Scenario:

Imagine you are the assistant controller in charge of general ledger accounting at Linbarger Company. Your company has a large loan from an insurance company. The loan agreement requires that the company’s cash account balance be maintained at $200,000 or more, as reported monthly. At June 30, the cash balance is $80,000. You give this update to Lisa Infante, the financial vice president. Lisa is nervous and instructs you to keep the cash receipts book open for one additional day for purposes of the June 30 report to the insurance company. Lisa says, “If we don’t get that cash balance over $200,000, we’ll default on our loan agreement. They could close us down; put us all out of our jobs!” Lisa continues, “I talked to Oconto Distributors (one of Linbarger’s largest customers) this morning. They said they sent us a check for $150,000 yesterday. We should receive it tomorrow. If we include just that one check in our cash balance, we’ll be in the clear. It’s in the mail!”

1. What is the accounting problem that the LinbargarCompanyfaces?

The accounting problem that the Linbarger Comapnay faces is they don’t have the books balanced an it's almost month end. The assistant controller is panicking because the loan the company has from the insurance company will default if they find out the books aren’t balanced. Lisa, the financial vice president, made a few comments to the assistant controller that would make you think that she wants the controller to lie about the books because Oconto Distributors said they mailed a check for 150,000.00. If Oconto Distributors dated the check on or before June 30th, I believe the Linbarger company would be okay. If they are ever audited, the books will show balanced because the check was dated within the month. If Oconto Distributors did not date the check within the month of June, this could be result in everything that Lisa said would happen.

1. What are the ethical considerations in this case? Provide rationale for why these are ethical considerations.

I can see two very clear ethical problems with this case. If the assistant controller holds the cash receipts book open in order to overstate the cash balance that would be very unethical. Lisa, the financial vice president,shouldn’t try to insinuate or encourage the assistant controller to commit fraud or any other unethical act that would violate company policy or his/her morals.If a person tried to use receipts from one month to balance the books of another, that is not only unethical, but it could be illegal if you work for the federal government. I am sure there are multiple companies that do not abide by those rules.

1. What are the negative impacts that can happen if you do not follow Lisa Infante’ s instructions to wait one more day to post the balance?

The negative impacts are very clear. If the company does not get the cash balance to $200,000 they will default on their loan agreement. Defaulting could cause the company to close down and everyone could lose their jobs. Another negative impact of not following Lisa’s orders would be the assistant controller losing his/her job. Disobeying your boss could be seen as insubordination which could result in termination. Lisa could possibly lose her job as well if the assistant controller is caught. That is if the assistant controller has proof i.e. an email, from Lisa. Lisa Infante knows these things and she is putting the ball in the controllers court so she has very little blowback if things go wrong. The company defaulting on the loan would be the biggest negative impact. The employees of the company losing their jobs would have an impact on the economy especially if it’s a very large company. Any company that can afford to pay an assistant controller and a controller should not have these types of problems.

1. Who will be negatively impacted if you do comply? Provide a rationale for why these individuals will be impacted.

I believe the assistant controller would be the person that most affected if he/she complies with Lisa’s request. If that person has any moral values, complying with Lisa would not only destroy them, it might destroy the person. We all have moral values and I thought about how I would feel if I was in that position. It would eat at me every day knowing I did that. Also, Lisa would have the assistant controller in her pocket. That person would have to follow every request of Lisa’s because she could bring it up and get them fired. If the insurance company found out, they could pull away from Linbarger citing fraud and breach of contract. Stockholders would begin selling their share is they found this out. I own stock in quite a few companies. I owned stock in Carolco Pictures. This company had something similar happen and they went bankrupt. As a stockholder, I lost every dime I had invested in the company. If I would have known they were falsifying the books, I would have sold all my shares.

1. What is one alternative that you could pursue in this scenario? Support your recommendations with information you learned in this class.

There’s only one alternative and that is to be honest. The assistant controllershould speak with the controller and Lisa together to come up with a better solution. Any large company should have cash reserves that they can use. The financial vice president should make her boss aware of the problem. Having only one day to fix the issue needs all parties that will be affected involved. It is possible for Linbarger to invoice the $150,000.00 to Oconto Distributors which could be paid instantly. The funds would be readily available. At the company I work for we would create a CFR that could handle this amount easily but it would have to go through several people to be approved. This generally takes several days but in an emergency such as this, I believe we could have all parties on the same page. Another option would be a short-term loan to close the books. That would take people outside of that particular office Lisa and the assistant controller are in but the books could close balanced and on time.