

# [Financial accounting assignment](https://assignbuster.com/financial-accounting-assignment-essay-samples-3/)

[Business](https://assignbuster.com/essay-subjects/business/)

A Culture of Dishonesty Ethics is a term that refers to a code of moral system that provides criteria for evaluating right and wrong. An ethical dilemma is a situation in which an individual or group is faced with a decision that test this code. One of the elements that many believe distinguishes a profession from other occupations is acceptance by it members of a responsibility for the interest of those it serves.. Accounting ethics is a field of professional ethics which pertains specifically to accounting.

For the public to rely on the information revived there must be a level of confidence in the knowledge and behavior of accountants. The nature of the accountants’ work puts them in a special position of trust in relation to their clients, employees, and people who rely on their professional judgment; ethics is viewed as necessary in the profession as it helps to minimize fraudulent activities. Ethics and standards in accounting were originally applied to protect the public from unscrupulous corporations and the accountants who hide or misrepresent information.

However, following several large corporate scandals, the codes of conducts ND standards for both public and private accountants have been revised. Given the corporate ethical breaches in recent times, assess whether or not you believe that the current business and regulatory environment is more conducive to ethical behavior. Provide a rationale to support your answer. In recent years, accounting ethical breaches has emerged as a major problem for most organizations and the business industry.

Accounting ethical breaches can be defined as the misappropriation and misconduct of financial data by the auditors and accountants of an organization (Crutched & Jensen, . 55). Every business entity has an accounting professional provide information at some point in the organization’s life cycle. Whether accountants work in the public or private practice, they are expected to adhere to ethical standards which are designed to ensure that accountants behave in a way which is ethical and consistent.

The ethics of a business is currently a high profile issue due to the astonishing corporate scandals that has taken place in many countries causing extensive damages to the economy and society. With the increasing number of corporate ethical reaches, the role and importance of ethical behavior has increased within organizations. Since the scandal at both Enron and World there has been a movement towards a more heightened state of ethical awareness. Research shows this is resulting from the greater likelihood of punitive consequences imposed for unethical corporate behavior (Crutched & Jensen, p. 5). Organizations are becoming more supportive to ethical behavior in the current business environment, ensuring compliance and the minimization of risk. The SEC and government have also tried to increase and re-build the ethical behavior within American Corporations. Congress passed the Serbians-Solely Act in 2002 in response to recent accounting scandals (Ball, p. 279). The act was designed to protect investors by improving the accuracy and reliability of corporate disclosures and set new or enhance standards for all U. S. Public company boards, management, and public accounting firms (Ball, p. 79). Based on your research, describe the organization, the accounting ethical breach and the impact to the organization related to the breach. World was once the largest telecommunications company in the oral. The company is now known as MIMIC, currently a subsidiary of Verizon Wireless. The company World was the result of a merger between Long Distance Discount Services and Advantage Companies. The company was thriving until 1998 and that’s when the telecommunications industry began to slow.

In the midst of another major accounting scandal by Enron, World stunned industry insiders when they learned the corporation was falsely reporting financial statements. On June 25, 2002, World announced that it had overstated earnings in 2001 and the first quarter of 2002 by more than $3. Billion dollars. The company was scrutinized for its illegal practices and eventually had to file for bankruptcy, which resulted in a lot of employee layoffs. On June 26, 2011, the SEC filed a civil suit against the company, and all trading of World’s stock was halted and delimited by the Nasdaq Stock Market.

Employees also lost 401(K) accounts invested heavily in common stock. Then there were the shareholders who lost billions in pension funds. The scandal wiped out about $1 60 billion dollars in investor holdings. The scandal left the company with a bad reputation and many investors nerved. Determine how the organizational ethical issue was detected and how management failed to create and ethical environment. The scandal was reported by one of the middle managers, Cynthia Cooper, who was under the direct supervision of the company’s chief financial officer.

Cynthia was the internal auditor supervisor and she along with two other individuals discovered the mishandling of funds within the company. A series of events led Ms. Cooper to believe her company was fixing and misreporting information on financial statements. Her very first instinct that something as wrong was when she met with John Status, the head of World’s wireless business division. During the meeting, Mr.. Status revealed that he was about to lose $400 million dollars he specifically set aside to make up for shortfalls if customers didn’t pay their bill, which is common in the wireless industry ().

However, Mr.. Sullivan, the SCOFF decided to take the money away from Mr.. Startup’s department and use it to boost World’s income. Ms. Cooper thought something was bizarre about the situation and she and her team began a mission secretly to see if their intuitions were correct Ms. Cooper and her team began to do financial audits on her employer without the permission of her supervisor, Mr.. Sullivan. Ms. Cooper and her team of auditors eventually discovered a trail of illegal accounting practices in which the department could not provide any support for. Ms.

Cooper and her team then presented their findings to the board’s audit committee in which they explained how the transfers didn’t comply with GAP according to the documents and financial statements (Singleton & Singleton, p. 280). The impact the scandal had on the company affected employees at all levels. Unfortunately, top management was at the center of the scandal. In this case, management could not create an ethical environment because they were the ones being dishonest. Instead of creating an environment emphasizing the importance of honesty; they encouraged employees to be deceitful.

Both the CEO and SCOFF were indicted on fraudulent charges related to this case. Management started a trend within the organization that it is alright to be dishonest. The best way for any manager to lead is by example and top managers at World fail to do so. Analyze the accounts impacted and or accounting guidelines violated and the exulting impact to the business operations. On June 25, 2002, World announced it had overstated earnings in 2001 and the first quarter of 2002 by more than $3. 8 billion dollars. The company manipulated its reserves accounts which resulted in the overstatement of some of its accounts.

The company overstated by classifying payments for using other companies’ communications network as capital expenditures. World admitted that the company had classified over $38 billion dollars in payments for line costs as capital expenditures rather than current expenses. Line costs are what World pays other companies for using their communication networks; they consist primarily of access fees and transport charges for messages for World customers. The company reportedly misclassified $3, 035 billion dollars in 2001 and $797 million dollars for the first quarter of 2002 0.

Also in 2001 another $14. 7 billion in line cost was treated as current expenses World increased both its net income (since expenses were understated) and its assets (since capitalized cost are treated as an investment) by transferring part of its expenses to a capital account. The company admitted n 2002 that it manipulated its reserve accounts to change reported earnings. The reserve accounts were reduced in order to provide credits against the expenses. The company eventually filed for bankruptcy and later merged with MIMIC.

As SCOFF, recommend which measures could have been taken to prevent this ethical breach and how each measure should be implemented in the future. Many corporations and organizations have been in the news over the past few years due to accounting ethical breaches that have affected their customers, employees, or the general public. There are several steps that loud have been taken to minimize fraudulent activities. The first is that the corporation should have done an examination Of the company’s ethical culture and climate. Most corporations are composed of a certain culture or cultures.

The first thing to do is to take a good look at the compact/s culture and evaluate what are the norms of behavior. A formal assessment of the corporate culture from the perspective of employees’ attitudes, perceptions, values, and standard of conduct, pressure to commit misconduct, communication, and vulnerabilities should have been conducted. This must cake place at all levels of employment from front line workers to top executives. The corporation wants to ensure senior leadership is exemplifying the corporate values outlined in the company’s mission and vision statement.

Leadership starts from the top and it is very important that those in leadership roles be required to adhere to an ethical code of conducts. In the future World has to ensure that top executives not only has the experience and qualifications, but also has morals that supports the vision of the company. This is something World can build into the corporate system going forward. The company can provide all employees with a written pledge stating what its values are and how it defines what is right, fair, and good.

The company should talk with employees at all levels often communicating goals, roles, expectations, and priorities. Employees need to understand what is expected and at what standards. Also, the company should have been more selective of its external auditing firm choice. In the future, World wants to guarantee the auditing firm chose is in alignment with its company goals, mission, and values.