Ethical Obligations and Decision Making in Accounting - Text and Cases 5th edition Mintz Test Bank

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Ethical Obligations and Decision-Making, 5e **(Mintz)**
Chapter 2 Cognitive Processes and Ethical Decision Making in Accounting

1) When Sally is asked why she should share her toys with her sister, she responds by saying "Because my mom says I have to and if I don't I'll go to time-out." In which stage of moral development is Sally?
A) Conventional Morality
B) Nonconventional Morality
C) Postconventional Morality
D) Preconventional Morality

2) In reference to Rest's four-component Model of Morality, which component reflects an individual's willingness to place ethical values ahead of non-ethical values that relate to self-interest?
A) Moral Character
B) Moral Motivation
C) Moral Sympathy
D) Moral Judgment

3) The cognitive development approach refers to:
A) The thought process followed in one's moral development
B) The method of moral reasoning used in decision making
C) The exercise of professional judgment in decision making
D) The approach to giving voice to one's values

4) Kohlberg's model can best be described as:
A) The various phases in one's moral development and related levels of moral reasoning
B) A model of ethical action that is based on the belief that one will not report incidents of wrongdoing if they believe others will report it
C) A predictive tool to determine how a person will reason ethically based on one's views on diversity
D) A model of age-specific levels of moral reasoning

5) In the "Heinz and the Drug" case described in the chapter, if Heinz was reasoning at stage 5 he might decide to steal the drug based on which of the following reasoning?
A) Heinz should steal the medicine, because he will be much happier if he saves his wife, even if he will have to serve a prison sentence.
B) Heinz should steal the medicine, because his wife expects it.
C) Heinz should steal the medicine, because the law prohibits exceptions.
D) Heinz should steal the medicine, because everyone has a right to live, regardless of the law.

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6) Which of the following might NOT describe Heinz's thought process in deciding whether to steal the drug if he were at stage 6?
A) Heinz should steal the medicine, because everyone has a right to live, regardless of the law.
B) Heinz should steal the medicine, because saving a human life is a more fundamental value than the property rights of another person.
C) Heinz should not steal the medicine, because that violates the golden rule of honesty and respect.
D) Heinz should not steal the medicine, because the scientist has a right to fair compensation.

7) In stage 1 of Kohlberg's model, ethical reasoning is motivated by:
A) Fear of punishment
B) Satisfaction of one's needs
C) Following the law
D) Acting based on universal ethical principles

8) In stage 3 of Kohlberg's model, ethical reasoning is motivated by:
A) Satisfaction of one's needs
B) Acting in the best interests of others
C) Upholding the rights, values, and legal contracts of society
D) Acting based on universal principles

9) In stage 5 of Kohlberg's model, ethical reasoning is motivated by:
A) Acting in the best interests of others
B) Following the law
C) Upholding the rights, values, and legal contracts of society
D) Acting based on universal principles

10) Individuals who reason at stage 6 incorporate ethical reasoning based on:
A) The morality of law and duty to the social order
B) A rational calculation of benefits and harms to society
C) Universal ethical principles
D) All of the above

11) A client asks his accountant to ignore a mistake which overstated the accounts receivable account. The accountant decides that the accounts receivable account has to be corrected to state the correct amount based on the current accounting rules. Which stage of Kohlberg' Stages of Moral Development is the accounting reasoning?
A) Stage 2
B) Stage 3
C) Stage 4
D) Stage 5

12) The ethical domain in accounting and auditing refers to:
A) The important constituent groups affected by accounting and auditing work
B) The stages of the moral development of accountants and auditors
C) The decision making process followed by accountants and auditors
D) The rules of conduct in the AICPA Code of Professional Conduct

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13) The results of studies indicate that CPAs reason primarily at:
A) Stages 1 and 2
B) Stages 2 and 3
C) Stages 3 and 4
D) Stages 4 and 5

14) Rest's "Four Component Model of Morality" can best be described as:
A) A model of moral development based on one's diversity perspective
B) A model of the relationship between ethical action and one's level of moral development
C) A model of moral judgment based on one's possession of certain virtues of behavior
D) An approach to ethical decision making based on prescribed steps in making ethical decisions

15) Assume you were assigned a term paper and decided to surf the web to identify a provider of papers for a fee. You chose what you thought was the best paper available. With respect to Rest's model of morality it can be said that:
A) Your actions lack moral sensitivity
B) Your actions are based on moral judgments
C) You are making judgments based on expectations of your peer group
D) You have made a decision based on the common good

16) Yvonne is preparing a tax return for Jack. Jack wants to claim his nephew as a dependent even though he does not meet the criteria. Jack says if Yvonne does not list his nephew as a dependent, he will fire her and find a new tax accountant. Yvonne refuses because it is illegal to claim a dependent that does not meet the qualifications. Based on Yvonne's decision, she is likely reasoning at which stage of Kohlberg's moral development model?
A) Stage 2
B) Stage 3
C) Stage 4
D) Stage 5

17) James Rest's model of ethical action involves four components inherent to the ethical decision-making process. Which of the following relates to a person's moral judgment of what ought to be done?
A) Interpreting a situation as a moral dilemma
B) Willingness to place ethical values ahead of non-ethical values
C) Intention to act ethically aligning to his values
D) Outcome of one's prescriptive reasoning

18) Thorne's "Integrated Model of Ethical Decision Making" can best be described as:
A) A depiction of a model of moral development
B) A depiction of how the Principles in the AICPA Code of Professional Conduct influences decision making
C) A model of the role of virtue in decision making
D) A model of the role of moral development and virtue in decision making

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19) In Thorne's model of ethical decision making, the instrumental virtues relate to:
A) Moral sensitivity
B) Ethical reasoning
C) Ethical motivation
D) Ethical character

20) A criticism of the Kohlberg model is that it:
A) Suggests that people continue to change their decision priorities over time.
B) Considers development of moral reasoning necessary to be a moral person.
C) Makes deontological ethics superior to other ethical perspectives.
D) Considers all complexities of decision-making and behavior.

21) Using the conventional level of moral reasoning which is most likely the rationalization to Heinz's dilemma?
A) Saving a life is more important than keeping the law.
B) The needs of society are considered most.
C) The needs of the wife needing the drug is considered most.
D) The needs of the husband making the decision is considered most.

22) Thomas Jones's research looked at the characteristics of a moral issue to develop the moral intensity model. The model includes six dimensions. Which of the following are NOT included in those dimensions?
A) Concentration and probability of effect
B) Social Consensus
C) Proximity and magnitude of consequences
D) Reasoning and values-based decision-making

23) In Thomas Jones' model of moral intensity it can be said about accounting that:
A) There is a link between the stage of moral development and ethical reasoning
B) The link between social consensus and ethical decision making exists because accounting is a community with shared values and beliefs
C) The link between probability of effect and ethical decision making exists because in accounting the amount of time to the consequences of the actions are considered
D) There is a link between moral judgment and moral action

24) The philosophical methods of moral reasoning suggest that once we have ascertained the facts, we should ask ourselves certain questions when trying to resolve a moral issue. Which of the following is NOT one of those questions?
A) Which course of action maximizes my net benefits?
B) Which course of action develops moral virtues?
C) Which course of action advances the common good?
D) What benefits and what harms will each course of action produce and which alternative will lead to the best overall consequences?

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25) According to Kidder, which of the following is least likely to be a step or checkpoint in ethical decision-making guidelines?
A) Recognize there is an ethical issue
B) Determine the actor
C) Test for wrong issues
D) Look for a third way

26) What is an important part in making an ethical choice, according to Kidder?
A) Knowledge
B) Loyalty
C) Courage
D) Trustworthiness

27) In his evaluation of Kidder's model, Johnson points out that:
A) It is not easy to determine who has responsibility for solving a problem
B) A time constraint prevents making timely decisions
C) Decisions lead to action
D) We cannot apply lessons learned in one dilemma to future problems

28) Which of the following connect the integrated ethical decision-making process with Rest's framework?
A) Identify the ethical and professional issues and ethical behavior
B) Identify and evaluate alternate courses of actions and ethical sensitivity
C) Reflect on the moral intensity and virtues that enable action and ethical intent
D) Take action and ethical judgment

29) Wanda is faced with an ethical dilemma. She knows her supervisor, the CFO, wants to accelerate the recoding of revenue to an earlier period to "make the numbers," but Wanda is convinced this would violate GAAP. If Wanda reasons at stage 4 of Kohlberg's model she is most likely to:
A) Make a decision based on what is in her own best interests
B) Consider the interests of the stakeholders but decide based on what is in her best interests
C) Refuse to record the transaction as desired by the CFO
D) Inform the board of directors of the difference of opinion with the CFO

30) Keesha is the CEO of a publicly-owned company. She was informed by the CFO that the company's earnings were down 30 percent from the prior year due to the recession. The company's stock price has declined by 20 percent. The CFO comes up with a scheme to hide debt and inflate revenues by selling underperforming assets to a special purpose entity affiliated with the company. Keesha is concerned about possible effects on the creditors but ultimately she agrees to the accounting. Keesha is reasoning at:
A) Stage 1
B) Stage 2
C) Stage 3
D) Stage 4

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31) Rosie is the external auditor of Texas Two Steps, a privately-owned dance company in Texas. Rosie believes the owner of the company is skimming cash off the top. She approaches the owner who explains that the money will be replaced in the following month after he refinances his house. Rosie accepts the owner's explanation but reclassifies the expenditure as a receivable of the company from the owner. Rosie's reasoning best reflects:
A) Stage 1
B) Stage 2
C) Stage 3
D) Stage 4

32) Steve is in charge of accounting for the purchase of equipment at Cal Works, Inc. The company has a policy that all expenditures greater than $1,000 (1% of total expenditures) have to be capitalized; less than $1,000 expensed. Steve is under pressure to report high earnings. He takes one $600 and $900 expenditure, adds them together, and records a capital expenditure for $1,500. Which of the following reasons and rationalizations might Steve use for his action:
A) One-time request
B) Standard Practice
C) Representational faithfulness
D) Materiality

33) Role expectation or approval from others is a motive for doing right in which stage of Kohlberg's moral reasoning?
A) Fairness to others
B) Obedience
C) Social contract
D) Law and order

34) Carpendale suggests that moral reasoning is viewed as a process of coordinating all perspectives involved in a moral dilemma. Moral reasoning takes place in which of the following steps in Rest's Model?
A) Moral sensitivity
B) Moral development
C) Moral judgment
D) Moral character

35) What should be the first step in decision making when faced with an ethical dilemma?
A) Choose an ethical theory to follow
B) Discuss with others your options
C) Get the facts surrounding the problem
D) Determine consequences

36) Daniel Kahneman's System 1 thinking is described by all of the following except for:
A) Automatic
B) Emotional
C) Intuitive
D) Reflective

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37) Which of the following statements best describes System 2 thinking?
A) System 2 operates automatically and quickly, with little or no effort and no sense of voluntary control
B) System 2 allocates attention to the effortful mental activities that demand it, including complex computations
C) An example System 2 thinking is detecting that one object is more distant than another
D) An example of System 2 thinking is effortlessly originating impressions and feelings about an event

38) Cognitive dissonance creates a problem that can be described as:
A) Inconsistency between thoughts and beliefs and our intended actions
B) Consistency between thoughts and beliefs and our intended actions
C) Reducing the importance of the beliefs and attitudes on our actions
D) Acquiring new information that outweighs the dissonant beliefs

39) An example from the book of someone who may have experienced cognitive dissonance is:
A) Joe Paterno
B) Cynthia Cooper
C) Betty Vinson
D) Richard Scrushy

40) Which of the following characteristics is NOT part of the behavioral approach, Giving Voice to Values?
A) Used post-decision-making
B) Capacity to express one's values
C) Employs traditional philosophical reasoning
D) Counteracts reasons and rationalizations

41) In using the GVV framework, questions to pose for dealing with the opposing points of view include all of the following except:
A) What is the way to appeal all parties?
B) What is at stake for the key parties?
C) What is your most powerful and persuasive response you need to address?
D) What levers can you to influence others?

42) In the A Team Player case discussed in the chapter, which is the primary reason and rationalization that Barbara may need to counter for not informing Jessica of the inventory deficiency?
A) The inventory deficiency is immaterial.
B) Not accounting for the inventory deficiency is standard practice.
C) The inventory deficiency is not the team's responsibility.
D) The inventory deficiency is a one-time occurrence and will not happen again.

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43) Which of the following is NOT one of the levers Larry Davis might use to convince Paul Jones about the rightness of his point of view in the Ace Manufacturing case discussed in the chapter?
A) Davis can ask Paul Jones for supporting documentation to back up the coding of expenses to different accounts
B) Davis can try to convince Paul that his actions are harmful to the company and potentially very embarrassing for his dad
C) Davis can threaten to go to all the owners if Paul doesn't admit the mistake and take corrective action
D) Davis can threaten to go to the SEC to protect shareholder interests if Paul agrees to pay back the amounts taken out of the company and correct the accounting

44) Assume your values conflict with what you are being asked to do. Under the Giving Voice to Values methodology which of the following statements reflects the thought process you might have in developing a game plan to voice your values?
A) Use philosophical ethical theories to reason through alternative courses of action
B) Use the ethical decision making model to evaluate the ethics of the situation
C) Reflect on the objections that might be raised to your intended expressed views
D) Use Systems 2 thinking to decide on a course of action

45) Gabby has just left a meeting with the partner in charge of an audit engagement and was told to ignore the typical year-end accrual entries because earnings are below financial analysts' earnings expectations. Gabby knows this is wrong and wants to act on her values but she does not want to lose her job. What is the best thing for Gabby to do in this situation if she chooses to voice her values?
A) Quit the firm
B) Speak with the managing partner of the firm
C) Inform the SEC of the difference
D) All of the above

46) The ethical conflict in A Team Player can be described as:
A) There is no conflict; Barbara and Diane both identify the deficiency.
B) The conflict is between Diane and the rest of the audit team on whether there is a deficiency.
C) The conflict is between Barbara and Haley, and the rest of the team as to whether or not to take the deficiency to Jessica, the audit senior.
D) The conflict is between Barbara and the rest of the team as to whether or not to take the deficiency to Jessica, the audit senior.

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47) The ethical conflict Alex is facing in the FDA Liability Concerns can be best characterized as:
A) Alex and Michael can't convince Gregory of the extent of the problem caused by the listeria identified by the FDA.
B) Alex wants to do the right thing by consumers of his salad oil products but Michael objects based on his cost benefit analysis.
C) Alex and Michael want to make the plant seem as profitable as possible so the firm can do an IPO and cash out their shares but Gregory wants to inform the FDA of the extent of the listeria problem.
D) Gregory and Michael are using cost-benefit analysis to pay fines and do the minimum for the FDA while Alex wants to comply fully.

48) The ethical dilemma for Hailey in "Taxes and the Cannabis Business" case can best be described as a:
A) Conflict between reporting cash sales and ignoring them
B) Conflict between reporting expenses and ignoring it
C) Lack of independence due to ties to the client entity
D) Lack of due care in not spotting improper tax accounting

49) What ethical action should Daniel take in A Faulty Budget?
A) Work with Pete to correct the budget so JB, Pete's boss, does not find out.
B) Work with Pete to keep quiet about the mistake in the budget so the new hires will not be laid off.
C) Tell JB about the mistake in the budget but only half of the actual mistake so that employees will not be laid off.
D) Tell JB about the mistake in the budget so the company can make corrections as soon as possible.

50) In the Gateway Hospital case, Kristen's best argument to counter the reasons and rationalizations Troy might give for requesting an extra days' reimbursement is?
A) Her loyalty is to the hospital and not Troy.
B) Her ethical obligation is ensuring that employees do not get reimbursed for unsubstantiated expenditures.
C) Troy did not stay the extra day for which he is requesting reimbursement.
D) All of the above.

51) Which of the following was not one of the recommendations that Uber implemented after charges of sexual harassment were made:
A) Training key personnel.
B) Providing an effective complaint process.
C) Encouraging quid pro quo.
D) Creating a board oversight committee.

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52) The "Milton Manufacturing" case illustrates:
A) What can go wrong when a company sets a policy that potentially harms one area of its operations.
B) How the failure to exercise professional skepticism can cloud objective judgment.
C) The pressure that can be placed on accountants by top management.
D) What can go wrong when fraudulent accounting is dictated by top management.

53) The ethical dilemma for Ricardo in the Juggyfroot case can best be described as:
A) Whether to go along with Fred and Ethel's accounting for the loss in value on marketable securities.
B) Whether to let his failure to object to inappropriate accounting in the prior year influence whether he goes along with inappropriate accounting in the current year.
C) Whether to quit the firm because of the pressure placed on him by his boss to go along with inappropriate accounting.
D) Whether to blow the whistle on the inappropriate accounting sanctioned by the firm.

54) In the Racially Charged Language case, which of the following is not one of the EDI initiatives discussed in the case:
A) Create an inclusive community where all students thrive
B) Establish goals to retain underrepresented groups
C) Allow flyers using racial slurs
D) Implement a 12-week training program

55) Cynthia Cooper's actions in the WorldCom case can be best characterized as demonstrating:
A) Courage and expediency
B) Persistence and courage
C) Courage and loyalty
D) Persistence and loyalty

56) At which stage of moral development are most accountants and auditors with respect to their decision making? What factors are responsible for their being at that stage? Given the stage of moral development you think you are at, how does this relate to the stage of moral reasoning of most accountants and auditors? What conflicts might exist for you in the workplace?

57) How does Kidder's structure for decision-making relate to the Integrated Model presented in the chapter?

58) Explain how virtue interacts with moral development in Thorne's Integrated Model of Ethical Decision-making.

59) Assume your supervisor has reduced the number of hours you charged to the client because it was over budget. You will not be paid for those hours. What would you do and why? Use ethical reasoning.

60) Describe the Giving Voice to Values framework. What are the reasons and rationalizations frequently given in financial statement fraud situations?

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61) As an executive in a mid-sized manufacturing firm, Cal finds himself thrown together with Harry, who works for a division of the firm that Cal supervises. He and Harry are in the same community; their children are in the same schools; they often show up at the same social functions; and they play golf together fairly frequently.

One day, to Cal's deep dismay, he hears that Harry has been implicated in some financial irregularities at work. The issues while serious leave some room for doubt. There is reason to think Harry got ensnared by regulations, though he may have afterwards tried to cover up that entanglement by being less than forthright. Yet after what Cal observes to be a careful audit and investigation, Harry is let go from his job.

Harry comes to Cal and asks for a letter of recommendation.

What should Cal do? What are the consequences of the options?

62) As a professional working for a large electronics firm, Stan found himself riding a roller coaster of concern about lay-offs. Every few years, top management slashed jobs as work slacked off - only to hire again when things were looking up. So when Stan and his team members noticed that the executives were again meeting behind closed doors, they suspected the worst.

Stan's boss revealed to Stan that Stan's team member Jim was slated to lose his job. However, it was made plain that Stan was to keep that information confidential.

Not long after that conversation, Jim approached Stan and asked whether he could confirm the rumor that he would be laid off.

Stan has decided to tell Jim but first wants to convince management of the rightness of his action. What might he say to who and why? What are the reasons and rationalizations he may have to counter in making his argument?

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63) Taken from Case 1-2 Giles and Regas.

Ed Giles and Susan Regas have never been happier than during the past four months since they have been seeing each other. Giles is a 35-year-old CPA and a partner in the medium-sized accounting firm of Saduga & Mihca. Regas is a 25-year-old senior accountant in the same firm. Although it is acceptable for peers to date, the firm does not permit two members of different ranks within the firm to do so. A partner should not date a senior in the firm any more than a senior should date a junior staff accountant. If such dating eventually leads to marriage, then one of the two must resign because of the conflicts of interest. Both Giles and Regas know the firm's policy on dating, and they have tried to be discreet about their relationship because they don't want to raise any suspicions.

While most of the staff seem to know about Giles and Regas, it is not common knowledge among the partners that the two of them are dating. Perhaps that is why Regas was assigned to work on the audit of CAA Industries for a second year, even though Giles is the supervising partner on the engagement.

As the audit progresses, it becomes clear to the junior staff members that Giles and Regas are spending personal time together during the workday. On one occasion, they were observed leaving for lunch together. Regas did not return to the client's office until three hours later. On another occasion, Regas seemed distracted from her work, and later that day, she received a dozen roses from Giles. A friend of Regas's who knew about the relationship, Ruth Revilo, became concerned when she happened to see the flowers and a card that accompanied them. The card was signed, "Love, Poochie." Regas had once told Revilo that it was the nickname that Regas gave to Giles.

Revilo pulls Regas aside at the end of the day and says, "We have to talk."
"What is it?" Regas asks.
"I know the flowers are from Giles," Revilo says. "Are you crazy?"
"It's none of your business," Regas responds.

Revilo goes on to explain that others on the audit engagement team are aware of the relationship between the two. Revilo cautions Regas about jeopardizing her future with the firm by getting involved in a serious dating relationship with someone of a higher rank. Regas does not respond to this comment.

Regas promises to talk to Giles and thanks Revilo for her concern. That same day, Regas telephones Giles and tells him she wants to put aside her personal relationship with him until the CAA audit is complete in two weeks. She suggests that, at the end of the two-week period, they get together and thoroughly examine the possible implications of their continued relationship. Giles reluctantly agrees.

However, Giles appears at the CAA audit a few days later. He pulls Regas aside and states, "I do want to put our relationship on hold until after this audit."

"We cannot be talking about this now! The audit team or the client could hear."

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"Then let's have dinner tonight to discuss it. I won't leave until you say yes."

"Okay."

As Regas is returning to the audit room, Revilo says, "The team is uncomfortable with you and Giles having personal conversations in front of them. You promised this would stop."

"I appreciate your concerns again. I am working on it! Please give me some time and space."

"You don't have much time. Some of the team are talking of going to HR or the managing partner about the situation."

Required:

Analyze the case using GVV.

What are the main arguments Revilo (and the audit team) are trying to counter? What the reasons and rationalizations Revilo needs to address?
What is at stake for the key parties?
What levers can Revilo use to influence Regas and Giles?
What levers can Revilo use to influence Regas and Giles?
What is the most powerful and persuasive response to the reasons and rationalizations Revilo needs to address? To whom and when?

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64) Taken from Case 1-7 Eating Time.

Kevin Lowe is depressed. He has been with the CPA firm Stooges LLP for only three months. Yet the partners in charge of the firm—Bo Chambers and his brother, Moe—have asked for a "sit-down." Here's how it goes:

"Kevin, we asked to see you because your time reports indicate that it takes you 50 percent longer to complete audit work than your predecessor," Moe said.

"Well, I am new and still learning on the job," replied Lowe.

"That's true," Bo responded, "but you have to appreciate that we have fixed budgets for these audits. Every hour over the budgeted time costs us money. While we can handle it in the short run, we will have to bill the clients whose audit you work on a larger fee in the future. We don't want to lose clients as a result."

"Are you asking me to cut down on the work I do?" Lowe asked.

"We would never compromise the quality of our audit work," Moe said. "We're trying to figure out why it takes you so much longer than other staff members."

At this point, Lowe started to perspire. He wiped his forehead, took a glass of water, and asked, "Would it be better if I took some of the work home at night and on weekends, completed it, but didn't charge the firm or the client for my time?"

Bo and Moe were surprised by Kevin's openness. On one hand, they valued that trait in their employees. On the other hand, they couldn't answer with a yes. Moe looked at Bo, and then turned to Kevin and said, "It's up to you to decide how to increase your productivity on audits. As you know, this is an important element of performance evaluation."

Kevin cringed. Was the handwriting on the wall in terms of his future with the firm?

"I understand what you're saying," Kevin said. "I will do better in the future—I promise."

"Good," responded Bo and Moe. "Let's meet 30 days from now and we'll discuss your progress on the matters we've discussed today and your future with the firm."

In an effort to deal with the problem, Kevin contacts Joyce, a friend and fellow employee, and asks if she has faced similar problems. Joyce answers "yes" and goes on to explain she handles it by "ghost-ticking." Kevin asks her to explain.
"Ghost-ticking is when we document audit procedures that have not been completed." Kevin, dumbfounded, wonders, what kind of a firm am I working for?

After much consideration Kevin asks for a meeting with Bo and Moe within week. Kevin does not want to take work home and off the clock. He wants the meeting to convince Bo and Moe that having auditors work off the clock and at home is not in the best interest of the firm and its mission to do independent audits with integrity, objectivity, and due professional care.

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Required:

Analyze the case using GVV.

What are the main arguments Kevin is trying to counter? What are the reasons and rationalizations Kevin needs to address?
What is at stake for the key parties?
What levers can Kevin can use to influence Bo and Moe?
What is the most powerful and persuasive response to the reasons and rationalizations Kevin needs to address? To whom and when?

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65) Taken from Case 1-9 Cleveland Custom Cabinets.

Cleveland Custom Cabinets is a specialty cabinet manufacturer for high-end homes in the Cleveland Heights and Shaker Heights areas. The company manufactures cabinets built to the specifications of homeowners and employs 125 custom cabinetmakers and installers. There are 30 administrative and sales staff members working for the company.

James Leroy owns Cleveland Custom Cabinets. His accounting manager is Marcus Sims, who reports to the director of finance, Alison Mayhew. Sims manages 15 accountants. The staff is responsible for keeping track of manufacturing costs by job and preparing internal and external financial reports. The internal reports are used by management for decision making. The external reports are used to support bank loan applications.

On April 10, 2016, Leroy came into Sims's office to pick up the quarterly report. He looked at it aghast. Leroy had planned to take the statements to the bank the next day and meet with the vice president to discuss a $1 million working capital loan. He knew the bank would be reluctant to grant the loan based on a net income of $90,000 on revenue of $6,400,000. Without the money, Cleveland could have problems financing everyday operations.

Leroy called Mayhew to come to Sims's office. Leroy then asked for an explanation of how net income could have gone from 14.2 percent of sales for the year ended December 31, 2015, to 1.4 percent for March 31, 2016. Sims pointed out that the estimated overhead cost had doubled for 2016 compared to the actual cost for 2015. He explained to Leroy that rent had doubled and the cost of utilities skyrocketed. In addition, the custom-making machinery was wearing out more rapidly, so the company's repair and maintenance costs also doubled from 2015.

Leroy wouldn't accept Sims's explanation. Instead, he told Sims that the quarterly income had to be at least the same percentage of sales as at December 31, 2015. Mayhew agreed with Leroy and said there had to be a mistake and it would be corrected. Sims looked confused and reminded Leroy and Mayhew that the external auditors would wrap up their audit on April 30. Leroy told Sims not to worry about the auditors. He would take care of them. Furthermore, "as the sole owner of the company, there is no reason not to 'tweak' the numbers on a one-time basis. I own the board of directors, so no worries there." He went on to say, "Do it this one time and I won't ask you to do it again." He then reminded Sims of his obligation to remain loyal to the company and its interests. Sims started to soften and asked Leroy just how he expected the tweaking to happen. Leroy flinched, held up his hands, and said, "I'll leave the creative accounting to you and Mayhew."

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Required:

Analyze the case using GVV.

What are the main arguments Sims is trying to counter? What are the reasons and rationalizations Sims needs to address?
What is at stake for the key parties?
What levers can Sims can use to influence Leroy and Mayhew?
What is the most powerful and persuasive response to the reasons and rationalizations Sims needs to address? To whom and when?

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