

ETHICS EDUCATION TOOLKIT

SCENARIO FIVE A NEW JOB

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SCENARIO FIVE: A NEW JOB

Participants

Mary	Now separated from Joe
Joe	Now separated from Mary
Browns Stores Ltd	The family business owned and operated by Mary and Joe
Smith Partners	Accountants for Browns Stores Ltd and Joe
Sam Smart	Mary's new accountant

Setting the Scene

(Use this paragraph as an introduction before the video is shown)

Mary and Joe's marriage has broken up. Their financial affairs are intertwined because they jointly own and operate a chain of clothing shops in small country towns. The shop businesses are owned via a family company, Browns Stores Ltd. The accountant for the company is Smith Partners.

Mary and Joe have agreed that Joe will take over the ownership and operation of part of the business and Mary will take over the remainder. Mary has approached Sam Smart, another accountant in the town, and asked him to value the respective businesses.

Facts of the Case

In the course of the review for the valuation, Sam noticed there were a number of discrepancies in the accounts. When he spoke with Mary she mentioned she and Joe had been in the habit of taking \$500 per week cash from the store and not depositing it in the company's bank account. She alleged this was an arrangement set up by Smith Partners.

Additionally, Sam noticed the accounts were not prepared in conformity with applicable accounting standards and in fact the income tax return appeared to overstate the taxable income, based on the accounts prepared. Sam is not sure what to do about the errors in the accounts, the error in taxable income and the \$500 per week not included in the company bank account. Additionally, he is not sure what income to use as a base for the purpose of preparing his valuation.

Suggested Discussion Points

1. What are the relevant facts?
2. What are the ethical issues?
3. Who are the primary stakeholders?
4. What are the possible alternatives?
5. What ethical issues arise from these alternatives?
6. What are the practical constraints?
7. What actions could be taken?
8. Could the situation have been approached differently? If so, how?

Discussion

The scenario is designed to generate discussion of the following points:

- The role of the accountant in determining facts and providing professional and competent advice to clients;
- the importance of maintaining accurate accounting systems;
- the issue of clients giving up accountability to their accountants;
- the responsibilities of a new accountant who accepts an appointment when the client still has links to another accountant; and
- conflicts of interest which may arise when clients are in dispute.

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Application of American Accounting Association 7 Step Model

1. DETERMINE THE FACTS

What? Who? Where? When? How?

What do we know or need to know, if possible, that will help define the problem?

- Mary and Joe, who own a chain of clothing stores in small country towns, are in the process of a marriage break up.
- Mary has appointed Sam Smart, an accountant, to value her share of the business.
- The accounts of Mary and Joe have been prepared historically by Smith Partners.
- In the course of his review for valuation purposes, Sam notices discrepancies in the accounts:
- Mary and Joe have been in the habit of taking \$500 cash per week and not depositing it into the company's bank account (Smith Partners allegedly set up this arrangement).
- The accounts have not been prepared in accordance with applicable Accounting Standards, which may have resulted in the overstatement of taxable income.

2. DEFINE ETHICAL ISSUES

List the significant stakeholders. Define the ethical issues.

Make sure what precisely the ethical issue is (for example, Conflict involving rights, questions over limits of an obligation, etc).

a) List all stakeholders

- Mary
- Joe
- Sam Smart
- Smith Partners
- Taxation Office

b) Identify the ethical issues

- Sam's loyalty to Mary versus his professional responsibilities to the profession and the Taxation Office
- Sam's professional responsibilities versus his obligations to whistle blow against Smith Partners, if allegations have substance
- Sam's self interest in servicing and earning a fee from his clients versus his professional and legal obligations
- Sam's obligations to Joe versus his professional and legal responsibilities

c) Discuss the ethical threats

- The ethical threats included in the case are threats of self-review, advocacy and familiarity.

- Sam has identified errors or discrepancies in the work of another professional accountant. A self-review threat occurs when an accountant reviews his/her own work or someone close to the firm. If Sam knows Smith Partners, the threat may compromise Sam's professional responsibility of objectivity and independence.
- The threat of advocacy exists, as Sam may advocate for the interest of Mary who owns half of the business by making sure Mary has an undue advantage over the valuation of the joint business.
- As Smith Partners has historically been preparing Mary and Joe's tax return and were responsible for the alleged withdrawing of cash and the overstatement of taxable income, this is likely to be the result of the long term relationship between Smith Partners and the couple that Smith Partners condone such practice, compromising behavior as a result of familiarity.

3. IDENTIFY THE MAJOR PRINCIPLES, RULES, VALUES

(For example: integrity, quality, respect for persons, profit)

- Integrity (Sam, Mary and Joe)
- Objectivity (Sam in completing valuation)
- Self-interest (Sam in servicing his client)
- Confidentiality (Sam's findings of anomalies in preparation of accounts)
- Technical standards (Sam's responsibility to report lack of compliance by Smith Partners)

4. SPECIFY THE ALTERNATIVES

List the major alternative courses of action, including those that represent some form of compromise or point between simply doing or not doing something.

- Sam can prepare the valuation on the basis of accounts as prepared by Smith Partners.
- Sam can prepare the valuation on basis of amendments to Smith Partners accounts, incorporating anomalies he has noted.
- Sam can attempt to convince Mary and Joe to have accounts amended and lodged with the appropriate bodies.
- Sam can discuss the anomalies with Smith Partners.
- Sam can disclose anomalies to Tax Office, the body which oversees the integrity of company accounts and the professional accounting body.
- Sam can decline to take on the assignment.

5. COMPARE VALUES AND ALTERNATIVES - SEE IF CLEAR DECISION

Determine if there is one principle or value, or combination, which is so compelling that the proper alternative is clear. (For example, correcting a defect that is almost certain to cause loss of life).

Note: See how many of the group will move to a decision at this point based on the force or strength of a norm or principle. Regardless of whether a decision is reached, work through **steps 6 and 7**.

6. ASSESS THE CONSEQUENCES

Identify the short and long run, positive and negative consequences for the major alternatives. The common short run focus on gain or loss needs to be measured against the long run considerations. This step will often reveal an unanticipated result of major importance.

Prepare valuation of existing figures

- result in incorrect valuation as the figures are not representative of the company's true profits
- risk of future problems for Mary and Joe if Tax Office conducts audit and discovers the same anomalies
- could result in disputes during the divorce settlement

Prepare valuation with amendment

- valuation likely to be more representative of the business
- this solution may not address Sam's ethical and moral obligations
- could expose the anomalies, bringing them to the attention of the relevant bodies

Sam could convince Mary and Joe to have accounts amended

- lead to more representative valuation
- may minimize any penalties that may have arisen through audit process
- could cause animosity with Smith Partners
- may avoid disciplinary action against Smith Partners by their professional body

Sam could discuss the anomalies with Smith Partners

- may resolve some/all anomalies and lead to a more accurate valuation
- Smith Partners may help to convince Mary and Joe to have their accounts amended
- could cause animosity with Smith Partners
- may avoid disciplinary action against Smith Partners by their professional body
- may lead to disciplinary action against Smith Partners by their disciplinary body

Sam could decline to take on the assignment

- may resolve some/all anomalies and lead to a more accurate valuation
- Smith Partners may help to convince Mary and Joe to have their accounts amended
- could cause animosity with Smith Partners
- may avoid disciplinary action against Smith Partners by their professional body
- may lead to disciplinary action against Smith Partners by their disciplinary body

7. MAKE YOUR DECISION

Balance the consequences against your primary principles or values and select the alternative that best fits.

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ISBN: 978-1-60815-199-8