

Truth or Consequences Teaching Notes

What Are the Relevant Facts?

1. Dawn had dated Bill. At the present time, she does not appear to be interested in dating Bill.
2. A material adjusting entry from last year's audit was not posted to the subsidiary records.
3. This year's income is substantially understated because of the accounting error.
4. The depressed earnings have led to layoffs and the company's surrendering of an option on a piece of property.
5. Bill has suggested a way to correct the accounting error. The issue will be more formally discussed at dinner and later at Bill's place.
6. The company probably will not discover the error and how it was corrected. The infusion of additional income would be welcomed.

What Are the Ethical Issues?

1. Should the accounting error and its subsequent resolution be hidden from the company management?
2. Would the admission of the error create an incentive for the company to rehire the three people laid off?
3. Should Bill use this information to induce Dawn to start dating him?

Who Are the Primary Stakeholders?

- Bill Donner
- Minter Metroplex
- Dawn Sunshine
- Bill's firm
- The laid-off workers
- The seller of the land

What Are the Possible Alternatives?

Dawn could:

1. Accept Bill's plan and invitation.
2. Admit to management that an oversight had occurred.
3. Invent her own scheme to correct the accounting error.

4. Utilize Bill's recommendation but refuse to have dinner with him.
5. Threaten to implicate Bill if he attempts to divulge her actions to management.

What Are the Ethics of the Alternatives?

- Utilitarian theory--moral behavior that produces the greatest good for the greatest number. For example:
 1. Would acceptance of Bill's invitation only affect Dawn?
 2. Would concealing the true cause of the income adjustment change the economic reality of all events that transpired?
 3. Are all other stakeholders unaffected by the reason for the income adjustment?
 4. Would concealment of the mistake hold Dawn hostage to Bill's future whims?
 5. Since the inventory error would correct itself this audit year when the final inventory control balance is agreed to the subsidiary records, what explanation will satisfy management as to why the interim income numbers were understated without sacrificing Dawn as a scapegoat for past events that cannot be reversed?
 6. Could rejecting Bill's attempt to reestablish the relationship while adopting his cover-up strategy save Dawn's career and establish a proper framework for future audit engagements when Bill is involved?
 7. Could rejection influence Bill's future ethical outlook?
- Enlightened Self-Interest Model--moral behavior that increases benefits for the stakeholders without unduly hurting other stakeholders. For example:
 1. Assuming Dawn is not incompetent, does firing her for an admitted mistake increase other stakeholders' benefits?
 2. Would following Bill's advice and its attendant consequences improve Dawn's future ethical behavior?
- Justice Model--equitable distribution of benefits and burdens. For example:

1. Are Bill and Dawn the only stakeholders who would benefit from the suggested scheme?
2. Should Dawn escape the consequences of her mistake?
3. Which stakeholders carry the greatest burden if Dawn follows Bill's suggestion?
4. There is still the matter of lost wages and the \$20,000 option expense that someone must take responsibility for if the true reasons for the correction of income surface.
5. Bill's invitation may be in good faith--an expression of concern for her predicament.

What Are the Practical Constraints?

1. If Dawn rejects Bill's suggestion and he reports her mistake, the consequences of her oversight are serious enough to justify her firing.
2. If Dawn attempts to use Bill's strategy but rejects his offer for dinner and threatens to implicate him if he reports her mistake, she could still lose.
3. Management might be skeptical of her attempt to embroil the auditor.

What Actions Should Be Taken?

1. What action should Dawn take?
2. What alternatives would you choose if you were in her position? Why would you make that choice?
3. What ethical theories (utilitarian, enlightened self-interest, or justice) make the most sense to you as they relate to this situation?