

## Cash in Hand Teaching Notes

### *What Are the Relevant Facts?*

1. Heather Hunt is a senior in a small, regional CPA firm.
2. Heather's new client is an incorporated retail outlet, Fashion First.
3. The part-time bookkeeper and the owner/manager have handled all record-keeping and tax reporting functions up to the present.
4. This is the first time that Fashion First has used a CPA firm.
5. The CPA firm has been engaged to prepare financial statements and handle tax returns.

### *What Are the Ethical Issues?*

1. Questionable reporting of cash revenue by the client.
2. What are the issues emerging from this apparent co-mingling of corporate and personal assets?
3. If this is simply a compilation rather than a review, do Heather and the CPA firm face ethical issues?

### *Who Are the Primary Stakeholders?*

- Sandy, the part-time bookkeeper
- "Buzz" Thompson, the owner/manager
- Heather Hunt, the senior on the job
- The partner in charge of the job for the CPA firm
- The CPA firm
- The IRS and the state tax agency
- Taxpayers
- Actual or potential lenders of the company

### *What Are the Possible Alternatives?*

Ask students to identify alternatives available to both Sandy and Heather.

- Sandy's alternatives:
  1. Do nothing--keep the job
  2. Stay with the job but insist on changes in revenue reporting.
  3. Resign from the position.
  4. Other
- Heather's alternatives:

1. Provide advice to Sandy about her alternatives (see above).
2. Decline to counsel Sandy.
3. Talk to Sandy but no one else.
4. Report Sandy's observations/concerns to her manager and/or partner
5. If engagement is dropped, take no further action.
6. If engagement is retained: Take no further action. Document disagreement with the partner's decision in the work papers. Ask to be removed from the engagement. Resign her position.
7. Report situation to the media—"blow the whistle."

### *What Are the Ethics of the Alternatives?*

- Ask questions based on the "Utilitarian" approach:
  1. For each alternative, who benefits and who loses?
  2. For each alternative, do the net benefits exceed the net costs to all primary stakeholders? How would costs be measured in this scenario?
- Ask questions based on a "rights" approach:
  1. Whose rights are violated in each possible alternative? What does each stakeholder have the right to expect?
- Ask questions based on a "justice" approach:
  1. For each decision to be made by those involved, which alternatives distribute the benefits and burdens most fairly among the stakeholders?

### *What Are the Practical Constraints?*

2. The legal ramifications of any actions taken must be considered by Sandy, Heather, and the CPA firm management.
3. The guidance provided by the appropriate professional standards should be taken into account by the CPAs, Heather and the partner(s). See, for example, paragraphs AR 100.12, AR 100.29, and AR 100.39-.41 in the AICPA

Professional Standards. What effect does materiality have on the decision-making process by the CPAs?

4. Sandy needs the job badly.
5. Heather must consider the effect of her actions on her career.
6. The CPA firm should weigh the costs and benefits of retention of this client.

*What Actions Should Be Taken?*

1. What actions should Heather take? What alternatives would you choose if you were in this situation? Why?
2. What should the CPA firm do? Why?
3. What should Sandy do? Why?
4. What ethical theories (Rights, Justice, Utilitarian, etc.) are applicable to this situation?
5. What advice should Heather give Sandy, if any?
6. Should the actions differ depending on whether the engagement is for a compilation or for a review?