

Cash in Hand

Topic: Revenue Recognition/Misrepresentation of Fact by Client

Characters: Heather Hunter, Senior in CPA firm
“Buzz” Thompson, Owner/manager of Fashion First
Sandy, part-time bookkeeper of Fashion First

In addition to the usual mix of compilation, review and audit clients for which Heather Hunt serves as a senior in a small office of a regional CPA firm, she has been assigned a new client that recently engaged the firm. Fashion First, an incorporated retail outlet, is a thriving local store. The business is run by a single owner/manager, “Buzz” Thompson, who makes all major decisions. The business has not previously used the services of a CPA firm. In addition to preparation of financial statements, the CPA firm will handle tax returns for the business.

At her first visit to the client’s office, Heather is introduced to Sandy, the part-time bookkeeper who is also a full-time accounting student at the local university. At a subsequent meeting, Sandy confides to Heather that she found the job at the beginning of the semester after an extensive search. Sandy really needs the money to help finance her education, and feels lucky to have found a good-paying job during the current economic downturn. Feeling that Heather is someone she can talk to and get advice from, Sandy describes a situation that has been on her mind for some time now.

Sandy’s concern relates to the handling of sales revenues. When monies from sales revenues are counted and deposited on a weekly basis, a chart is filled out with categories carefully delineating the type of payment: cash, checks, American Express, or Visa/Mastercard. Sandy’s employer, after depositing the weekly total, brings this chart back with his own written-in total of the actual amount deposited.

After looking over some of these weekly deposit chats, Sandy noticed that \$500 cash was missing from each deposit. After a more thorough inspection of monthly tax documents that “Buzz” Thompson has filled out, Sandy noticed that the reported monthly gross revenue was \$2,000 less than what had been actually counted.

The employer is the only person handling the money after it has been counted. He is also the only one to deposit the money. When Sandy asked Mr. Thompson about revenue not being reported for tax purposes, he assured her that every dollar of income was reported on the tax forms. Furthermore, “Buzz” asserted, since Sandy wasn’t the person who signed the forms, she shouldn’t be concerned.

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