

Rusty and Dusty Slow Movers

What Are the Relevant Facts?

1. The company has purchased and repossessed farm equipment that it will have difficulty reselling.
2. Much of this inventory is overvalued and turns over slowly.
3. It is a difficult task to try to unload this inventory profitably.
4. Art does not want to write-down a significant portion of this inventory, even though it has been on the books for years. Moreover, Art has implied that he wants Penny to help him hide the problem from the auditors.
5. Penny is attempting to straighten out the books.
2. Sales staff could be paid significantly more commission for selling these items.
3. Penny can price out the inventory at full cost, while hoping that the auditors do not uncover this problem.
4. Penny can attempt to compromise with Art and the auditors by writing off a modest though incomplete portion of the inventory this year and saving the major adjustments for the next year.
5. Penny can talk to the auditors when they arrive.
6. Penny could talk to Art and ask him specifically what he wants her to do and if he wants her to lie. She could also express her concerns about these practices.

What Are the Ethical Issues?

1. Should Penny put through a market value adjustment for the inventory in spite of Art's comments?
2. Should Penny compute what the write-down would be, just for Art's information?
3. To what extent can she expect Rhonda and Ron's support?
4. How is fair market value determined during recessionary times?
5. Does Penny have a responsibility to take formal action?
6. Is it ethical for Penny to mislead auditors if it is to the company's long-term advantage?
7. Penny can follow Art's request as she has interpreted it.

What Are the Ethics of the Alternatives?

1. Would better checks on the inventory (such as a computerized inventory control) necessarily pinpoint when items lose their market value?
2. Why should the sales staff benefit with higher commissions from slow-moving items and not the rest of the firm who are also going out of their way to get rid of the stuff?
3. Would Art's practices be justifiable if one or two hard-to-sell items were sold each quarter?
4. Can Art justify his practices based on overall need for the firm to appear healthy to customers?
5. Does Penny have an obligation to disclose her company's questionable practices to outside entities?
6. Does Art have a right to expect loyalty from his employees?

Who Are the Primary Stakeholders?

- Penny
- Rhonda
- Ron
- Art
- Stockholders
- Sales staff
- Shipping and Receiving personnel
- Customers
- Auditors

What Are the Possible Alternatives?

1. An inventory control system could be established to flag inventory when it is "x" number of days old.
2. There is always some inventory that moves more slowly than others.
3. It is difficult to expect the president to "take a hit" or write down significant amounts of assets in one year, especially during an economic downturn.

What Are the Practical Constraints?

1. At some point, excess inventory will be seen as taking up too much space and will be dumped.
2. There is always some inventory that moves more slowly than others.
3. It is difficult to expect the president to "take a hit" or write down significant amounts of assets in one year, especially during an economic downturn.

4. The auditors will check the large-ticket items and find that they are not turning over quick enough.
5. Penny cannot press Art on this issue since she is a new employee.

What Actions Should Be Taken?

1. What actions should Penny take?
2. Which alternatives would you choose if you were in her shoes and why?