

## Survive the Year Teaching Notes

### *What Are the Relevant Facts?*

1. The company for which Chris is controller is facing financial difficulties and needs a bank loan to continue in existence.
2. Chris and Robin, the CEO, know a material receivable is probably uncollectable, but no adjustment to the allowance account has yet been made.
3. Robin, the CEO, fears that booking the allowance adjustment will cause the auditor to report the construction company's shaky financial position in the audit report.
4. Without a clean audit opinion, the bank will likely refuse the loan, and the construction company may fail.

### *What Are the Ethical Issues?*

1. The primary issues for Chris are honesty, integrity, personal reputation, and professional responsibility to the company, auditor, and the bank, versus the welfare of the company and its owners and employees.
2. Can Chris represent the Ender receivable without jeopardizing the bank loan application and without violating professional standards?

### *Who Are the Primary Stakeholders?*

- Chris, the controller
- Robin, the CEO
- Employees and stockholders of the construction company
- The bank that is evaluating the loan application
- The auditor
- Ender Corporation

### *What Are the Possible Alternatives?*

Chris can:

1. Not make the allowance adjustment and hope that the auditor will not ask about the likelihood of Ender's payment or be prepared to minimize Ender's difficulties.
2. Make the allowance adjustment for the total expected uncollectable and/or be straightforward with the auditor about Ender's receivable.

3. Not make the allowance adjustment but provide information to the auditor that will effectively lead to revealing the uncollectability of the Ender account.
4. Make a partial adjustment for the uncollectable receivable balance.

### *What Are the Ethics of the Alternatives?*

- Based on a utilitarian costs and benefits analysis, for each alternative:
  1. What are the benefits and costs to each stakeholder?
  2. Do the benefits of getting the bank loan outweigh the possible costs to Chris and the company?
- Based on a "rights" perspective, for each alternative:
  1. What are the rights of each stakeholder?
  2. What are the responsibilities of Chris, Robin, the auditor, and the bank?
  3. Which alternative would you prefer if you were an employee of the construction company? The bank? The auditor?
- From a "justice" perspective:
  1. For each of Chris's alternatives, which stakeholders have the greatest burdens and the greatest benefits?
  2. Which alternative most fairly distributes the benefits and burdens?

### *What Are the Practical Constraints?*

1. Chris must consider the legal ramifications of misrepresenting the company's financial position to the bank.
2. The auditor may also find out about Ender's financial difficulties.

### *What Actions Should Be Taken?*

1. What action would you take if you were in Chris's situation?
2. Which ethical theories most helped you to make your decision?