# Summary bolivia corporation case study

Business

Table of Contents Executive Summary Bolivia Corporation, a major Canadian pharmaceutical company listed on the New York Stock Exchange, announces that it will miss its quarterly earnings target by $25 to $45 million, blaming $10 to $1 5 million of the shortfall on a truck accident involving a shipment that left its facility on the last day of the quarter. The case was ultimately prosecuted by the U.

S. Securities and Exchange Commission (SEC). The case is centered on the question of revenue recognition and how the company should have accounted for the sales (FOB shipping or FOB destination).

However, it also provides a rich setting permitting exploration of peripheral topics around the ethics of earnings management. For example, the case discusses stock analysts' reactions to the announcement; questions how much product was actually in the truck; questions how aggressively the company responds against the analysts who downgrade the stock; and highlights the role of the SEC in enforcement.

Besides that, Viola's stock had listed on both the Toronto and New York stock exchanges.

Bolivia filed annual reports to the U. S. SEC and prepared financial statements in accordance with both U. S.

ND Canadian generally accepted accounting principles (GAP). On 30 September 2003, there was a truck carrying a shipment of[email protected]XSL from Viola's manufacturing facility in Manitoba to Viola's Distributor, North Carolina was involved in a accident near Chicago.

The company announced that the loss of the quarterly earnings which target by $260 million is because of the truck accident happened.

There are several issues in this case which included accounting policy based on the revenue recognition; how Bolivia Corporation should account the sales based on two different “ Freight On Board” (FOB) point which are FOB Shipping point ND FOB Destination point, and ethic of earning management where Bolivia is suspected might significantly overestimate the value of the product that involved in the truck accident due to Bolivia fail to meet its third quarter 2003 earnings guidance, downgrade of stock rating on Bolivia, bad management control and corporation culture. Unethical). Statement of the Problem Bolivia Case Study By lining 1 Accounting policy Dates on ten revenue recognition: How Oval corporation should account the sales based on two different “ Freight On Board” (FOB) point which are FOB Shipping point and FOB Destination point.

According to this article, Viola’s COOP told the analyst that Viola’s contract with the Distributor had title change in Manitoba when it left the shipping dock (FOB Shipping point), but the agreement between Bolivia and the Distributor provided that the title to, and risk of loss with respect to, the product would not passed to the Distributor until the product was delivered to the Distributor’s facility (FOB Destination). These two different Freight On board (FOB) indicates different moments of revenue recognition.

According to the FOB condition: Shipping Point: The Company should recognize revenue at the moment/in the period in which product leaves Bolivia shipping dock at the warehouse since in that precise moment both ownership and responsibility over the goods is transferred from Bolivia to the client. Destination: The Company should recognize revenue at the moment/in the period in which product is delivered to the Distributor's facility since in that precise moment both ownership and responsibility over the goods is transferred from Bolivia to the client. Four conditions must be met in order to recognize revenue that recognized by GAP are; 1.

Persuasive evidence f an arrangement exists: Although the case does not provide extra information on this aspect, it seems clear that there is an ongoing relationship between Bolivia and the Distributor and that certainly there was a bill, purchase order and/or invoice in order to support this sale. 2. Seller's price to the buyer is fixed or determinable: The case provides clear evidence in this aspect. 3. Collection is reasonably assured: given the ongoing relationship between Bolivia and the Distributor, it appears evident that this aspect was probably covered as well.

4.

Delivery has occurred or services have en rendered: this is the key point of conflict in the Viola's case. In this case, by referring the standard by GAP, Bolivia should recognize the revenue based on the agreement as mentioned by the employee from the Distributor. The conditions that indicated by the GAP has been met. 2.

Earning management Another issue that we discover is about earning management issue. Bolivia had released guidance for the quarter ended September 30, 2003 which indicates that the revenue would be in the range of $21 5 million to $235 million and earnings per share of $0. 5 to $0. 45, both below previously issued guidance. Meaning that, the revenue had dropped by $25 million to $45 million as compared to the market expectation and prior guidance of approximately $260 million.

The company claim that there is a shortfall of revenue for the third quarter due to the truck accident happened. Based on the case, the truck accident happened on the last day of the end of the third quarter, where a truck carrying a shipment of[email protected]XSL bound for the North Carolina facility of one of the Viola’s Distributor.

Bolivia estimated that the truck involved will contribute revenue for the third quarter is in the range of $10 million to $20 million. However, the investigation suggest that Bolivia might have significantly overestimated the amount of[email protected]XSL on the truck because according to the information, the trooper estimated the truck was about one-quarter full and even if there had been $20 million worth of[email protected]XSL pills on the truck, the truck should be full of nearly full. According to J. P Morgan, he calculated on how much of the truck would need to be filled to represent the missing revenue.

According to Melvyn, “ This accident will have negative financial impact on Viola’s third quarter revenues”. In fact, the accident was Just a cover face for Bolivia financial report problem and had no effect on third quarter earnings. The accident was not the root of the problem but it is only the symptoms of the problem that lead to investigate the eel problem. The accident was giving Bolivia opportunity to provide the marketplace with a partial explanation for the missed earnings because Bolivia has doing misleading of report in previous years and Bolivia face manufacturing problems.

Therefore, it shows that Bolivia intentionally misstated both the effect of the accident on third quarter earnings as well as the value of the product involve in the accident. As per Maria state " Bolivia should not be able to record revenue from the sale of the drugs in the truck in the third quarter".

3. Downgrade of stock rating on Bolivia Following the announcement of the truck accident, Canadian Imperial Bank of Commerce announced that it was cutting its stock rating on Bolivia to Sector Performer from Sector Outperformed and removing the company from the Special Research series (SIRS), adjectively ceasing coverage AT ten stock.

I en reasons given Tort the downgrade cited on-going production delays and operational uncertainties at Bolivia. Hence, Maria as an analyst require to evaluate and compare the quality of securities in a given sector or industry and has the responsibility to understand the effect of the accident on the firm before he signed off on his Sell recommendation cause he wanted to make sure that he was giving a best advice to his investment clients. For instance, in the case, Maria has to evaluate other analyst responses like the Canadian Imperial Bank of Commerce.

This is because Maria had to base on those analysis and make a report with certain recommendations such as buy, sell, strong buy or hold which carry a great deal of weight in the investment.

4. Bad management control and corporation culture. (Unethical) According to the case, in the April 2002, Trapper found that the revenue and earnings performance of Bolivia had not been of high quality and the accounting information was unclear. The truck accident that happened in 2003 indicates that the top of Bolivia tended to inflate the revenue and did not comply with the GAP.

More badly, after Trapper writing a ‘ sell’ recommendation, Bolivia made a number of public statements regarding Trapper’s coverage which lead to investigation of Trapper. These can give us a picture of the dishonest culture and control where Bolivia try to hide its inappropriate accounting action by blaming others.

This issue refers to the question no 4 of this case. The question is, are you concerned about the company’s treatment of analysis that covers the stock? Would you want to be an analyst covering the company?

The answer is yes, I am concerned about the company’s treatment of analysts who cover the stock, for it relates to my employment and reputation. And I would not want to be an analyst covering Bolivia because Bolivia had a bad management. Causes of the Problem This problem might not be happen if the audit committee of Bolivia knows their responsibilities and do an ethical behavior. Many audit committee members understandably find themselves somewhat uncertain (or completely at sea) as to how far their responsibilities goes, or how that responsibilities is to be fulfilled.

Young, Afar, & ALP, February 21 – 22, 2008 They are not being independent and may unknowingly not report the overestimate problem to the investor.

Therefore, it is an unethical things to do because investor does not knows about the overestimate issues and investor puts their trust to the auditor to manage the earning effectively without having conflict of interest. Without completely understanding the extent of their responsibility, committee members find themselves getting drawn into the details of earning press releases, auditor communications and innumerable intricacies of corporate governance.

Exacerbating the uncertainty is a mind-set among some that has resulted in audit committees almost becoming dumping ground for corporate responsibilities. Among the varying responsibilities that have been suggested for audit committee oversight which are environmental compliance, improper payments, conflict of interest, taxes, complex financial instrument, critical business continuity risks, potential legal, compliance and risk management issues that a company may face and compliance with laws and regulations and ethical Dustless practices. (Young, Afar, & ALP, I-array

Decision Criteria and Alternative Solutions 1 .

Bolivia should strengthen its internal control in order to overcome the earning management. Strong internal control can avoid fraudulent act to occur and able to provide more reliable information to help investors in decision making. According to COOS, internal control is defined as a process, affected by an entity’s board of directors, management and other personnel, designed to provide reasonable assurance to ensure the effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations.

By having an effective internal control, it can ensure the company have a proper revenue recognition which under GAP. For example, a company that has a good internal control will establish revenue recognition committee that serves as the company’s primary internal control. Duties for this committee was included establish and ensure compliance with the company’s revenue recognition policies and procedures and conduct meetings at least quarterly to review and discuss significant transactions.

So, by having this committee, it can ensure that the revenue recognition policies are accepted and complied with GAP.

Hence, by having a good internal control can improve the reliability of the financial information. As a result, a company with strong internal control will enable the business is being well-managed that is expected to succeed. 2. Bolivia Corporation should practice an ethical principles in manage their business in order to avoid fraud in misleading the financial statement and earning of the company. It is supposed that, Bolivia Corporation should not have a problem regarding to the overstating the revenue loss because they are able to hire a professional in accounting department in order to follow the accounting standard.

Therefore, the audit committee need to know their responsibilities which is they are seeking to oversee a company system of financial reporting will find no shortage of checklists. (Young, Afar, ; ALP, February 21 – 22, 2008) . Len other word, this ethical issue will not happen if Bolivia hire independent parties to manage their earning management. So, the problem regarding of the overstating revenue will not be occurred. Recommended Solution, Implementation and Justification 1 .

Have code of ethics and understanding organization culture of Bolivia Through realize on organization culture that can disclose the business ethical which is refer to he moral rules and regulation governing that preserve in the company.

Ethical of a management person when process a business will direct affect the benefits for company and investors in the future. So, Davis Maria should understanding the organization culture by attentive and disclose the detail honestly especially if fraudulence issues appear in the organization.

In addition, action to review on the Dustless principles In Oval corporation also Is ten one AT ten suggestions Tort Davis Maria. This is because business principle is also important for public to keep investing in that company and will influence the organization's growth. Examples for the business principles are employee's behavior, legal requirement, sustainable and satisfy the needs of customers.

2. Their employees, especially who are related to financial department, should well-understood about the FOB shipping point and FOB destination to avoid misstatement in financial reporting that will mislead the users of financial statements.

The uncertainty of the shipping term use in the transfer goods is the root of argument happened between Bolivia and the Distributor after the accident happened. Therefore, we recommend Davis Maria to examining on the sale documents in order to help him to determine which party should bear the consequences and also to determine whether the accident will give effect on Bolivia or not. He also can get more information and help from external parties such as the lawyer to get legal advice about which of these, filing with U.

S Securities Exchange and agreement between Bolivia and Distributor is more superior.

This can help David Maria to decide whether FOB shipping point of FOB Destination is qualified as the accounting policy for them. 3. Improve independent reification and internal control The COOP should not be the only persons in the company verifying the financial information such as accounting method. Like in the case is there about the disclosure of FOB sales accounting applied by Bolivia.

Viola’s COOP, Brian Crumbier who told the analyst about their FOB shipping contract with distributor where the title change when the truck left its company shipping dock.

Meanwhile, an unknown distributor employee stated that the agreement between Bolivia and the Distributor which is FOB destination provided that the ownership title and risk would not have passed to Distributor until the product was reached to Distributor facility. To avoid such misunderstanding, accounting and other corporate personnel throughout the entire accounting, financial and internal control structure should give the authority and sign off individually to analyst or auditors about any information they control or represent to them. Indirectly, this can help in tightening Viola’s internal controls in terms of verification of accounting method used by the company. To have a strong internal control, it needs to be reviewed by competent and independent external auditor.

The sis of ambiguity and misrepresentation of important accounting information can be minimized by it. Besides, a good internal control helps a company to run efficiently because management can make a better decision in terms of management and accounting data.

Conclusion From the recommendation, we agree that improve independent verification and internal control as the best alternative to solve Bolivia Corporation problems. To have a strong internal control, the financial reporting needs to be reviewed by competent and independent external auditor. For this purpose Bolivia Corporation need to avoid NY fraud in presenting its financial reports.

In these cases, the SEC’s complaints allege that each of Viola’s fraudulent accounting schemes had a material effect on Bolivia’ financial statements for the relevant quarters and years.

Bolivia management also intentionally deceived the company’s outside auditor as to the nature of the transactions. When the truck accident happened, the investors know that the fact tout Oval ‘ s Taller to conclave tenet earnings. Bettor ten competent Ana independent external auditor audited the financial reporting, Bolivia Corporation would make an adjustment for its revenue since they already know that their practice in revenue recognition is wrong and did not follow the U. S GAP to avoid any legal action.