to recognize more revenue. Ideology is a less

frequent motivational factor for financial fraud when compared to elements such as money, coercion, or ego. However, when using MBA students as proxies for managers, I predict that they will be knowledgeable about the outlets they have for reporting coercion when they are being coerced, and will have more of a reaction to an ideology factor. I predict that when people are put in a place in which they are going to feel sympathy and empathy, this will make the rationalization process much easier than that of being coerced into committing financial fraud.

**Hypothesis 3:** Participants will be most likely to recognize more revenue when an ideological factor is being exhibited in the scenarios.

### **Methodology**

My study uses a 3 x 2 between-group design. The 3 x 2 between group designs will be made up by a total of six different hypothetical scenarios. The three motivational factors that are being investigated are money, ideology and coercion. With each of these three motivational factors there will be two versions of the scenario. One version of the scenario will lead the participant to a very concrete decision. Based on the information given they should be able to make a choice fairly quickly. On the other hand, the other scenario will leave the participant with room for interpretation. When they are told that the majority of the contractual agreement will be given on the first of twelve fertilizer treatments, this will leave some speculation for the participant. The premise for these scenarios is based on a hypothetical situation in which the participants are placed in a managerial role of preparing financial statements for a midsize agricultural company. In the scenarios, the participants are going to be exposed to a different motivational factor, which could impact their decision on improperly

recognizing revenue. The test instrument was administered through Qualtrics directly to MBA students that are attending a large public university. Participants had two ways of completing the instrument: on a hard copy in class or on an electronic copy online at the discretion of the MBA instructor. A case study was developed in which a hypothetical scenario is presented and will include our manipulations of our independent variables related to ideology and coercion. By using a Likert Scale, I measured responses that are given by the MBA participants. These responses are related to the likelihood of committing fraud, which served as our dependent variable. After the dependent measure, open-ended questions were asked to determine what influenced their decisions. To combat social desirability bias, I asked in first-person, what the participant would do, and in third-person, what the participant thinks the average person would do. At the end of the instrument, I included a manipulation check to ensure that participants attended to the manipulation presented to them. Also, by asking demographical questions I gain background information on the participants.

### **Data Analysis**

After administering the survey electronically via Qualtrics, I gathered 78 completed responses to be used for analysis. After exporting the gathered data, the data was prepared in a SAS friendly format to run tests on different motivational factors and whether or not there was any significance to the results. The first tests that were run focused on the impact of the independent variables on the participant's decision-making. As shown below in Table 1, the independent variables, MOTIV and AMBIG, are tested independently, and then again they are tested together. The independent variable MOTIV, focused on the actual motivational factors (Money, Ideology, and Coercion) that the participants were exposed to in their surveys. The

independent variable AMBIG, focused on the element of ambiguity that participants were Exposed to in their survey. This ambiguity comes from the fact that some participants were left with room for interpretation on their surveys. Finally, a test was run looking at both of these independent variables together.

Source	DF	Type III SS	Mean Square	F Value	Pr > F
<b>MOTIV</b>	2	5.29606E+11	2.64803E+11	201.42	0.0006
<b>AMBIG</b>	1	2.06069E+11	2.06069E+11	156.74	0.0011
<b>MOTIV*AMBIG</b>	1	2.02929E+11	2.02929E+11	154.35	0.0011

Table 1: MOTIV, AMBIG & MOTIV\*AMBIG

Based on these results, there is strong supporting data that provides statistical significance in each of these categories. Looking at the Pr > F column, we can see that each of these tests has values less than 0.05, indicating statistical significance. With that being said, these results did not happen merely by chance but rather there is a link to our participant's responses and the likelihood of fraud. Shown below in Table 2 is the average dollar amount of each scenario for the responses that were collected. By examining this data, I have found some directional support for my hypotheses. For example, when participants were faced with coercion and ambiguous scenarios, as opposed to money/ambiguous and ideology/ambiguous, they were least likely to fraudulently recognize revenue as we can see by the \$387,500.00 in Table 2. This directionally supports hypothesis one that states that participants will be least likely to recognize more revenue when a coercion factor is being exhibited in the scenarios. Hypothesis two shows moderate directional support. Comparing money with ambiguity and

money without ambiguity, there is a quite a large difference. When participants were faced with scenarios involving money and ambiguity the average response totaled \$783,363.60, as opposed to participants who encountered scenarios involving money with no ambiguity, which totaled to \$457,089.00. Based on accounting literature, ideology is a less frequent motivational factor for fraud to occur. Interestingly enough, participants that were faced with an ideological scenario with no ambiguity recognized more revenue than those participants that were faced with money and coercion scenarios without ambiguity. This directly supports hypothesis three which states that participants will be most likely to recognize more revenue when an ideological factor is being exhibited in the scenarios.

<b>Money- Ambiguity</b>	<b>Coercion- Ambiguity</b>	<b>Ideology- Ambiguity</b>	<b>Money- No Ambiguity</b>	<b>Coercion- No Ambiguity</b>	<b>Ideology- No Ambiguity</b>
\$786,363.60	\$387,500.00	\$404,546.00	\$457,089.00	\$387,500.00	\$663,076.90

Table 2: Averages of Each Scenario

The next tests focused on participants work experience. After running the data in SAS, we found interesting data that linked the likelihood of participants work experience and fraud. The results can be seen below in Table 3. These results are stunning in the fact that they are highly significant. Looking at WORKEXP and ACCTWORK, the  $Pr > F$  values equated to 0.0005 and 0.0008, respectively. Bearing in mind that this research study is based on one-tailed hypotheses, this is extraordinary.



Source	DF	Type III SS	Mean Square	F Value	Pr > F
<b>WORKEXP</b>	15	4.21E+12	2.80484E+11	213.35	0.0005
<b>ACCTWORK</b>	2	4.6817E+11	2.34085E+11	178.05	0.0008

Table 3: **WORKEXP** & **ACCTWORK**

After finding these results, I compared the data gathered between those who had six or more months of accounting work experience to those with little to no accounting work experience. What we found when looking at this data was quite interesting. On average, those who have six months or more of accounting work experience recognized approximately \$628,537.00. Conversely, those with little to no accounting work experience recognized only \$454,000.00 on average. Those averages can be seen below in Table 4. That is almost a \$175,000 difference between the two groups of participants. While my hypotheses do not directly address these findings, they are nonetheless fascinating. These results could lead to a number of different avenues for research and significant information for auditors and managers in assessing fraud risks.

<b>Participants with 6 months or more accounting work experience</b>	<b>Participants with less than 6 months of accounting work experience</b>
\$628,537.00	\$454,000.00

## Conclusion

Through this research, I expected to gain a better knowledge of why fraud occurs and what types of scenarios catalyze fraud. Since the MICE acronym is fairly new to accounting

literature, this research is beneficial to the accounting society. By better understanding what types of triggers and environmental factors play a role in a potential fraudster's head, we can take action to help prevent this from happening. Looking at how participants responded to these individual scenarios can help auditors and preparers better safeguard on these instances of fraud. Based on my knowledge of the accounting literature and analyzing the gathered results, I would say that there are definite signs that money and coercion are not the only major players in motivational factors for fraud. With statistical significance, auditors can look into this research and see that not only money or ego play major roles in fraud but ideology could potentially become a major motivational factor for fraud. After looking at the results comparing the two categories of participants based on work experience, auditors and management can take into account these risks. Per the ACFE, we established that most employees who commit fraud are within their first five years of working with a company (ACFE, 2014). This leads to many unanswered questions within business organizations and could lead to potential development of new standard setting for public companies. Some of the unanswered questions include: How should a company address the risks that are associated with these employees? Is the company at fault for not requiring an ethics training? Should an ethics course be required in higher education before employees enter the workforce? Is this a matter of weak internal controls or is this a trend that is impacting industries across America? No matter what the questions that may arise are, this research study has uncovered potential fraud threats at multiple levels. The statistical significance shows that this didn't simply happen as a coincidence but there definitely is an issue that needs to be addressed.

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Appendix:

### Introduction

Thank you for participating in this experiment. The purpose of this experiment is to examine how individuals make decisions based on various financial reporting scenarios. Listed in this test instrument are different scenarios. After analyzing each scenario, please respond to each of these cases using the provided scale. **Each of these scenarios are completely fictional and hypothetical.**

There are no incorrect responses to these scenarios and your responses will remain **anonymous.** Your participation is completely voluntary. By advancing to the next page, you are indicating your agreement to participate in this study. After responding to each of the scenarios, you will be asked to answer some basic background questions.

Again, thank you for your participation and if you would like to receive a summary of the results, please contact me via email at xxxxxxxxxxxxxxxxxxxx.

Sincerely,

xxxxxxxxxx

Accounting BSBA

Honors College c/o 2016

Under the direction of:

xxxxxxxxxxxxxxxx

**Each participant will receive one of the following six scenarios!**

You are an employee at a medium sized company (100-300 employees) that specializes in agricultural products and technology. Your biggest responsibility is to prepare quarterly and annual financial statements for upper level management and board members.

After being an employee for this company for approximately five years, you have noticed that it isn't uncommon for your upper level managers to set steep goals. Due to economic factors and other outside impacts, the agriculture industry has been really struggling during its busiest quarter (April-June). The company has set an intended revenue target of \$6.75 million dollars for the quarter.

***Ambiguous Contract***

A \$1.2 million non-cancellable contractual agreement was made between the agricultural company and a farming operation on April 1, 2015 to spread fertilizer on 12 separate occasions between April 1, 2015 and March 31, 2017. ***The initial application of fertilizer on April 1, 2015 provides the majority of the benefit to the farming operation; subsequent applications of fertilizer maintain and/or enhance the original application.*** Refer to FASB Codification 2014-09 (shown below).

***No Ambiguity Contract***

A \$1.2 million non-cancellable contractual agreement was made between the agricultural company and a farming operation on April 1, 2015 to spread fertilizer on 12 separate occasions between April 1, 2015 and March 31, 2017. Refer to FASB Codification 2014-09 (shown below) for recognition amendments.

***Money***

By recognizing \$1.2 million in revenue during Q2 (quarter two) of the fiscal year, your company will surpass the revenue target and you will walk away with a \$52,000 bonus at the end of year. You are quickly approaching the end of the reporting period and you need to make a decision.

***Ideology***

The company is really trying to hit its intended revenue target. While there are no direct consequences to **your** compensation or employment by coming up a little bit short, missing the revenue target will likely lead to several layoffs of lower level employees within the company. You recognize the difficulty these employees would face if they were laid off, as there are few available jobs in this industry, and many of the lower level employees have families to support with their income. The end of the reporting period is coming up and you need to make a decision.

### ***Coercion***

One afternoon, you decided to stay late to catch up on some work. The CEO of the company approaches your desk and begins to talk with you. After very brief talk, the CEO made it apparent that he wants the revenue to be recognized full in Q2. He mentions to you how important it is to keep a job in such a competitive industry and how he has a lot of connections with similar businesses. The conversation makes you question your job security and makes you believe you will be fired and blacklisted if you do not recognize this revenue and meet the target. The end of the reporting period is coming up and you need to make a decision.

**Your Task:** Based on the information provided above, you are to analyze the situation and respond to the best of your ability. Some pertinent information about this company includes:

1. The company has met every revenue goal set since 2010.
2. The company is the most successful agricultural company in the southeast region of the United States.

Please indicate how much revenue you will recognize at the end of Q2 2015

\$ \_\_\_\_\_

With the information provided, respond to each of the following Likert Scales.

**PAGE BREAK!**

How strong of an influence would the (compensation package, concern of families, coercive chat) play in your decision of how much revenue to recognize during the current reporting period?

*Did not influence my decision at all*    1       2       3       4       5       *Strongly influenced my decision*

How strong of an influence do you think the (compensation package, concern of families, coercive chat) would play on the average person making the decision of how much revenue to recognize during the current reporting period?

*Would not influence decision at all*    1       2       3       4       5       *Would strongly influenced decision*



**FASB No. 2014-09**

**{Provided to all participants; available as they responded to dependent variable questions}**

The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps:

Step 1: Identify the contract(s) with a customer.

Step 2: Identify the performance obligations in the contract.

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price to the performance obligations in the contract.

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

[Assume steps 1-4 have already been completed for the above contract.]

Step 5: Recognize Revenue When (or As) the Entity Satisfies a Performance Obligation

An entity should recognize revenue when (or as) it satisfies a performance obligation by transferring a promised good or service to a customer. A good or service is transferred when (or as) the customer obtains control of that good or service.

For each performance obligation, an entity should determine whether the entity satisfies the performance obligation over time by transferring control of a good or service over time. If an entity does not satisfy a performance obligation over time, the performance obligation is satisfied at a point in time.

An entity transfers control of a good or service over time and, therefore, satisfies a performance obligation and recognizes revenue over time if one of the following criteria is met:

1. The customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs.

2. The entity's performance creates or enhances an asset (for example, work in process) that the customer controls as the asset is created or enhanced.
3. The entity's performance does not create an asset with an alternative use to the entity, and the entity has an enforceable right to payment for performance completed to date.

### Demographic Questions

1. Imagine that you have a choice between two separate options that are shown below. Based on your opinion, please choose which option you would prefer.
  - a. 0.1% chance of winning \$10,000 and a 99.9% chance of winning \$0.
  - b. 100% chance of winning \$10.
  
2. Imagine that you have a choice between two separate options that are shown below. Based on your opinion, please choose which option you would prefer.
  - a. 0.1% chance of losing \$10,000 and 99.9% chance of losing \$0.
  - b. 100% chance of losing \$10.
  
3. Please indicate below which graduate courses you have completed  
{Course listing is provided for participants to choose completed courses}
  
4. Approximately how many months of accounting work experience do you have?  
(Including internships)
  
5. If your answer to Question 4 is more than zero, what areas of accounting do you have experience in?
  - a. Auditing
  - b. Tax (Individual Preparation or Corporate)
  - c. Bookkeeping
  - d. Other (please describe) \_\_\_\_\_