Atc-47 ethical dilemma - terry bailey

Finance

ATC-47 Ethical Dilemma - Terry Bailey Case a) Yes, Terry's scheme does affect balance sheet of Fairwell Furniture. Under the Current Assets head, the Bank Account Balance would have reduced and on the Liabilities side of the Balance Sheet, the Profit and Loss Account balance would have reduced. Both would have reduced by the amount accounted as paid to Larry Tyler.

b) The following Standards have been violated:

i. Section 52 - Article I - Responsibilities:

In carrying out her responsibilities as a professional, Terry should have exercised sensitive professional and moral judgments in all her activities, but she didn't.

ii. Section 53 - Article II - The Public Interest:

Terry should have accepted the obligation to act in a way that will serve the public interest, honor the public trust, and demonstrate commitment to professionalism. Her public would consist of clients, credit grantors, government, employer, investors and others who rely on her integrity. Most of all, Terry has misled her employer.

iii. Section 54 - Article III - Integrity:

To maintain and broaden public confidence, Terry should have performed all professional responsibilities with the highest sense of integrity.

iv. Section 56 - Article V - Due Care:

Terry should have observed the profession's technical and ethical standards, and discharged professional responsibility to the best of her ability.

c) Donald Cressey found three factors common to all cases of unethical conduct and they are present in this case too. They are as follows:

i. Existence of a non-sharable problem: Terry may not want to share her personal problems regarding her son's medical condition at the office.

ii. Presence of an opportunity: Since Terry was in charge of all the three duties - processing employee termination, approving time cards and distributing paychecks, there wasn't anyone else's intervention in her entire scheme. So, she had the opportunity to commit the fraud when Larry Tyler left.

iii. Capacity for rationalization: Terry had been working for the last eight years as a payroll clerk. Though she has been a hard working and model employee, she hasn't been given a raise in her pay for the last three years. Naturally, she is likely to think that she deserves to have the money anyway.

ATC 6-7 Ethical Dilemma - Wilson Blowhard Case

a) By capitalizing a revenue item of expenditure, Wilson Blowhard is misrepresenting the facts. The income of the company would increase by the total amount of line cost charges less the amount of depreciation claimed for that year. Since the line cost charges was being expensed as and when incurred until the previous year, the income of this year compared to the previous years would be higher.

In the company's balance sheet, the capitalized cost would be shown on the asset side as a Fixed Asset so that it could be depreciated over the next few years. The Profit and Loss account balance would naturally be higher than it should have been.

b) The following Standards have been violated:

i. Section 52 - Article I - Responsibility:

The accountant of Mr. Blowhard should have exercised professional and moral judgment rather than doing what was asked to be done by Blowhard.

ii. Section 53 - Article II - Public Interest:

Mr. Blowhard's accountant should have kept the interest of those in mind who rely on the information provided by them in the financial statement.

iii. Section 55 - Article IV - Objectivity and Independence:

It is extremely important for a professional to maintain objectivity and be free of conflicts of interest in discharging professional responsibility. The accountant should have been independent and not surrendered to the pressure put by Mr. Blowhard.

c) Donald Cressey found three factors common to all cases of unethical conduct and they are present in this case too. They are as follows:

i. Existence of a non-sharable problem: Mr. Blowhard is planning on selling his company and hence wants to show good profits when there actually isn't a good profit. In general, information regarding sale of a company and the profit its making is kept confidential. Surely Mr. Blowhard would not want to give out such information.

ii. Presence of an opportunity: Mr. Blowhard is the founder of the company. Naturally he has the power to get things done the way he expects it to be done.

iii. Capacity for rationalization: Mr. Blowhard argued that the line cost was being paid for the line to be used in the future, and hence it should not be expensed right away. Moreover, he wasn't going to skip accounting for the same, he was just going to postpone the recognition of the expense.