

# [Rigging standards](https://assignbuster.com/rigging-standards/)

[Finance](https://assignbuster.com/essay-subjects/finance/)

Rigging Standards 1) How did Preston Lansing Probably ‘ rig’ the standard costs-are the standards set too high or too low? Explain The standards are set too high.

When the products are run at a lower cost than the standard, then this produces a favorable variance. The cost of goods sold and variance should net to the correct cost though and this is the reason the system creates the variance. Lansing set a loose standard which the standard quantities and standard price are high, flowing this situation favorable variances will ordinarily result from operations. When the standard cost set artificially high, the standard cost of goods sold also will be artificially high, and then the division’s net operating income will be depressed until the favorable variances are recognized. If Lansing saves the favorable variances, he can release just enough in the second and third quarters to show some improvement and then he can release all of the rest in the last quarter, by creating the annual Christmas present. The problem is any inventory is to be overvalued because of wrong standards. Finished goods inventory is valued at the standard cost.

If there is a lot of inventory at an inflated cost, then the cost of goods sold is being reduced on the income statement too much because of this. If the inventory were to be revalued at its correct standard cost, there would be a large expense to the income statement. It is better to build a inventory each quarter. 2) Should Preston Lansing be permitted to continue his practice of managing reported earning? He should not permit to continue this practice, because it distorts the quarterly earnings for both the division and the company. The distortions of the division’s quarterly earnings are troubling because the manipulations may mask real signs of trouble and it may mislead external users of the financial statements. Lansing should not be rewarded for manipulating earnings because the permissive attitude of top management toward the manipulation of earnings may indicate the existence of other, even more serious, ethical problems in the company. At the end a clear message should be sent to division managers like Lansing that their job is to manage their operations, not their earnings.

If they keep on top of operations and manage well, the earnings should take care of themselves. 3) What should Stacy Cummins do in this situation? She has already taken the problem to the President, who was not interested. If she goes around the President to the Board of Directors, maybe she will be putting herself in a politically difficult position because the Board of Directors already knows what is going on. But if she simply goes along, she will be violating the “ Objectivity” standard of ethical conduct for management accountants. The Home Security Division’s manipulation of quarterly earnings does distort the entire company’s quarterly reports. And the Objectivity standard clearly stipulates that “ management accountants have aresponsibilityto disclose fully all relevant information that could reasonably be expected to influence an intended user’s understanding of the reports, comments, and recommendations presented. It is better to bring the manipulation of earnings to the attention of the audit committee of the Board of Directors.

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