

Ethical decision making



Throughout the 2008 financial crisis, analysts would often indicate that the trigger for the global economic downfall was related to a lack of transparency in how corporations were transacting business and turning a profit. One couldn't turn on CNBC or Fox Business without hearing from a panel of financial wizards, who had on good authority to pontificate about corporations inflating numbers on their financial statements to demonstrate profitability to current and potential shareholders. The inflation of financial statements and balance sheets truly dates back to the beginning of the millennium, when companies like Enron and Tyco were exposed for corporate accounting fraud when it was revealed that these companies were overstating profits and creating nonexistent accounts receivables on their balance sheets, leaving in their wake a bevy of financially devastated employees and shareholders holding an empty bag. Wayman reported in 2011 that in order to combat accounting fraud, US Congress enacted financial reform through the Sarbanes-Oxley Act of 2002 (SOX), which held entities more accountable for their bookkeeping methodologies by requiring senior management to attest to the accuracy of the data provided on the financial statements, as well as mandate companies to establish internal systems of checks and balances to police those crunching the numbers. The legislation lent more credibility and respect for the Generally Accepted Accounting Principles (GAAP) by reinforcing them as law rather than mere ethical guidelines. GAAP is used to create parameters for corporate accountants and auditors when keeping records of transactions and balancing budgets. The rules place emphasis on revenue sources, itemized balance sheets, and numbers of outstanding shares. It is designed to create absolute transparency for investors and restore confidence in companies'

financial statements. The current case study puts Patterson Company under the microscope, examining the accounting practices of a corporation that is losing its profitability. It's a familiar scenario in the corporate world, where transactions need to be made in order to create a profit surge, which will keep shareholders happy and potential investors intrigued. Patterson is faced with an opportunity to transact a property sale that would alleviate some financial burden but would likely fall short of enhancing the profit margin. Therefore, the company's president felt compelled to inflate numbers in their books by prematurely recording interest earned on the sale. With only the bottom line in mind, the executive's suggestion to recognize the interest earned prior to realizing the profit is in strict violation of GAAP. Fundamental accounting rules indicate that every transaction must have a debit and a credit. To remain in compliance with regulation, Patterson's controller must create a sales column in the company's ledger since property was sold. The accounting principle mandates that Notes Receivable would need to be debited for 10 million and Sales would then get credited for 10 million. The interest earned (i. e., revenue recognition) would not be entered into the ledger until it was received. Adherence to this rule creates the transparency necessitated in the corporate world where competition and profitability reign supreme. To state that the company's president acted in an unethical manner is an oversimplification. Not only was he in non-compliance with GAAP, he also violated the law upheld by the Sarbanes-Oxley Act that is intended to keep corporate managers and accountants forthright with the numbers that make up the companies' abilities to make money. Unfortunately, it is common to see corporations collapse under their own weight from the accounting fraud committed within these entities. So if <https://assignbuster.com/ethical-decision-making-essay-samples/>

an investor is looking to park money in a company that doesn't follow GAAP, beware! Their numbers likely appeared out of very thin air. References

Wayman, Rick. (2011). Top 8 Ways Companies Cook the Books. Retrieved from <http://www.investopedia.com/articles/analyst/071502.asp> May 15, 2011

To: John Smith, Vice President
From: Jane Public, Controller
Re: Accounting procedures for recent property sale

Dear Mr. Smith: It has come to my attention that we may not be properly recording the recent sale of our 100-acre lot designated for commercial development. According to Generally Accepted Accounting Principles, otherwise known as GAAP, we are to create both a debit and a credit in the general ledger with every sales transaction we execute, including the aforementioned property sale. To remain compliant with these guidelines, we should debit Notes Receivable for 10 million and credit Sales for the same amount. Moreover, we cannot record any interest earned on the note until it is actually received, thus realizing the profit made off of this transaction. Furthermore, I respectfully remind you of the Sarbanes-Oxley Act that was passed by Congress in 2002. This piece of legislation dovetails a design to hold corporations more accountable for the financial statements posted by entities in the corporate arena with a mandate to make company accounting procedures more transparent for current shareholders and prospective buyers. Part of this congressional act requires senior management to attest to the validity and accuracy of the publicized financial statements. With this in mind, I would like to encourage you to reconsider past suggestions on how to record sales in our general ledger, as it is my duty as the controller to honor internal audits and the overall system of checks and balances within our esteemed company. If you have further questions or concerns that you would like for me to address

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with you, I would be happy to do so. I value my work in this organization, as I believe in our vision and objectives in the private sector. I am committed to keeping our financial operations honorable, forthright, efficient, and transparent. Please let me know what I can do to help you move this company forward in an ethical and law-abiding manner. Kindest regards,
Jane Public