

Booking the Budget

Topic: Revenue Recognition

Characters: Connie, President
Bob, Vice President of Finance
Andy, Controller
Maria, Director of Financial Analysis

Maria and Andy worked well together to organize the accounting system and records of a growing Health Maintenance Organization (HMO). Bob and Connie, the two top executives in the HMO, were tightly focused on company growth as it related to monthly and yearly revenue. Bob was also in charge of budget reports.

Every month Maria and Andy would compile financial statements which were reviewed by company officers and later reported in patient and employee newsletters. Oftentimes sales would fall below Bob's original projections. At such times, Bob would rant and rave about the low patient revenue accruals and comment "that surely more must be accrued." Andy and Maria would often remark to each other "why don't we just book the budget," since that is essentially what they did every month after their initial financial figures were reviewed, at least in terms of sales.

Although Andy and Maria realized that at year-end the auditors would not condone Bob's recording practices, they were still somewhat angry that "their" precise accounting system required monthly adjustments because of Bob and Connie's need to "look good to the board."

Of course, when year-end came, the glowing financial news fell short of projections. Although the shortfall was not enough to raise the HMO rates, it did send a panic through the accounting department. This information was not reported directly to shareholders, but it was embarrassing to make the year-end adjustments while scrambling to uncover additional revenues; and explain to coworkers why monthly newsletters were incorrect.

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