Financial statement analysis: assets

Finance

Financial ment analysis: assets There is often a tendency by various organizations to manipulate the balance sheet ina bid to cushion themselves against challenges that come with poor financial status. However, such moves come with ethical issues. The case presented is whereby XYZ Company attempts to misrepresent its financial position in order to be able to borrow money and boost its production. Each proposal is evaluated for ethical basis.

1. Offer customers a 10% discount if they make payments immediately instead of the usual 30 days.

This proposal has no ethical issues. It is more of a marketing criteria aimed at encouraging client's to make payments earlier than the usual period. It is an acceptable approach.

2. Allow a 30 day grace period on all accounts receivable at the end of the year. As these accounts will no longer be overdue, the company will not need to provide for uncollectible receivables

This is unethical as it misrepresents the actual stature of the company. Its gives a false sense of security. The overdue accounts will appear as part of the company's assets when actually they are not.

3. For purposes of balance sheet presentation, combine all forms of cash, including cash equivalents, compensating balances, and unused lines of credit

This is acceptable as it will simply combine the cash forms and does not misrepresent the company's actual position.

4. Require officers who have borrowed money from the company to repay the amount owed at December. This would convert into cash the " notes receivables from officers" which now appear in the balance sheet as non-

current assets (long term receivables)

This would be inconveniencing to the officers and hence unethical when compulsory. However, the company could offer some form of incentive and make it voluntary.

5. Present investments in marketable securities at their market value, rather than at cost

This would not be unethical and the present value will actually be there market value and hence a true representation of their value.

6. Stop all payments to suppliers in December to increase cash

While this is a viable option, it would eliminate the fact that the amounts are due and should not be considered as assets to the company. Presenting the same as company assets would therefore amount to a misrepresentation of the companies financially status.

7. On December 31, draw a large check against one of the company's account in Bank A and deposit in another company's account in bank B. The check will not clear the bank A after year end. This will substantially increase the amount of cash in bank accounts at year end

This would most definitely be a misrepresentation of the company's financial position and hence amounting to an unethical behavior.

In general, there is no harm or unethical behavior in the company holding a meeting to review how it can improve its presentation and hence ability to borrow. However, the meeting is meant to manipulate financial statement for presentation to investors, issue of ethics arises. The creditors and investors will end up getting the wrong financial position of the company which is unethical. In general, misrepresentation of the company's financial position is unethical.

2.

Depreciation is treated as an expense incurred by the organization. It therefore results into reduced cash balance and lowers the net income. When the useful life of a machine is extended, the depreciation expense is reduced and consequently raises the net income and increases cash balance. It will in essence, improve cash flow. This is however unethical as the useful life of the machine is misrepresented to create a favorable cash flow and net income. The image presented is not right financial image of the organization.

Work Cited

Tilden, C. (2012). Empirical evidence of financial statement manipulation during. Journal of Finance and Accountancy, 12 (2), pp. 1-15.