Ethics in Accounting

Student's Name

Institution

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Introduction

Linbarger Company is experiencing financial difficulties and has decided to take a significant loan from an insurance company to finance its operations. As the assistant controller, knowing about the terms of the loan is mandatory. The loan terms require the corporation to maintain a minimum cash balance of $200,000 or more in a monthly interval, failure to which it would be considered a default of the loan agreement. In June 30, the firm had a cash balance of $80,000 which was below the minimum cash requirement. Lisa, the financial vice president, instructed that I keep the books open for a potential payment by a large customer. This essay analyzes the accounting problem, ethical considerations and negative impact of the case.

The Accounting Problem the Linbarger Company Faces

The accounting problem that the Linbarger Company faces is meeting the loan agreement with the insurance company (Armstrong et al., 2003). The loan agreement requires that the Linbarger Company maintains its cash account at a minimum cash balance of $200,000. Failure to which, they would be defaulting the loan agreement, and they could lose their job.

Ethical Considerations in this Case and their Rationale

This case has one ethical consideration. Lisa had instructed me to keep the books of accounts open even after the close of business that month since a large customer would make payment and they would meet the cash balance. This is an ethical consideration since this would mean falsifying the records (Onyebuchi, 2011). Ideally, the business would close on June 30. However, the payment would be received on July 1 and including this in the books of accounts would be falsifying that it was received in the previous period, June 30.

Negative Impacts that Can Happen if I Do Not Follow Lisa's Instructions

If I do not follow Lisa's instructions, the company would not be able to meet the cash requirement of $200,000 or more, and this would mean that we would lose our jobs since we would have defaulted the loan agreement with the insurance company which means they would stop financing our operations.

The Person Who Will Be Negatively Impacted if I Comply

If I comply, several users of the financial statements will be affected, that is, consumers, suppliers, government, shareholders, and employees (Yarahmadi & Bohloli, 2015). Firstly, the consumers will be affected since they rely on the company to provide goods and therefore they would be deceived that the company is performing well. Secondly, the suppliers will be affected since they deliver products to the firm and consequently they would be deceived that the business will pay them on time. Thirdly, the government will be affected since they rely on the company for tax revenue and therefore falsifying the records would mean that the profit is also not accurate. Fourth, the shareholders would be affected since they have interest in the company and thus if the firm is not performing well, they should be made aware of. Lastly, the employees would be affected since they may lose their jobs if the company is not performing well.

Alternative to Pursue

An alternative would be to inform the insurance company that a large consumer had sent a check at the close of business and that it would be received the following day and therefore they would be able to meet the cash requirement of $200,000, instead of falsifying the books (Armstrong et al., 2003).

Conclusion

In conclusion, managing the books of accounts requires considering the ethical considerations and what impact any entry may have on the users of financial statements.

Accountants are, therefore, needed to portray honesty at all times and take alternative measures where ethics is threatened.

References

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