

ACCT 2540

# Group Ethics Paper

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## Introduction

First Mates Wholesale Boating Supply Company (FMWBS) is concerned that the company will not meet its current-year's financial target. With two months left in the fiscal year, FMWBS is putting their heads together to come up with some ideas in order to meet their EPS target. In this paper, we will identify what the business unit leaders have suggested and if they are ethical in regards to financial reporting. We will identify previous actions and what effect each action has on the company's current financial condition. Lastly, we will discuss ethical ideas to help the company come up with ways to improve financial reporting.

## Ethical or Unethical Financial Reporting

Jeremy Tolmit, head of promotions and marketing suggested stopping the ad campaign, holding off on accruing and paying bills. This is unethical because bills are required to be paid when they are due. Holding off on bills will not only put the First Mates Company behind, but will also damage other companies that are waiting on their payment in order to keep their business in line. Holding off on paying bills could be a disaster to everyone involved. From an accounting standpoint, holding off paying bills can have a negative effect on financial results because if the suppliers are paid late, the company will pay extra charges on late payments. This can also cause the firm to lose discounts from early payments. Before accepting this suggestion, the payment terms should be studied carefully.

Jeremy Tolmit also suggests shipping automatic marina replenishment orders before the end of the quarter instead of waiting the normal time of 10 to 20 days in the new quarter. This idea is unethical because customers rely on a certain period in order to coordinate their own business. Shipping these items early would increase net income, but could damage their customer relationships. Customers would be billed out of schedule and receive their inventory early. They will not be expecting to pay early and they may not have room for the inventory. When a schedule is planned, all parties need to stick to the schedule in order for companies to run their businesses effectively. This strategy would also lower First Mates Boating Company's income next quarter, which would put the company back in the same position as before. From an accounting standpoint, this is also unethical because they are reporting revenue in a period when it wasn't earned. In accrual accounting, if cash is received in a period before a product or service is delivered, it is considered "unearned revenue", and should be reported as such. Unearned revenue is a liability, because we still owe the customer that product or service. If we are reporting correctly, this wouldn't help our company look any better than just waiting until the beginning of the fiscal year to replenish orders.

Hank, the back-office guru suggested to reclassify some of the expenditures that were made to reroof the warehouse from repairs expense to the assets improvements category. This is ethical. Any repairs made to improve or extend a useful life of the property used for business, are capitalized and depreciated over a period. This would decrease the company's expenses and increase net income and long-term assets. By properly reclassifying capital expenses, the company can save a significant amount of money in repair and maintenance expense. When decreasing repairs and maintenance expense, it directly affects the income statement by reducing and delaying unnecessary costs. Since one of the president of FMWBS's goals is to improve the company's

financial results this year, this will allow the company to increase net income without increasing sales.

Molly Jackson proposed to relax the credit screening for new customers in order to expand customer base. This is Ethical. This would be a good decision if the company makes sure to monitor payment patterns like Molly had suggested. This proposal should increase revenue and clientele as long as they monitored accounts receivable closely and take action on any past due payments. If the company lets any past due amounts slide, this could cause cash flows to decrease and result in financial distress. As a result of Molly's suggestion, uncollectible accounts will decrease and that will allow the company to collect more accounts receivable which will result in more cash on hand.

Molly also suggested lengthening the period of time over which the buildings are depreciated. This is unethical. General accepted accounting principles require property to be depreciated for the estimated useful life of the property. Extending the period will extend the depreciation beyond the asset's useful life. This will decrease the company's expense for now but in the future when the property is no longer useful, depreciation expense will carry on.

## Two Actions Taken by Arthur's Team

Mariam Arthur was responsible for the deep sea business. Her unit has achieved this year's earning target because her team made some decisions in the previous year. One of the decisions made directly affected this year's financial results. The first action was to delay a few major customer

shipments until this year. The second action was to prepay the costs associated with a trade show it had sponsored this year. Therefore, Arthur's unit has not suffered as much as other units.

One of the main actions that Arthur's team made was to delay a few major customer shipments from the previous year to this year. In regards to financial reporting, this would be unethical because delaying major shipments made sales revenues increase, but it also made shipping expenses inaccurate because they did not accrue until the current year. Arthur's team made the revenues increase but delayed their expenses causing the books to be incorrect at the end of the year. Customers depend on shipments within a certain time frame. Even though Arthur's team was able to increase revenue, they could potentially lose customers because they did not deliver the products when the customers expected.

The second decision of Arthur's team made last year was to prepay the costs associated with a major trade show it had sponsored this year. This means that Arthur's business unit paid the supplier in advance, but the service will be provided this year. In this situation, when the company already paid the major expenses, the company will have less risk involved and less liability to pay its suppliers. In financial accounting, we account for expenses and revenues in the period they are accrued. If they prepaid an expense, they would need to set up a prepaid expense account, and expenses still wouldn't be reported until the year in which the expenses accrue. If done correctly, prepaying expenses wouldn't affect net income at all. This decision made by Arthur's team did not help the company with the financial target for future years as they thought it would.

According to Pittman's email, to improve FMWBS's financial results, everyone needs to find out ways to increase revenues and reduce costs. The result from postponing sales to this year has increased sales revenues, but this is unethical because the customers are not satisfied with the action. On the other hand, Arthur's decision to prepay the costs associated with a major trade show did not help increase net income or their financial goals.

### Ideas for Ethical Behavior

In today's competitive business world, we are under a lot of pressure to outperform not only our competitors, but our own company in previous reporting periods. When considering this, it's not surprising that professionals feel pressure to compromise their organization's standards of ethical business conduct. In order to ensure FMWBS doesn't compromise their standards, it is important to implement an effective corporate ethics policy. They should appoint an Ethics Compliance Officer who would be in charge of staying current with policies and procedures of the company, and keeping the corporate ethics policy up to date with current laws and financial reporting standards. This person should be the one who is responsible for reviewing and approving or denying all suggestions staff members and officers give to make any changes in procedures of the company. It would be helpful to ensure this person is not involved with sales goals and financial performance, as it could cause a conflict of interest. This could help the company avoid making changes or decisions that they weren't aware could be unethical. The Ethics Compliance Officer should also be responsible for holding periodic trainings for staff members to ensure they understand the policies that are in place. This will further reduce the risk that the company could make unethical decisions

## Conclusion

In recent years, ethics and the importance of ethical decision making have taken on increasing significance because of the pressures placed on business managers by stockholders, creditors, and other parties affected by financial performance. Not only can unethical decisions have negative legal ramifications, but it can create a negative image for FMWBS overall. Ethical behavior is not just the right thing to do, it is also good business. If we take steps to ensure that our company is keeping high standards and making ethical business decisions, it will benefit our company, as well as all those we do business with.