

Accounting ethical values

[Sociology](#), [Ethics](#)



Questions:

1. Is David Robinson suggested compromise appropriate? Why or why not?
2. Do you believe that Zachariah Crabtree is a person of integrity? What about David Robinson? Defend both of your answers. Does Robinson have an inappropriate relationship with Crabtree? Explain.
3. Identify the primary audit objectives for client's year-end discretionary expense accruals. Is it permissible for companies to overstate period-ending expense accruals to make their financial statements more "conservative"?
4. Discuss the scope and nature of an auditor's responsibilities during a review of client's quarterly financial statements.

Answers:

1.

The American Institute of Certified Public Accountants is a professional organization responsible for developing professional accounting ethical values. The AICPA requires professional accountants to act responsibly when engaging in accounting services and reviewing sensitive financial information. Accountants should always exercise sound moral judgment in all accounting activities. Accountants have responsibility to provide clients with professional services while presenting a truthful and accurate assessment of a company financial health to the general public. I think David first needs to determine the reasonableness of the amounts previously recorded by Crabtree.

According to AU Section 312A, in determining the amount of the likely misstatements to be aggregated, the auditor considers the “closest reasonable estimate” which may be a range of acceptable amounts or a point estimate, if that is a better estimate than any other amount. Moreover, the Rule 102 Integrity and Objectivity states that the performance of any professional service, a member shall maintain objectivity and integrity, shall be free of conflicts of interest, and shall not knowingly misrepresent facts or subordinate his or her judgment to others. I think that David Robinson suggested compromise was an appropriate and violated the Rule 102.

He wanted to increase the allowances for bad debts and inventory obsolesces to more normal levels while allowing the Belot Company to use “precise point estimates” for the other three discretionary accruals. The “precise point estimate” is not a GAAP method because refers to as “add-ons” to “fudge” numbers a little higher than they should be. He knew AU Section 328 Auditing Fair Value Measurements and Disclosures states that management is responsible for making the fair value measurements as well as selecting an appropriate valuation methods to ensure that the presentation of the fair value measurements are in accordance with GAAP

In addition, Robinson should be free of conflicts of interest when doing review; meanwhile he knew that Hansen, audit engagement partner, thinks about him as future partner within the company. His judgment about suggested compromise was not objective because he violated Rule 102 as well as AU Section 328. Therefore, the result of Belot Company financial statements and records were materially false and misleading financial users.

2.

Integrity is an important fundamental element of the accounting profession. Integrity requires accountants to be honest in financial reporting. Zachariah Crabtree is not a person of integrity. As a Belot's general accounting manager he should know to follow the standard framework of guidelines for financial accounting GAAP. Moreover, he should always exercise a moral judgment in all accounting activities as well as applies Principles of Personal Conduct established by AICPA. His methods of desire to help save Belot were unhealthy and probably will harm company financial statements. ET Section 102 states that in the performance of any professional service, a member shall maintain objectivity and integrity, shall be free of conflicts of interest, and shall not knowingly misrepresent facts or subordinate his or her judgment to others.

Moreover, Crabtree was becoming very snappy when David questioned him on the accrual methods used which is odd because he was described as a kind and likeable person. Also Robinson is not a person of integrity. In his audit he violated SAS No. 1 as well as AU sec110, AU Sec. 220 and AU Sec 230. AU 110 states that the objective of the audit of financial statements by the independent auditor is the expression of an opinion on the fairness with which they present, in all material respects, financial position, results of operations, and its cash flows in conformity with generally accepted accounting principles. Roberson did accept " precise point estimates" that results in material misstatements of company financial reporting.

Moreover, the AU section 220 states that the auditor must maintain independence in all matters relating to the audit. Robinson and Crabtree

were close friends. In addition Robinson violated Due Professional Care, AU section 230. He forgot that the professional skepticism exist by allowing “ precise point estimates” of accruals which provides a base for manipulation of financial statements. Moreover, the ET Section 102-2 states that a conflict of interest may occur if a member performs a professional service for a client or employer and the member has a relationship with another person, entity, or service that could impair the member’s objectivity.

Thus, David’s integrity and independence can be questioned because he is trying to please Hansen to make partner. I think both Robinson and Crabtree have an inappropriate relationship. Those both characteristics represent lack of integrity. Their actions, in my opinion will harm the company financial statements and through collusion it is possible that fraudulent reporting may occur. There is pressure, opportunity and realization that will allow financial statements to be material and mislead financial users. Also, there is close friendship relationship. Robinson is grateful to Crabtree for his patience and willingness to explain the complex accounting issues. Moreover, Robinson often feels as he is employee rather than an independent auditor.

He validated the second general standard of Generally Accepted Auditing Standards that in all matters relating to the assignment, an independence in mental attitude is to be maintained by the auditor which in Robinson case is not met. Moreover, the AU Section 220 states that the auditor should be without bias with respect to the client under audit, again Robinson and Crabtree are friends and collusion is possible. As auditors we have to know how to keep our independence and professional obligations separate from a

friendship. Arguments and disagreements will exist but auditors have to make sure that they keep their integrity, objectivity, and independence.

3.

In accounting, the term "accrual" refers to a journal entry where a revenue or expense item is recorded in the absence of an actual cash transaction. Discretionary expenses are non-essential expenses that take place to promote or enhance the company's standing with its customers and employees. The primary audit objective for client year-end discretionary expense accruals is stated in AU Section 342. AU 342 paragraph 4 states that the auditor is responsible for evaluating the reasonableness of accounting estimates made by management in the context of the financial statements taken as a whole. Estimates are based on subjective as well as objective factors.

Thus, the auditor needs to consider that there may be potential bias and must maintain an attitude of professional skepticism. The auditor's main objective in evaluating the accounting estimates is to obtain sufficient and appropriate evidence to provide reasonable assurance for the following: 1) All accounting estimates that could be material to the financial statements have been developed 2) That the accounting estimates are reasonable in the circumstances 3) That the accounting estimates are presented in conformity with their applicable accounting principles and are properly disclosed Some examples of accounting estimates that are included in the financial statement are: Obsolete inventory and Accruals such as renegotiation refunds, compensation in stock option plans, and warranty claims.

It is permissible for companies to overstate period ending expense accruals to make financial statements more conservative but again the estimates must be reasonable. Auditors need to use their judgment and gather evidence in order to evaluate the reasonableness of those estimates. Even though the financial statements will look more conservative in the current period, a company may look profitable in future periods when those expenses are incurred.

4.

AU Section 722 Interim Financial Information provides guidance on the nature, timing, and extent of the procedures to be performed by an independent accountant when conducting a review of interim financial information with Generally Accepted Auditing Standards. Moreover, this section provides guidance on the application of the field work and reporting standards to a review of interim financial information, to the extent those standards are relevant. The Securities and Exchange Commission (SEC) requires a registrant to engage an independent accountant to review the registrant's interim financial information before the registrant files its quarterly report on Form 10-Q or Form 10-QSB.

The SEC also requires management, with the participation of the principal executive and financial officers (the certifying officers) to make certain quarterly and annual certifications with respect to the company's internal control over financial reporting. Moreover, the SEC requires that an accountant's review report be filed with the interim financial information if the entity states that the interim financial information has been reviewed by an independent public accountant. The objective of a review of interim

financial information is to provide the accountant with a basis for communicating whether he or she is aware of any material modifications that should be made to the interim financial information for it to conform with generally accepted accounting principles.

Moreover, the objective of a review of interim financial information differs significantly from that of an audit conducted in accordance with generally accepted auditing standards. A review of interim financial information does not provide a basis for expressing an opinion about whether the financial statements are presented fairly, in all material respects, in conformity with generally accepted accounting principles.

A review consists principally of performing analytical procedures and making inquiries of persons responsible for financial and accounting matters, and does not contemplate * tests of accounting records through inspection, observation, or confirmation * tests of controls to evaluate their effectiveness

* obtaining corroborating evidence in response to inquiries * performing certain other procedures ordinarily performed in an audit.

A review of quarterly financial statements may bring to the accountant's attention significant matters affecting the interim financial information, but it does not provide assurance that the accountant will become aware of all significant matters that would be identified in an audit. The auditor needs to perform limited procedures quarterly to provide a basis for determining whether he or she has become aware of any material modifications in the auditor's judgment.

Also, the auditor should establish an understanding with the client regarding the services to be performed in an engagement to review interim financial information. The understanding of the client industry reduces the risk that either the auditor or the client may misinterpret the needs or expectations of the other party.

This understanding should include the objectives of the engagement, management's responsibilities, the accountant's responsibilities, and the limitations of the engagement. Moreover, the auditor should document this understanding, preferably through a written communication with the client. If he/she believes an understanding with the client has not been established, he or she should decline to accept or perform the engagement.