

Business ethics case study assignment

[Art & Culture](#)



**ASSIGN
BUSTER**

This ethics case focuses on a non-partner manager for a CPA firm who decides to leave the firm to work in the private industry. The manager's name is Candy Bookie and the CPA firm she was working for is alma, Sharp and Crooked. The case begins with Candy deciding to leave the CPA firm to accept a controllers position with Artifice Company, a company who was a client of her CPA firm. Artifice Company was a holding company for a group of family-owned corporations that were all heavily involved in government projects.

The company consists of a series of more than went businesses owned in whole or part by the Addams family. While with the CPA firm, Candy was involved with the business consulting end of the relationship in conjunction with Artifice's government work and was involved in a number of the recent review engagements done by alma for Artifice. These reviews were designed to Independently assure that the Artifice Company was following all applicable governmental guidelines, regulations and procedures on their government projects.

During her time working with Artifice Company, Candy always did her reviews carefully and professionally in accordance with applicable government agency tankards. The problems began when Candy made her transition to the new company. As she settled into her new position as controller at Artifice Company, Candy noticed that a number of checks from one unit were being made out to someone she had never heard of before. Because Candy had done previous work Ninth Artifice Company, she was very familiar with most of their personnel. She felt these transactions seemed odd and looked into it further.

<https://assignbuster.com/business-ethics-case-study-assignment-essay-samples/>

As Candy began to look into the transactions, she realized that these checks to Mr. Muenster were for consulting fees that were booked to various government projects. As Candy was able to gather more details about the transactions, she began to notice that these consulting fees were being billed to the government contracts and then the checks were endorsed over to another unit where they were deposited as "capital contributions." This raised a red flag for Candy because she knew the government agency would not approve of these actions and that they would be exposed to possible tax audits.

Candy confronted those above her about the transactions and stated that the checks should be booked as revenue as opposed to capital contributions. It also seemed odd to Candy that her boss requested her not to send a 1099 tax form to Mr. Muenster. Through reading the case, you can tell that Candy, based on her public accounting experience, was not comfortable with the treatment of this transaction. Candy wanted to seek clarification on the issues so she went to three different people that were above her.

Each stated that these transactions were "typical for government contracts" and that these transactions were a key ingredient in assuring Artifice's continued existence and profitability. This raised another red flag for Candy as it concerned her that these individual companies were acting deceptively to increase the position of certain project units. Another issue was that none of the managers above her seemed to care to explain the transactions or do anything to look into the matter. Candy pondered whether to contact her

former CPA Rim as seen knew they would be privy to the matter and be able to give near an outside opinion.

She also entertained the idea of alerting the government agency but decided to contact her former CPA firm. When Candy spoke to the partner in charge of Artifice's reviews, Fester, he merely stated that he would not be able to give her a reward for discovering this information and was not going to rehire Candy to the firm. Feeling that she had no other options, Candy went back to speak with Mortician, manager of the Underground Projects Unit, in order to tell her that she believed the handling of Mr..

Muenster's deposits were inappropriate and that she could not sanction nor sign off on any financial or tax information that included such procedures. The meeting ended with Candy submitting her resignation, serving out her contractually-required 30 day notice period, and then subsequently leaving the company. This case incorporates many ethical issues. While Candy was aware that her new position was going to be very demanding and that she would have to keep track of and properly document all government project-related work activities, she could have never imagined to be the situation that arose in the case study.

The first ethical issue encountered in the case study is whether the CPA firm will be able to give truly independent reviews of the Artifice Company after one of their employees leaves to become controller at the company. The case does not mention how this issue was handled but it could be seen as an independence issue from the outside looking in. The CPA firm is required to maintain independence in appearance and fact so it could become a

<https://assignbuster.com/business-ethics-case-study-assignment-essay-samples/>

problem later if someone were to learn that a former employee of the CPA firm that took part in reviews and consulting is now acting as the company's controller.

An outsider may get the impression that the firm could rely on their former employee too heavily and not maintain professional skepticism. The next issue encountered is that a number of interception checks are being written to other business units and are being treated in a suspicious manner. The fact that these checks are being treated as capital contributions instead of revenue is a errors ethical issues because it not only could be considered as being against tax law, it also appears to be used as a revenue/income smoothing tool.

This is one of the more important ethical issue faced in this case because it shows that the company is Nailing to bend the rules and possibly fabricate consulting expenses in order to increase their government contract billings. This issue is significantly difficult for Candy because she is unable to get a detailed explanation from any of her managers and leads her to question the company's motives behind the treatment of these transactions.

This ethical issue eventually led Candy to investigate further into her new company's procedures and speak with her managers to find out the reasoning behind the treatment of these consulting fees. When Candy began to investigate these issues, she uncovered a number of other ethical issues which stemmed from the treatment of the consulting fees. As Candy spoke to her managers above her, she began to notice a concerning " tone at the top. " Each manager that Candy spoke to seemed to brush off the issue and

told Candy that these transactions were “ typical for government contracts” and that this had been done in the past.

This attitude by management shows that the company does not value the integrity of the financial statements and is willing to risk a possible tax audit or loss of government contract in order to increase the appearance to their company’s standing. Two smaller ethical issues faced by Candy are that her manager Mortician stated that she would be able to use her political power to “ handle the situation” if the government agency ever had any questions about Mr.. Muenster’s consulting arrangement.

The fact that one of Candy managers has enough political pull to blur any political action raises red flags that the company may feel confident in pursuing other questionable accounting issues. The other issue is that Candy former CPA firm did nothing with the information Candy provided them with. The fact that the CPA firm performs reviews on the financial statements means that they should be concerned with this information discovered by Candy and not merely look to brush it under the rug.

The fact that Foster did not seem to be interested in Candy information raises caution to the idea that the CPA firm may be aware of the actions and is simply looking the other way. This is a huge ethical issue for both companies and could lead to serious repercussions for the CPA firm if they were proven to be aware of these actions by the Artifice Company.

Throughout the case study, Candy takes many steps to resolve the ethical issues she encounters. The first discovery came when Candy noticed there

were a number of checks being written to someone she had never heard of before.

When she looked into the suspicious checks Candy noticed that there were interception activities going on that appeared to be schemes to increase expenses billed to government entrants and the subsequent use of those checks to infuse money into other departments through Capital Contributions. Once discovering this action being taken by her new employer, Candy took three major steps towards resolving the issue. Her three steps of actions were to contact managers above her, speak with her former CPA firm which performed the reviews for her new employer, and then ultimately the decision to resign from the company.

While it appears that Candy exhausted every option possible in order to resolve the ethical dilemma she was facing, there was one option she chose not to go through with that may have helped to get the word out about Artifice's suspicious accounting techniques. In the case study, it stated that Candy considered notifying the government agency which Artifice was doing business with but it does not state why she chose not to notify the agency. If Candy had notified the agency through an anonymous tip, the agency could have used their quick litigation expertise described in the case to investigate any wrongdoings.

If Candy had done this, she may have been able to accomplish her goal of making sure the financial statements are reported correctly while also keeping her job. By notifying the government agency, Candy would have fulfilled her duty of notifying an outside party and the agency would have

<https://assignbuster.com/business-ethics-case-study-assignment-essay-samples/>

been able to investigate the matter at hand to determine if the actions of Artifice were fraudulent. Once the investigation was concluded, Artifice would have to comply with any findings and Candy would have fulfilled her goal of making sure the consulting fees accounting treatment was handled correctly.

The stakeholders in this case study are likely the Addams family, who owns Artifice Company, the managers of the individual companies, and the government agency No does business with Artifice Company. The stakeholder who might have the most objection to the practices used by Artifice Company would be the government agency. From the case study, it appears that Artifice is booking either excessive or artificial consulting fees to government contracts and depositing the associated checks in other business units as capital contributions.

This is most important to the government agency because they could be overpaying for expenses that could be completely fictitious. Because of this, it is very important that Candy notifies someone outside of the company of her findings relating to the consulting fees and makes sure the issue is resolved. As the case played out, Candy only notified upper management and her former CPA firm before resigning from the company. By doing this, Artifice Company could continue with their unethical practices as long as the CPA firm does not look further into the consulting fees.

This could be very bad for the government agency and lead to the waste of government funding until the issue is discovered through other means.

Based on the readings of the case study, it appears that the owner's possible

<https://assignbuster.com/business-ethics-case-study-assignment-essay-samples/>

motives behind the consulting fees treatment is to increase the amount of expenses they can bill to their government contract projects. By doing this, they are able to bill possible fictitious expenses and then take the money they receive in reimbursements from the government contracts to deposit into other related business units as capital contributions.

With this accounting treatment, the owners are able to increase their revenue associated with government contracts without increasing the revenue they report on a tax basis. By transferring the government contract payments to other business units as capital contributions they are able to avoid paying taxes on that specific amount that is considered a capital contribution. This is very beneficial to the owners and helps to increase the financial position of the company as a whole.

The case leads you to believe that upper management is aware of these transactions and does not have any intention to take the necessary steps to make sure the transactions are recorded properly. They appear to only be concerned with reporting the transactions in a way that avoids taxes and minimizes reported revenue. If I were to evaluate this case before taking the ethics course, I would likely say that Candy should just book the transactions how her managers instruct her to and be sure not to ruffle any feathers or do anything that may cause her to lose her job.

Introit any education on accounting and business ethics, it is easy to say that the controller should do whatever the owners and upper management want you to do regarding suspicious transactions. It would have been simple for Candy to simply just 'go with the flow' and book the transactions as

<https://assignbuster.com/business-ethics-case-study-assignment-essay-samples/>

instructed without questioning management. However, after going through the ethics course and gaining knowledge on how to handle ethical issues in the workplace, it is clear to see that the actions taken by Artifice Company are unethical.

Through the study of the accounting standards in the accounting course I learned that it is the controller's responsibility to ensure that the company is acting ethically and if they learn of any possible fraud or company wrongdoing, it is their duty to bring these items to light or resign from their position. Because the controller is responsible for producing financial statements that are reliable and accurate, Candy would be risking her license and career reputation if she were to turn the other way and allow Artifice to continue with their suspicious consulting fee transactions.

After going through the ethics course, it is easier to understand why Candy took the actions she did and why she ultimately felt it necessary to resign from the company rather than book the transactions and prepare the financial statements as upper management insisted. I think that as I have progressed throughout the ethics course this semester, my opinions on this case have evolved from thinking that Candy should just comply with upper management and company procedure to the notion that Candy is responsible for looking further into the situation and transactions.

As I continued through the ethics course, I learned the red flags to look for in companies and the responsibility that a CPA bears to make sure their company is reporting transactions properly and not taking any actions that would be considered fraudulent or classified as tax evasion. Looking at the <https://assignbuster.com/business-ethics-case-study-assignment-essay-samples/>

case now having completed the ethics course, I feel that Candy took the proper steps to investigate the suspicious activity and maintained her Integrity as a CPA.

There are always things or steps that could have been differently looking back on the matter, but I feel that in her situation, Candy did as much as she could and in the end decided that she would rather resign from the position than to produce financial statements that she knew could have been materially altered. I think that Candy made the right decision because if a company is willing to perform these ethically questionable activities there is no telling what else may be going on behind the scenes.

From this case study and the ethics course, I have learned that when faced with a situation such as the one in this case study, it is always best to do everything possible to resolve the situation. If after you have exhausted all known possibilities, you still cannot get management to change their ways and there is not a feasible way to notify authorities, it is better to resign and lose your current job than to go with the flow and possibly lose your license along with your reputation as an accounting professional.

In the end, your ethics and integrity must always come before the desires of your company and upper management. There will always be other job opportunities for those who leave over ethical disagreements but if you make one mistake in judgment and try to bend the rules, you may never be trusted again as an accounting professional.