

Ethics homework assignment

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The revenue recognition principle states that, under the accrual basis of accounting, you should only record revenue when an entity has substantially completed a revenue generation process; thus, you record revenue when it has been earned. Therefore \$12 million revenue should not be recorded in 2013 because the lawyers did not sign off on the transaction until January 2014 and the product was not shipped until January 2, 2014. Recording the revenue when it has not been earned violated the revenue recognition rules.

2.

As professional accountants, they shall comply with the fundamental principles including integrity; objectivity, professional competence and due care confidentiality and professional behavior. In this case, accountants should be straightforward and honest in all professional and business relationships and avoid bias, conflict of interest, or undue influence of others to override professional or business judgments. 3. Boss's gambling problem is an undue influence threat resulting from an attempt by the management to coerce the CPA to do something wrong.

Helen's childcare situation and the threatened cutoff of reimbursements are also undue influence threat and a financial self-interest threat. To avoid violating the independence standard, Helen should not consider Boss's gambling problem and her childcare situation when solving the ethical issue. She should report the accurate revenue of 2013 and refused to backdate the sales invoice to December 30 because it is CPA's responsibility to keep independence. Case 5-5 1 .

In all the three round trip transactions, the company fraudulently inflated or otherwise misrepresented its earnings for the fourth quarter of its FY2003 and each quarter of r-Y2004. The company should have devised and maintained a system of internal accounting controls sufficient to provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial statement in accordance with GAAP. The company should record the transactions in reasonable details accurately and fairly.

In the three round trip transactions, the company should record the accurate amount of income instead of inflating the earnings. 2. The corporate governance of Crispy Creme has broken down. The former franchise manager benefited personally from the transactions. The problem is that manager is doing business with the company and related party disclosures were not made in the financial statements. The management violated its duty of care and loyalty to company owner's interests, which is the foundation of good governance. 3.

The risk of management override of control within the company should be addressed adequately with substantive procedures such as checking journal entries and other adjustments and reviewing accounting estimates for possible biases that could result in material misstatement due to fraud. The auditors should also communicate with management and inquire whether any fraud or error has been detected. When auditors have determined that there is evidence that fraud may exist, the matter should be brought to the attention of the appropriate level of management. Case 5-8 1 . Having stable earnings over time is to smooth income over time.

The ideal pattern of earnings for a manager is a steady increase each year over a period of time. Income smoothing occurs through the use of accounting techniques to level out net income fluctuations from one period to the next. These practices lead to erosion in the quality of earnings and therefore the quality of financial reporting. Accounting faithfulness would be distorted by the use of devices such as accelerating the recognition of revenue, delaying the recognition to an expense and creating cookie-jar reserves to smooth net income. 2. The responsibility for preventing and detecting fraud rests with the management of entities.

The auditor has a responsibility to plan and perform the audit to Obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. To support risk assessment, KPMG as auditor should approach each engagement with a healthy dose of skepticism, to approach the audit with a questioning mind and be skeptical of the truth in gathering information, asking questions, and evaluating the corporate culture. The auditor should obtain information needed to identify the risk of material misstatement due to fraud.

From 1998 to mid-2004, the smooth growths in profits and precisely hit earnings targets each quarter were deliberately created by Fannie Mae's senior management using faulty accounting. Therefore, Fannie Mae's risk taking is due to more weak governance system than ethical hazard. 3. The audit report is the end product of an auditor's work. The audit report carries particular significance for investors and creditors who rely on financial statements to help make decisions. Gathering and objectively evaluating

audit evidence requires the auditor to consider the competency and sufficiency of the evidence.

According to AU 31.5, the auditor should consider audit risk and materiality both in planning the audit and designing auditing procedures and evaluating whether the financial statements taken as a whole are presented fairly, in all material respects, in conformity with GAAP. Here KPMG failed to gather evidence about whether specific assertions are being met. And KPMG also failed to consider internal control relevant to Fannie Mae's preparation and fair presentation of financial statements in order to design audit procedures.