

Accounting ethics case

Finance



DD Month YYYY Memo Ref: WorldCom Ethical Case Ethical issue faced by Troy Normand in WorldCom

The case of WorldCom came to light when the company was found to have overstated its earnings during its previous years by more than \$72 billion dollars. The issue started to unfold when the company's earnings and stock value were declining, thus putting pressure on it to deliver favorable results to its investors (Kieso, pp. 28). In the year 2000, Troy Normand and Betty Vinson, who were two of the company's mid-level managers, were faced with a major ethical dilemma. When they were five days from releasing the results of earnings to the public, an error on the books that was difficult to resolve was discovered. In this case, the company's expenses had been reported in the balance sheet as an asset. The error in turn made the company look more profitable by reducing the expenses in the income statement and increasing the assets in the balance sheets. As a result, they approached the former CFO of the company, Scott D. Sullivan, who instructed them to cover up the mistake. Fearful of losing their jobs, the two followed the instructions.

Alternative Course of Action and Trade-offs

The issue presented in the case of Troy Normand is one of the many ethical issues affecting employees and companies today. Other includes Ethical decision-making, governance, corporate culture, and corporate social responsibility. Employees acting on behalf of the company have an ethical duty to act in the best interest of stakeholders including being transparent. Employees finding themselves in Normand's situation can take a number of alternative courses of actions and trade-offs. The best course of action is to act in the best interest of stakeholders by refusing to cover up the mistake

<https://assignbuster.com/accounting-ethics-case/>

and instead insist on making corrections. Increase pressure from top management is usually an indication of fraud in the company. If this does not work, an employee can resolve to whistleblowing at the Securities and Exchange Commission (SEC). Under the Sarbanes-Oxley Act (SOX), whose official name was the "Public Company Accounting Reform and Investment Protection Act of 2002". It provides protection for whistleblowers (Spedding, pp. 289). It also imposes criminal penalties for actions taken against whistleblowers. This act recognizes that these people require protection as their careers when reporting suspected illegal activities in a company (Brenkert, pp. 600).

Major Stakeholders and Potential Impact on Them

Ethical issues are crucial to the success of any company also affects stakeholders. Major stakeholders who can be negatively affected by actions taken by employees as seen in the case of WorldCom include investors and other employees (Goergen, pp. 45). Investors are usually interested in their return on investment. However, they do not benefit when given false return aimed at making the company's financial statements seem favorable. They also lose a lot when the company goes under because when such scandal is discovered. It was seen in the case of WorldCom where investors found themselves in the biggest scandal in history that left shock waves throughout the corporate world.

Other company's employees are also major stakeholders in such situation because they are also directly affected by the issue. Employees can face criminal charge if it is evident that they directly participated in the scandal. They also lose their jobs when the company falls as a result of the company. Finally, they get a bad reputation because other potential employers will

associate them with the company's scandal. It can in turn make it hard for them to get other employment in reputable companies.

Works Cited

Brenkert, George G, and Tom L. Beauchamp. The Oxford Handbook of Business Ethics. Oxford: Oxford University Press, 2010. Print.

Goergen, Marc. Corporate Governance and Complexity Theory. Cheltenham: Edward Elgar, 2010. Print.

Kieso, Donald E, Jerry J. Weygandt, and Terry D. Warfield. Intermediate Accounting. Hoboken, NJ: Wiley, 2012. Print.

Spedding, Linda S. Due Diligence and Corporate Governance. London: LexisNexis, 2004. Print.