

An ethical question involving standard costs essay sample



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Taylor Industries, Inc., develops standard costs for all its direct materials, direct labor, and overhead costs. It uses these costs to price products, cost inventories, and evaluate the performance of purchasing and production managers. It updates the standard costs whenever costs, prices, or rates change by 3 percent or more. It also reviews and updates all standard costs each December; this practice provides current standards that are appropriate for use in valuing year-end inventories on the company's financial statements.

Jody Elgar is in charge of standard costing at Taylor Industries. On November 30, she received a memo from the chief financial officer informing her that Taylor Industries was considering purchasing another company and that she and her staff were to postpone adjusting standard costs until late February; they were instead to concentrate on analyzing the proposed purchase.

In the third week of November, prices on more than 20 of Taylor Industries' direct materials had been reduced by 10 percent or more, and a new labor union contract had reduced several categories of labor rates. A revision of standard costs in December would have resulted in lower valuations of inventories, higher cost of goods sold because of inventory write-downs, and lower net income for the year. Elgar believed that the company was facing an operating loss and that the assignment to evaluate the proposed purchase was designed primarily to keep her staff from revising and lowering standard costs. She questioned the chief financial officer about the assignment and reiterated the need for updating the standard costs, but she was again told to ignore the update and concentrate on the proposed

purchase. Elgar and her staff were relieved of the evaluation assignment in early February. The purchase never materialized.

Assess Jody Elgar's actions in this situation. Did she follow all ethical paths to solving the problem? What are the consequences of failing to adjust the standard costs?