

# Excellence through Ethics™

## Session 9

*What's Wrong with That?*



**High School**



**Junior Achievement®**



*Excellence through Ethics*  
**High School**  
**Session 9**

*What's Wrong with That?*

**Content:** Ethics, Accounting, and Financial Reporting

**Methods:** Discussion and Scenarios

**JA Foundational Pillars:** Ethics and Financial Literacy

# Contents

<b>Guide for Volunteers and Teachers</b> .....	3
<b>Student Handout</b> .....	8-9
<b>Appendix</b> .....	10-16
Volunteer and Teacher Welcome .....	10
Program Introduction and Overview .....	11
Program Acknowledgements .....	14
<i>Excellence through Ethics</i> Pilot Cities .....	15
<i>Excellence through Ethics</i> Evaluation .....	16

# Acknowledgements

## **Sponsorship**

JA Worldwide® (Junior Achievement) gratefully acknowledges Deloitte & Touche USA LLP for its commitment to the development and implementation of the supplementary program *Excellence through Ethics*. JA Worldwide appreciates its relationship with Deloitte & Touche USA LLP to develop and implement vital and innovative programs designed to foster ethical decision-making skills.

## What's Wrong with That?

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### Overview

Students examine business accounting practices and learn why ethical standards are important for businesspeople.

### Objectives

Students will be able to:

- Review how businesses account for income and expenses.
- Analyze ethical and unethical accounting practices.
- Identify the consequences of unethical accounting practices for a business and its investors.
- Recognize the importance of accurate financial reports.

### Preparation

Review the activity. Prepare the necessary copies and session materials.

Group work is incorporated into this session. You may consult with the teacher to determine how best to form the groups.

Post Key Terms and definitions in a visible place.

- **Ethics:** The standards that help determine what is good, right, and proper.
- **Balance sheet:** A statement of financial position as of a particular date, showing assets and liabilities.
- **Income statement:** A financial statement showing how much a business has made or lost over a period of time.
- **Assets:** Resources a personal or business owns.
- **Liabilities:** Debts a personal or business it owes.

If your company or profession has a set of written ethical guidelines, bring enough copies for each of the students.

### Recommended Time

This session typically takes 45 minutes to complete. Ask the teacher to help you keep track of time.

### Materials

- What's Wrong with That? (1 per student)
- Guidelines for Ethical Decision-Making (1 per student)
- Company ethical guidelines (optional)
- Pens or pencils (1 per student)

## **Presentation**

### **Introduction (15 minutes)**

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Greet the students. Tell them that today they are going to examine some corporate activities related to financial reports.

Explain to the class that the vast majority of corporations and business executives engage in ethical or legal practices. However, some corporations engage in unethical or illegal practices that have made the news because their activities were unusual.

Tell students that sometimes honest accounting mistakes can happen. Companies that make accounting errors are generally not engaging in practices established to intentionally mislead. There is a difference between honest mistakes and intentional fraud. Examples discussed in this activity are not the norm.

Ask students if they can name the two most important financial reports a public corporation must periodically produce. **Answer:** balance sheet and income statement.

What does the balance sheet show? **Answer:** It is a statement of financial position as of a particular date, showing assets, what it owns, and liabilities, what it owes.

What does the income statement show? **Answer:** How much a business has made or lost over a period of time.

Ask students if they have heard about any large corporations accused of misleading the public about their income and expenses. Prompt or address student responses. They might also have heard of business leaders who allegedly redirected company money for their private use.

Ask what word we could use to describe business practices that mislead and perhaps harm others. **Answer:** Unethical, illegal.

Remind students that unethical behavior is not always illegal behavior. Offer examples from current events to illustrate the difference.

Ask students if they know what was allegedly unethical about the activities of some companies in the news recently? **Answer:** Their financial reports did not present the complete picture of profits and losses to investors and employees. Ethical reporting must include any bad news along with the good. If honest mistakes are made on a financial report, one of the ethical things to do is issue a restatement.

What general criterion can we use to decide if an action is unethical? **Answer:** It's meant to mislead or harm others who depend on its truthfulness or accuracy.

## **Activity**

### **What's Wrong with That? (25 minutes)**

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Separate the class into groups of three. Distribute What's Wrong with That? and ask the groups to read the first three scenarios. The groups should keep the question, What's Wrong with That? in mind as they read each scenario.

Remind them that the correct answer may be that nothing is wrong. Students should focus on who is hurt by the actions outlined in the scenarios, e.g., stockholders, employees, customers, the business, etc.

Then, ask each group to select a spokesperson to report their decisions of why the actions described in the first three scenarios are ethical or unethical.

Now, distribute Guidelines for Ethical Decision-Making. Explain that ethical decisions can be made by using guidelines such as:

1. Contrasting good character traits with self-awareness questions.
  - Good character traits are ethical values that guide choices in the search for what is good, right, and proper.
  - Two questions help remind us that we are accountable for our actions.
2. Using an ethical construct, a method that provides questions students can ask themselves when faced with an ethical decision.
  - Is your action illegal or unethical?
  - Are you being fair and honest?
  - Would you be unwilling or embarrassed to tell your family, friends, or coworkers?
  - Will you sleep soundly tonight?
  - Would you want to see it reported on the front page of a newspaper?
  - Could someone's life, health, or safety be endangered by your action?
  - Could the intended action appear inappropriate?

Have students use the guidelines in discussing the remaining scenarios. Call the class to order 15 minutes before the end of class, or sooner if all the groups appear finished. Ask students if the activity was easier using the guidelines. Ask them to explain why.

If time allows, discuss with the class whether the actions of the remaining scenarios were ethical.

### **Summary and Review (5 minutes)**

Briefly review the vocabulary introduced in the session.

Ask students why they think a company would want to hide its true financial situation.

**Possible answers:**

- To attract investors and stock analysts and drive up stock prices.
- Ego gratification, lifestyle maintenance, or résumé building for the firm's leaders.
- Hiding the truth becomes an end in itself to avoid detection.
- To attract lending institutions.

Remind students that good financial reports can tell a management team where their company stands. When these reports are published, investors, employees, customers, and potential investors count on them to be accurate so that they can make wise decisions.

What are the advantages of the ethical reporting of business and economic activity?

**Possible answers:**

- An ethical company attracts investors.
- An ethical company encourages favorable reports from stock analysts.
- High ethical standards in a business attract and keep the best employees.
- An ethical company enhances its brand and reputation in the marketplace.
- Managers and employees know the true condition of the company and can do what it takes to improve it.
- An ethical company need not fear scrutinizing of its financial condition.

Thank the students for their participation.

## **Session Outline**

### **Introduction**

- Greet the students.
- Describe the functions of a corporation's balance sheet and income statement.
- Discuss the unethical financial reporting of several major corporations in the news recently.
- Emphasize that the vast majority of corporations are ethical.

### **Activity**

- Distribute *What's Wrong With That?*; have students work in groups of three to answer, "What's Wrong with That?" for the first three scenarios.
- Have each group explain whether the actions of the first three scenarios were ethical.
- Distribute and discuss *Guidelines for Ethical Decision-Making*. Have students review and discuss the remaining scenarios using suggested guidelines.
- Discuss the scenarios as a class; be sure to refer to *Guidelines for Ethical Decision-Making*.

### **Summary and Review**

- Briefly review the vocabulary introduced in the session.
- Have students surmise why companies would choose to hide their true financial situation.
- Emphasize the benefits of presenting an honest financial picture.
- Thank the students for their participation.



## What's Wrong With That?

1. Your company signs a contract to provide a service. Though it has neither performed the service nor received any money from the contract, your company reports income from the contract to show investors higher earnings for this quarter.
2. Your company serves as a broker (similar to Telecharge) for tickets to entertainment and sporting events, for which it is paid a 15% commission on every ticket it sells. On its income statement, however, your company reports as income the full price of all the tickets it sells.
3. Your company appears to you to be overstating its profits. As Assistant Chief Financial Officer, you know your boss and the President probably do not want to hear it and that you may lose your job if you tell them the bad news. Then again, you might be able to persuade them to issue a restatement.

For the rest of these scenarios, your company creates other companies that are separate from (but still controlled by) your company. For convenience, let's give all of these newly created subsidiaries the same name: SUBCO (sub company).

4. Your company forms a partnership with another company to provide a service and agrees to a 50-50 split of the profits from the deal. Your company then creates SUBCO-1 to perform your company's end of the partnership and gets a bank to lend SUBCO-1 a lot of money based on the hoped-for future earnings. To get the loan, your company guarantees the bank will get all its money back, even if SUBCO-1 and the partner are unsuccessful. Now, your company reports the entire amount of the SUBCO-1 loan as profit from its partnership.
5. Your company creates a company called SUBCO-2 and owns all of its stock. Your company also has a contract with SUBCO-2, saying that if SUBCO-2 stock prices fall, then SUBCO-2 will reimburse your company for the amount of the loss. If SUBCO-2 stock prices increase, your company reports a profit from the increased value of the SUBCO-2 stock it owns. If SUBCO-2 stock prices fall, your company reports a profit from its reimbursement contract with SUBCO-2, without mentioning that it's your company's money that SUBCO-2 is using to reimburse your company.
6. Your company creates a company called SUBCO-3 and gives it an amount of your company's stock. In exchange for the stock, SUBCO-3 gives your company a "note receivable" (an IOU) for the value of the stock. Without mentioning the stock deal, your company records the full value of the "note receivable" as an "asset" on its books.
7. Your company has 10 obsolete PCs. It sells them to its own company, SUBCO-4, for \$3,500 each and then decides to report the \$35,000 as profit to your company. As a junior employee in the accounting department, you bring this seeming error to the attention of your boss.
8. Your company encourages its employees to invest in company stock for their retirement. The company's financial reports look so good that many employees do so. Their purchases cause the company's stock prices to rise.

With the exception of scenarios 1 and 3, all these scenarios are adapted from a *PBS NewsHour* with *Jim Lehrer* report about Enron, "Accounting Alchemy," by Paul Solman (January 22, 2002).

## **Guidelines for Ethical Decision-Making**

Ethical decisions can be made by contrasting good character traits with self-awareness questions.

### **Good Character Traits in Ethical Decision-Making:**

1. Trustworthiness. People learn to believe in and admire us if we have such qualities as
  - a. honesty in communication and conduct.
  - b. integrity – we keep our word.
  - c. reliability – we are consistent and dependable.
  - d. loyalty to certain people or organizations.
2. Respect. We do unto others as we would have them do unto us.
3. Responsibility. We are accountable for what we do and who we are.
4. Fairness. We follow a balanced standard of justice without reference to our own biases or interests.
5. Caring. We have concern for the welfare of others.
6. Citizenship. We follow the law and do more than our “fair share” to make society work.

These guidelines were adapted from *Making Ethical Decisions* by Michael Josephson, and *Auditing and Assurance Services* by Dr. Jack C. Robertson and Dr. Timothy J. Louwers.

### **Self-Awareness Questions for Ethical Decision-Making:**

- What written or unwritten rules should determine my behavior?
- What are the possible consequences of my choices?

Another method that can be used to make ethical decisions is called an ethical construct. This method provides you with questions you can ask yourself when faced with an ethical decision.

- Is your action illegal or unethical?
- Are you being fair and honest?
- Would you be unwilling or embarrassed to tell your family, friends, or coworkers?
- Will you sleep soundly tonight?
- Would you want to see it reported on the front page of a newspaper?
- Could someone’s life, health, or safety be endangered by your action?
- Does the intended action appear inappropriate?

# Appendix

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## Welcome to Junior Achievement's

### *Excellence through Ethics*

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As a Junior Achievement (JA) volunteer or teacher, you are joining other teachers and volunteers from across the United States in providing students with a unique educational experience. Junior Achievement's *Excellence through Ethics* offers students learning opportunities to share knowledge and information regarding ethics in business. JA strives to show students how business works, and to better evaluate organizations that conduct their operations in the right way.

*Excellence through Ethics* is designed to equip volunteers and teachers with supplemental, ethics-based activities for use with JA in-class programs for grades four through twelve. All these activities provide students with current and essential information about business ethics.

These activities are designed to reinforce students' knowledge and skills, teach them how to make ethical decisions, assist them in learning to think critically, and help them to be better problem-solvers. All the activities are hands-on, interactive, and group-focused to present the material to students with the best instructional methods.

Within these supplements, you will find sections to help you effectively implement the activities in your volunteer experience. Materials include: (a) an introductory discussion of business ethics, marketplace integrity, and the growing capacity of students for ethical decision-making; (b) activities and student materials that connect to and expand current classroom-based Junior Achievement programs; and (c) a functional glossary of terms relating to a wide spectrum of ethics, quality, service, and social responsibility considerations in business.

JA greatly appreciates your support of these important and exciting activities. If you have comments about the *Excellence through Ethics* program content, curriculum, and/or instruction, please access <http://studentcenter.ja.org.aspx/LearnEthics/> and choose the “*Excellence through Ethics Survey*” link located in the middle of the page.

# Appendix

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## Introduction and Overview

- *How do I do the right thing in this situation?*
- *Should I be completely honest, even if it puts others in jeopardy?*
- *What kind of community do we want to be?*
- *How do we do what's best for the long term?*
- *Who should cover the cost of "doing the right thing"?*

These are all questions having to do with business ethics. They are valid and necessary questions, and good business people have asked them for generations. They form the backdrop of vital discussions as business, community, and political leaders grapple with significant issues. Many students would ask these questions, even if Junior Achievement hadn't developed this ethics curriculum.

## Business Ethics Discussions Are Here To Stay

Business ethics has been in the spotlight for much of the past decade, especially as examples of wrongdoing come to light in the media. New technologies and international competitive pressures cause a steady focus on the question, "Is it possible to be competitively successful in business today and still operate in an honest and ethical manner?" The past decade has seen individuals search for deeper personal meaning in the workplace, which has contributed to lively ethics discussions in the business realm. For these reasons, the discussion of business ethics is not a passing fad; it's here to stay.

Many graduate schools of business have either required ethics coursework or integrated ethics principles throughout all areas of study. That is commendable. We believe this vital area of exposure and instruction also should happen at earlier ages and continue throughout the students' educational journey. Many of today's students haven't had access to a well-rounded education in economics and free enterprise or have come to see these in a very negative light. They have limited awareness of the extent to which good business leaders engage in the challenging exercises of ethical decision-making amid heavy competitive pressures. As students learn the general principles of economics and business, it's critical that these be underpinned with a strong foundation in ethics. This will accentuate the best in American business traditions, while laying the groundwork for students' continued evolution into future generations of leaders.

## Integrity in the Marketplace?

Many adults and young people choose to believe that the marketplace is driven only by greed. They view it as bringing out only the worst in human behavior, demoralizing the human spirit, and driving out any sense of idealism. While elements of greed and extreme self-interest among some individuals cannot be denied, solid research has shown time and again that companies with a long-term focus on ethics and a broad consideration of stakeholders' interests are much more profitable than those lacking such a focus.

James A. Autry, in his book *Love and Profit: The Art of Caring Leadership*, said it well: "I do not doubt the presence of greed in the marketplace because I do not doubt the presence of greed in people. But, I also do not doubt the ennobling aspects of work, of the workplace, of the community, of endeavor, of

# Appendix

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the marketplace. So I choose to believe that most of the marketplace is driven by people who want to do good work for others and for themselves.”

*Excellence through Ethics* accepts the challenge of educating youth in the basics of economics and business while establishing a positive balance on the side of well-informed, ethical business practice. This may appear to place a heavy burden on Junior Achievement volunteers, who are not trained ethics experts. The following informational pages will not turn you into an ethics expert. That’s not what we’re striving for here. What students need most is meaningful interaction with people who are willing to engage in a discussion of these vital issues.

## **Lively Practitioners Rather Than Dry Theorists**

This program is more about day-to-day ethics practice than the nuances of ethics theory. Some believe that working in business requires a disconnect from one’s personal ethics. We do not believe this is the case. Students need to know that what they learn about fairness and honesty in general also applies to business. While business ethics may address some specific areas of business practice, it’s not a separate and distinct specialty to be set apart from the general ethical principles that apply in other areas of life. Young people need to encounter the wisdom of age and experience that volunteers bring to the classroom.

## **Students’ Growing Capacity for Ethical Decision-Making**

*Excellence through Ethics* is designed to foster discussions at the appropriate level for each age group. The curriculum developers have designed the ethics activities with sensitivity to student’s mental maturity. At the late elementary and middle-grades levels, students’ capacities for ethical reasoning tend toward good personal behavior as determined by adult rules and authority. In relationships, personal trust, loyalty, and respect are of paramount importance. For these students, corporate ethical behavior is viewed in much the same light as their own personal behavior: it’s governed by rules.

As students advance into high school, their ethical decision-making moves into the larger arena of social contracts and systems that guide and govern societal and group behavior. Here the rationality and utility of laws are scrutinized, as students become more capable of higher-ordered, principled thinking. Students are increasingly aware of the diversity of values among different cultures and communities. At this level, students’ capacities for processing the complex, ethical dilemmas that may be encountered in business are greatly enhanced.

You will gain confidence as you come to realize that conducting a robust, provocative discussion with students is more important than “having the right answer.” The activities have been designed to leave room for lively discussion and multiple points of view. Having the courage to share your own experiences is very valuable to students.

# Appendix

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You don't have to apologize for the excesses students may see in business. Don't assume responsibility for actions that are not your own, and do not try to defend the indefensible. While accentuating the fact that most businesses operate ethically, it's okay to scrutinize the unethical players in the marketplace who give business in general a bad name.

## **Continuing Education**

Teaching this material to students will no doubt strengthen and enhance your own ethics awareness and continuing education. Some students will challenge your best reasoning capacities. Having your own support network of professional colleagues with whom you can share and discuss some of these issues is very valuable. It's also helpful to seek out colleagues with philosophical views that differ from your own. This serves as a valuable "cross-pollination" function because you will be able to understand and discuss a variety of views with students, as well as share students' perspectives with your colleagues. In this way, everyone learns.

Finally, please be assured that your contributions here have tremendous value to students and will serve to upgrade business ethics in the future. We're dealing with the future generation of leaders in their formative years. We can take pride in the fact that we've had a hand in shaping the very people who will be responsible for business ethics and social responsibility in the future.

# Appendix

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## Acknowledgements

Many educators, economists, businesspeople, and consultants have contributed to the development of *Excellence through Ethics*. We would like to acknowledge the following individuals and groups for their efforts, creative talents, and support in creating these materials:

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# Appendix

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## **Excellence through Ethics Writers and Consultants**

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Susan Dilloway

Karen D. Harvey, Ed.D., Educational Writer and Diversity Curriculum Consultant

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## **Excellence through Ethics Junior Achievement Pilot Offices**

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JA of The Heartland, Inc.

JA of The National Capital Area, Inc.

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JA of West Texas, Inc.

JA of Wisconsin, Inc.



## Appendix

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### **Excellence through Ethics Evaluation**

Junior Achievement has discontinued all paper versions of program surveys. However, we greatly appreciate your comments and feedback about *Excellence through Ethics*. Please help us improve the quality of *Excellence through Ethics* by sharing your comments through our new online survey process. The online survey should take less than 10 minutes to complete.

If you have comments about the *Excellence through Ethics* program content, curriculum, and/or instruction, please access <http://studentcenter.ja.org/aspx/LearnEthics/> and choose the *Excellence through Ethics* Survey link located in the middle of the page.

**Thank you for participating in JA!**



## Excellence through Ethics Volunteer Survey

1. Including this session, how many individual sessions of Excellence through Ethics have you presented? \_\_\_\_\_
  
2. Do you feel that the students were engaged through this session?
  - A. Not at all
  - B. Somewhat engaged
  - C. Engaged
  - D. Very Engaged
  - E. Unsure
  
3. Do you feel the session was relevant to students?
  - A. Not relevant
  - B. Somewhat relevant
  - C. Relevant
  - D. Very relevant
  - E. Unsure
  
4. Do you feel students are more prepared to make ethical decisions after participating in this session?
  - A. Significantly more prepared
  - B. Somewhat more prepared
  - C. Somewhat less prepared
  - D. Significantly less prepared
  - E. Unsure
  
5. On a scale of 1 to 10 (10 being excellent), how would you rate the overall quality of the Excellence through Ethics session? \_\_\_\_\_
  
6. After this JA experience, how likely are you to volunteer for JA again?
  - A. More likely to volunteer
  - B. Less likely to volunteer
  - C. No more or less likely to volunteer
  - D. Unsure
  
7. What comments or suggestions do you have regarding the overall session (including format, content, etc.)?

Optional: City \_\_\_\_\_

State \_\_\_\_\_ Country \_\_\_\_\_

Email \_\_\_\_\_

## Excellence through Ethics Student Survey

1. What grade are you in? \_\_\_\_\_

2. Please fill in the circle that best describes how you feel about the following statements.  
There is no right or wrong answer.

	Strongly Disagree	Disagree	Neither agree or disagree	Agree	Strongly Agree
This topic is very important.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
I am able to apply what I learned in this session to the real world.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The activities were interesting.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
I learned something about ethics from this session.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

3. Do you feel more prepared to make ethical decisions after participating in this session?

- A. Significantly more prepared
- B. Somewhat more prepared
- C. Somewhat less prepared
- D. Significantly less prepared
- E. Unsure

4. I saw someone at my job taking money from the cash register, I would:

- A. Ask someone I trust what I should
- B. Tell a supervisor
- C. Talk to the person taking the money
- D. Do nothing
- E. Not sure

5. To help us better understand who you are, please answer the following questions: How do you describe your ethnicity (family background)? (Fill in all that apply)

- A. African American
- B. Asian American
- C. Latino (a) or Chicano (a)
- D. European American (white)
- E. Native American
- F. Other – how do you identify yourself? \_\_\_\_\_

6. Do you have any additional comments regarding this session?

Optional: City \_\_\_\_\_ State \_\_\_\_\_ Country \_\_\_\_\_