

Booking the Budget Teaching Notes

What Are the Relevant Facts?

1. Maria and Andy have organized and are responsible for the accounting system of the HMO.
2. Bob and Connie, executive officers of the HMO, are mainly concerned with rosy sales results.
3. Financial sales accruals have been recorded for numbers that are closer to budget projections than actual sales.
4. Auditors reviewing the financial figures will require adjustments to the inflated sales accruals.

What Are the Ethical Issues?

1. To what extent are Maria and Andy responsible to take action to curtail the recording of budgeted sales?
2. To what extent are the auditors responsible for supporting better interim accruals of sales?
3. To what extent is there an obligation by the company to ensure that only correct data about financial results is recorded and disseminated?

Who Are the Primary Stakeholders?

- Maria
- Andy
- Readers of the monthly newsletters
- Possibly Connie, depending on his knowledge and stand on the reporting practices
- The board of directors

What Are the Possible Alternatives?

1. Maria and Andy can inform Bob of their dissatisfaction.
2. Maria and Andy can start a process to develop a formal mechanism, i.e., an ethics committee, to consider ethical issues within the firm.
3. Maria and Andy can ascertain whether Connie and the Board are completely aware of the practice.
4. Maria and Andy can inform the auditors and ask them to make financial recommendations about the practice.

5. Maria and Andy can begin to look for new jobs.
6. Maria and Andy can do nothing.

What Are the Ethics of the Alternatives?

1. Do readers of the newsletter have a right to expect unbiased financial reporting?
2. Do Maria and Andy have any obligations that require them to prepare accurate interim financial reports?
3. Does the board have a right to receive accurate financial reports?
4. Do Maria and Andy have a right to be able to approach their superiors about an issue like this without fear of reprisal?
5. Is there an inequitable burden imposed on readers of the financial data?
6. Is there an unfair benefit received by those who endorse the current financial reporting practices?
7. Is there a cost to the accounting profession from financial reporting of this nature?

What Are the Practical Constraints?

1. Everybody knows that interim reporting is “just a bunch of estimates” anyway.
2. Maria and Andy have no authority to make the decisions they want to make.
3. Maria and Andy may be fired if they decide to talk to Bob about their concerns.
4. The auditors are hired by the HMO, and they may already be aware of the practice.

What Actions Should Be Taken?

1. What action would you take if you were Maria or Andy?
2. Which ethical theory (utilitarian, rights, justice) best justifies your decision?