What’s wevenue essay

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“ What’s Wevenue? ” Managerial Accounting ? Article Summary Unethical accounting practices can put a company, and its accounting firm, at the center of attention. California Micro Devices Corp (referred to hereafter as Cal Micro) was a chip manufacturer that decided to write off half its accounts receivables in August of 1994. This announcement not only negatively impacted their stock price, but it also triggered an investigation which uncovered many unethical accounting practices. One example of such practices included faking product shipments so that sales could be booked. By midsummer 1994, as much as 70% of quarterly revenue was false.

The company had ignored early warnings, such as their auditor Price Waterhouse LLP telling them they had weak internal controls. After announcing their 1994 write off another audit took place by Coopers & Lybrand. While Coopers feels that their audit followed best practice, the SEC argued they missed many red flags. Due to this oversight, the SEC attempted to bar the two Coopers audit leads from ever signing off again on public company audits. There were many unethical practices that led to this situation. In the end, the Coopers auditors left to pursue other careers and the company hired Ernst & Young to re-audit their books.

This led to the 1995 restatement of 1994 results. Ethical Analysis Emphasis on short term results When employees are put in a situation that is focused on short term results, it can cause unethical behavior because there is pressure to produce results. The article mentioned that Cal Micro managers had aggressive revenue goals. The pressure of reaching short term revenue goal created a situation that bred unethical behavior. Managers over-reached what should have been considered a “ sale” by booking revenue for products shipped before customers wanted them. Managers also failed to reverse the sale once the product was returned.

Furthermore, they paid distributors “ handling fees” to accept products that had unlimited rights of return; upon which more sales were booked. Ignoring the small stuff Many times unethical compromises start out small, being viewed as insignificant. What people fail to realize is that the large problems are often created be a series of small compromises. As a result, small compromises should not be tolerated otherwise companies could end up with severe issues to resolve. The article shared an example where an employee asked the accounting firm if revenue could be booked on products sold but shipped after the close of the fourth quarter.

There was debate over the accounting firm’s response to that question however the more important point is that Cal Micro asked the question. This means that Cal Micro went from wanting to record the revenue early (small ethical compromise) to booking false sales (large ethical issue). This example illustrates how one small compromise can evolve into a much larger and more serious issue for a company. This example can also be illustrated by the Coopers accountants. When auditors sent confirmation letters to customers with outstanding bills, one third of the customers who replied raised concerns with Cal Micro’s bookkeeping practices.

This seems to be an example of the accounting firm ignoring a piece of small evidence, but when all small evidence is combined it results in a large red flag. This raises the question of whether the accounting firm was being unethical. One could even argue that assigning a junior accounting staff to a company such as Cal Micro was unethical given the looming shareholder law suit. Economic cycles It is much easier to conceal unethical accounting practices in an up market. However, once the market takes a turn for the worse, those unethical practices can appear more prevalent.

This is why it’s important to be watchful in even a good market of these practices, because the practices will come back to hurt a company even worse in a bad time. The fraud at Cal Micro began in the late 80s and continued into the early 90s when the technology market was booming. When 1994 arrived the company had dug itself into such a hole it was impossible to reset itself on the right path. In 1994, one-third of the company’s revenue was bogus. Their attempt to try and recover by writing off half its account receivables drew the immediate attention of shareholders who quickly accused them of “ financial shenanigans”.

This triggered the beginning of the end for the unethical accounting practices. Accounting Rules As a result of increasingly complex accounting rules, abuse of the rules is becoming harder to identify. Ethical accountants believe in full disclosure and communicate the real economic performance and position of a company. From an internal accounting perspective, many of the Cal Micro executives behaved in a way or were in a role which prevented fair accounting. For example, the chairman at the time sat on the board’s audit committee and owned 45. 7% of the company.

This is clearly a conflict of interest and may have contributed towards less than accurate reports to the board. Another example is the CFO, later holding other titles as well, admitted to falsifying his resume. The only background in accounting he had was a course he had taken in college and received a D in. Yet another example was the credit accountant who created false documents and allegedly lied to the auditors. Due to the roles of these executives being filled by people who were morally comprised, it resulted in unethical behavior. Perhaps this behavior was even hard for them (the offenders) to identify.

For example, if you are told to do something by your management (such as falsify or destroy a document), what choice do you have? It is gray areas like these examples that make understanding and identifying unethical practices difficult. Conclusion Overall, this case shows how blurry the lines of responsibility can be for an auditor and a company. It also shows how laws can be interpreted many ways and lack of penalties for either party (company or auditor) could result in the bare minimum being done. Unethical behavior perhaps needs more definition and greater consequence.