

The Misguided Bond: A Forensic Accounting Case

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This case features a 78-year-old married retiree who is seeking to improve the income of his retirement portfolio. Although the client has substantial savings, he is not a sophisticated investor. Having previously relied on a financial advisor who recently died, he currently relies on a financial advisor in the same retail brokerage office who “inherited” the account. The new broker advised the client’s purchase of a risky put-constrained bond, though the client is unaware of the bond’s risk. Ultimately, the client lost a substantial portion of his assets with the speculative bond. Students are provided with the client’s yearly summary investment account statements, as well as excerpts from the bond offering prospectus. A dialogue format is used to present the issues, facts, and terminology of the case.

INSTRUCTOR NOTES AND LEARNING OBJECTIVES

The following case may be used in several different courses. First, the case may be helpful in graduate or undergraduate auditing or accounting information systems courses if the instructor wishes to introduce a forensic component in the class. Second, the case may be used in a graduate or undergraduate portfolio management or in an investments class where the instructor wants to introduce the issue of retail stock brokerage mismanagement. The primary subject matter of this case concerns forensic accounting issues in the arena of broker account mismanagement. Major issues addressed include client profits/losses, disclosure issues, and ethical issues. The learning objectives of the case entail: (1) Computing account income, profits/loss, and return, (2) Understanding a generalized model for forensic accounting, understanding of prospectus disclosure issues, and ethical issues such as broker-client relationships and broker responsibility, and (3) Comparing conventional bonds with put-constrained bonds. The case is designed to be taught in two and one-half hours at the senior or MBA accounting level. It should require four hours of outside preparation by students. Pertinent websites are listed throughout the case as needed.