

# Accounting case analysis essay sample

[Business](#), [Company](#)



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## **The Technical Accounting Issue.**

The technical accounting issue in the case is the non-compliance with the matching principle of accounting. The Matching principle states the benefits of revenue or asset should be associated to the outflows (expenses) of that revenue or asset. The principle asserts that expenses or outflows should be recognized and reported in the books of accounts when those expenses or outflows can be matched with the revenues generated by those expenses i. e. as revenues are recorded the corresponding expenses needs to be recorded as well. This matches the period expenses and revenues.

The original way i. e. adhering to the matching principle, the accrued wages need to be recognized in the current period, thus the expenses will be more and consequently decrease the net profit in the same proportion. Hank Helms’s suggestion if adhered to will result to treating a period cost as a product cost thus violating the matching principle. As such it will result in understatement of the current year’s expenses and thus increasing the net profit in the same proportion. Fraudulently increasing the net income translates to an increase in the shareholder’s equity since retained earning form part of the retained earning. The accounting equation is stated below;

Assets= Liabilities+Shareholder's equity

Such financial statements are likely to give false information as to the financial performance of the company, especially if the accrued wages are material. For example the return on equity will be higher when Helm's suggestion is followed. Also the shareholder using the financial statement to assess the liquidity of the company i. e. ability of the company to meet its short term obligations as and when they fall due is likely to be misinformed since the liabilities are understated hence the liquidity position is likely to be more positive than could have otherwise been the case. For an investor, such financial statement will be misleading as they give exaggerated profitability and also the balance sheet shows an understatement of the current liabilities.

### **The Ethical Dilemma.**

The accountant in the case faces an ethical dilemma, in that Hank Helms who has is a good and supportive boss is requesting him/her to violate an accounting principle for him to be able to increase the net profit and thus receive a bonus and commission. What is more is that the account is aware that Hank needs more money due to his personal financial demands. Besides this is the first time such an incident is happening. To Hank, he feels that having done so many favors in the past for the accountant then it's his time to reciprocate. This situation explains the internal conflict the accountant faces.

**Recommendations;**

Drawing from the technical and dilemma issues, I could recommend that we adhere to the accounting principles. By so doing the financial statements will reflect the true status of the company for the users. Also the professional responsibility will have been adhered to.