Dilehmas in the accounting profession

Qualify or Not? Viccio and Martin staff accountant Jane Ashley was assigned to work on an audit team with one senior auditor Frankie Small. The audit they were to perform was on the top paying client of Viccio and Martin, Models Inc.. Jane had spent time working for the firm while finishing her academics, and had been present for many other audits.

This left her excited to show her employer all she had learned during this first assignment. Jane was away at school when the yearend inventory count was made for Models Inc., so she decided to brush up before the audit began by studying the financials, audit notes, previous audits, and the inventory counts performed. Upon doing so, she encountered the first of many issues that would have her faced with the first ethical dilemma of her career. The dilemma, signing off on false information and knowingly overlooking discrepancies in where inventory was inflated and cost of goods sold deflated to keep the company from showing a loss for the year, or report the issues and possibly cause the company to have its loan called by the bank and go out of business.

This dilemma would also include a personal aspect in that Jane faced the decision that could cost her the loss of her job or her credibility. The events leading to this dilemma include the poor inventory management system the company has in place. The mistakes made either intentionally or unintentionally by the accounts payable clerk also contributed to the problems. Another issue was the decision and pressure from her superiors and the upper management of the client. All of these issues have an effect on the stakeholders involved; the first stakeholder to consider is the bank holding the operating loan.

They requested the audit to ensure their investment was still a sound one. The next stakeholders to be considered are the suppliers, they use the financial information to determine whether to continue to extend credit to Models Inc. in the future, and whether they will be paid for goods or services already rendered. The next stakeholder is the clients themselves, the decision made on handling the discrepancies will affect the future of the company and its employees, as they could be out of work if the company closes.

Another stakeholder is the accounting firm; If they decide to do the right thing it could cost them current and future revenue, again possibly affecting employees and their future earnings as well. The last stakeholder affected by the decision is Jane herself; she has her morals and reputation to consider as well earnings potential for the future. The decision-making process for Jane should include looking at several approaches and stakeholder impact analysis. The stakeholders should be prioritized and the impacts on each looked at thoroughly before a decision is made.

There is not any scenario where signing off on the false information will have a positive impact on any of the most important stakeholders. With that said, Jane should tell her superiors that she is not comfortable signing off on the audit as it stands. In doing so she runs the risk of losing her job, on the other hand she is taking a stand for herself and the two top stakeholders, the bank and the suppliers. Jane must be careful in how she proceeds as confidentiality is expected. Reporting the issue to the appropriate entities is considered a breach of that confidentiality in the US.

However, this case is in Canada, where it is the duty of all chartered accountants, and Auditors to report problems to the appropriate authorities. Consequentialism and the Pastin approach are both very viable sources of analysis for this case study as both focus on stakeholder impact, and also on the duty of the auditors. The five-question approach could be used as well in conjunction because one of those questions is the decision legal. In this case, the misrepresentations in the financial statements are not legal and demand reporting.

There are counterarguments that the impact on some of the stakeholders concerned could be very negatively impacted; however, those arguments lose out to the laws in place. The stakeholder impact of the decision to report the misrepresentation will differ tremendously. The bank will likely call the loan; this will save them from possible default down the road by the company if the profits continue to decline. The impact on the suppliers is much the same, they would likely choose not to extend any further credit and instead demand C. O. D. for their goods delivered.

This will save them from future losses in their own revenue resulting from uncollectable accounts, and a faster turnover on accounts receivables. The impact on the Models Inc. would likely not be favorable as the financial burden of repaying the loan cost them their existence. The company could also face fines and other penalties as seen fit by the governing body. The employees would also lose out, because they would be unemployed if the company goes bankrupt or out of business. This could also have a trickledown effect on the economy and the community.

There would a negative impact on Viccio and Martin as well, they risk losing their top paying client, current and future earning, and sanctions by the government and loss of credibility within the industry. Jane would be impacted in the short term by likely losing her job, however, her integrity would be intact, and she could move on to other employment with a clear conscience. There are many aspects to consider, and different ways that one can look at this dilemma.

The regulations affecting the auditors demand integrity and honesty, which Mr. Viccio and Mr. Small both ignored when they allowed Mrs. Hyst to use the excuse of poor inventory management to cover up the discrepancy. The use of different philosophical approaches will render different outcomes, for all parties concerned. Taking into consideration the laws and regulations in Canada this decision while presenting many negative impacts is the right choice to make. Jane could not allow Viccio and Martin to ignore blatant misrepresentation of earnings and holdings and maintain her own integrity and that of her profession.