Sly as a Foxx

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ABSTRACT

This case focuses on professional ethics. It centers on a fictitious corporation, Zeus, Inc., a recreational vehicle rental and sales company. The two main characters are Tracy and John, both accounting supervisors. Tracy is faced with two dilemmas: questionable accounting practices and John's unprofessional behavior. Students are provided with an overview of the company, the duties of the accounting supervisor and the month-end closing procedures. Next, the case describes John, how he came to work with Tracy, and his behavioral pattern. Students are asked to use the Institute of Management Accountants' Statement of Ethical and Professional Practice to evaluate Tracy's and John's actions. In addition, they are asked to complete a financial summary of Zeus' performance and provide an explanation for an action taken by two regions of the company.

Keywords: ethics, management, accounting, managerial accounting, professional standards

INTRODUCTION

"That's just disgusting!" Tracy remarked to herself as she made her way to her cubicle. She sat down and shook her head, trying to erase the memory of John sitting in the adjacent cubicle clipping his toe nails. Why in the world would someone do that at work? After a few moments, she realized that she shouldn't be at all surprised, based on his performance over the last couple of months. Still, she wondered why he was still employed at Zeus, Inc. (Zeus). Then, as she smiled to herself, she wondered how long it would be before she submitted her resignation.

ZEUS, INC.

Zeus is a privately-held corporation founded in 1988 by Steven Hunter and Don Masters. The company began with five recreational vehicles (RVs) in its fleet and had grown to over ten thousand units in thirty five states. The headquarters is located in Raleigh, North Carolina. Its business is primarily based on short-term rentals but RV sales generate 15% of the firm's revenues while long-term leasing generates 10%.

The corporation is organized in 6 geographical groups, each of which has one administration office led by a general manager. Each group is subdivided into multiple regions and each region is overseen by a business manager. Each region also has an accounting supervisor who is responsible for recording expenses. Revenues are recorded by individual stores, i.e., the rental, sales, and leasing offices patronized by customers.

Zeus is audited annually by We Find It, LLP, a local accounting firm. The audit is required by Bursary Bank which holds a note payable from Zeus for $1 million.

TRACY STANFORD

Tracy is the Group 6 accounting supervisor at Zeus. She has been working in the group administrative office for approximately one year. Previously, she had worked at a regional public accounting firm for five years. Tracy is both a Certified Public Accountant (CPA) and a Certified Managerial Accountant (CMA), and she is actively involved with the American Institute of Certified Public Accountants (AICPA) and the Institute of Management Accountants (IMA).

Tracy works in the administrative office (admin) for Group 6 which is located in Tucson, Arizona. The group has 4 regions. As the group accounting supervisor (GAS), she reports to the controller. The admin office is purely a support entity for the group and generates no revenue. The expenses incurred by the admin office are allocated to the regions by the GAS with that allocation base being fleet size (i.e., the cost of rental units owned by the regions).

Tracy's job functions are multi-faceted. In addition to being responsible for the expense side of the group's income statement, she supervises the monthly and yearly closing processes, accounts payable, and accounts receivable. She also approves group expenditures and manages the petty cash fund. Regional accounting supervisors (RAS) have similar responsibilities at the regional level. Sales and leasing each have accounting supervisors with the job functions described above and who also report to the controller.

THE MONTHLY CLOSE

Each month, the accounting records are updated and financial statements are prepared and reviewed. Tracy's closing process includes the following activities:

- Reconciling the bank statements
- Recording accruals
- Settling the petty cash fund
- Recording entries received from the corporate office by the specified deadlines
- Review and analysis of regional expenses
- Investigation of variances in excess of 5% from the prior month and year
- Spreading administrative costs to the regions

Each accounting supervisor follows similar procedures for their respective regions.

One of the corporate entries that Tracy is required to record is called "turn around" (TA). Tracy is not required to do any calculations or analysis with regard to this entry. She simply records it as received from the corporate office. All of the other supervisors await this entry anxiously because it usually results in changing net losses to net profit for the month. The entry itself is unusual and its function is not clear from the accounts being affected. The income statement amounts affected by the TA are allocated equally to each region. Tracy had asked the controller what the TA entry did some time ago, but she only received a vague answer about reallocations and adjustments. No further detail has ever been shared with her. Tracy is concerned that the turn around entry may violate Generally Accepted Accounting Principles (GAAP).

Upon review of the current monthly regional income statements, Tracy notices that Region 2 and 4 had recorded an entry transferring 600,000 USD of property, plant and equipment (i.e., rental fleet) from Region 2 to Region 4. Upon Tracy's inquiry, the accounting supervisors involved explained that Region 4 needed additional units because a championship football game had increased demand. They expected to reverse the entry early in the following month. Suspicious, Tracy follows up with the parking lot attendants at Regions 2 and 4. She finds that no RVs had been moved from one lot to the other during the month. Performing a trend analysis for each Region over the last four months, she notes that net profit for Region 2 had been steadily declining. The current TA entry results in $650,000 of profit. A summary of Zeus' financial information before the asset transfer can be found in Figure 1 (appendix).

JOHN FOXX

John Foxx is another accounting supervisor in Group 6. He had been the leasing accounting supervisor (LAS) until 3 months ago. The small leasing office is located in the nearby town of Sierra Vista. Since the controller's office is in Tucson, John had complete autonomy as the LAS. He managed two employees when he worked in the leasing office and he had reported to no one inside of the Sierra Vista location.

Last quarter, the controller noticed that several account balances were 6% to 9% higher than they had been in the same quarter in the previous year. John's notes had simply marked the differences as "not material." The controller also noted that one of the largest variances was in the "Miscellaneous Expenditures" account. When asked about the issues, John's response had been that revenues were higher and required more spending to maintain the growth.

The controller had then interviewed John's employees to determine if his behavior had changed at all recently. One of the employees mentioned that John had been spending more time in his office with the door closed. In addition, a female employee said that Joh had been telling off-color jokes in the office that made her feel uncomfortable. John had previously been a very good employee so the controller was conflicted about his next course of action. He decided to give John a chance to redeem himself. In a meeting with John, the controller gave him two choices: either resign or transfer to the administrative office where he could be supervised. John had reluctantly chosen to remain with Zeus and transfer.

Not needing two accounting supervisors for the administrative operations, the controller decided to split-off some of Tracy's responsibilities to John. He appointed John as group sales accounting supervisor. Support staff in payables and receivables were also split so that John managed the sales operations. Tracy continued to supervise the admin staff.

MORE PROBLEMS

After previously reporting to Tracy, some of the staff had to adjust to John's management style. He was not very responsive to their needs or requests. He missed several deadlines which forced them to redo some of their work. Often, he was nowhere to be found when approvals were required. He had lost his private office by transferring to admin, and now works in a cubicle like everyone else. John is not happy about his current situation.

Apparently feeling that he had been disrespected, he routinely speaks about all of his academic and professional credentials and what he'd been able to do while working at leasing. Tracy reminded him multiple times that she had earned the same credentials. In addition, John has some bad habits like playing with his phone at his desk, talking loudly on the phone with his friends, and, most recently, clipping his toenails. Morale among his staff is very low and their work suffers as a result.

Tracy could see all of the changes but is not in a position to do anything to help. John's staffers often speak to Tracy about the issues he had caused. In fact, Tracy had completed several of the tasks that John had left undone. While Tracy sympathized with their concerns, she had to remind them that John reported to the controller, not to her. She encouraged them to speak with the controller about John's performance and they did so.

SURPRISING RESPONSE

Not long after the staffers' meeting with the controller, Tracy was called into a meeting with him. The controller informed her of the staff meeting and expressed concern that John's employees are having so many problems. To Tracy's surprise, the controller stated that he believed part of the problem was that Tracy didn't like John and that the staff was following her lead. He suggested that Tracy make a greater effort to spend time with John so that they could present a united front for the staff.

Tracy is taken aback by the recommendation. She points out the things John had been doing and suggested that the staff was unhappy because of his behaviors. The controller is unphased and insists that Tracy be more "friendly" with John and even go to lunch with him. Controlling her temper as much as she could, she informs the controller that he cannot dictate how she spends her free time. She agrees not to argue with John in front of the staff but that is the best she can offer. The meeting concludes at that point. Tracy now finds herself in a very uncomfortable position.

WHAT TO DO?

Tracy knows that something needs to be done to make the workplace less toxic and to help her feel more comfortable with the end-of-month accounting. She feels overwhelmed. The problems with John and the accounting issues have gotten to be too much for her to handle alone. She reaches out to you, a fellow CMA, for advice on what her next steps should be.

This is a fictitious case. All information contained herein was fabricated by the author(s). Any similarity contained herein to actual persons, businesses, events, etc. is purely coincidental and is the responsibility of the author(s). Please contact the case author(s) directly with any concerns.

ASSIGNMENT QUESTIONS

1. Review the *IMA Statement of Ethical Professional Practice* (Statement). Summarize the principles.
2. Assume John is a CMA and is a member of the IMA. Using the Statement as a framework, discuss in detail whether John's displayed level of professionalism is in keeping with the principles of the IMA.
3. Tracy holds designations of CPA and CMA. She is also a member of the IMA. What actions (if any) do you think Tracy should take regarding John's performance? Have her actions thus far been in line with the principles of the IMA?
4. Did Tracy respond appropriately to the controller's comments about John?
5. Tracy remains uncomfortable with posting the monthly "turn around" entry. Should she be concerned? Why or why not? What would you suggest that she do?
6. Based on the information contained in the case, complete the financial summary (Figure 2, appendix) which reflects the results after Regions 2 and 4 recorded the transfer.
    a. How are the administrative expense and turn around entry allocated?
    b. What was the result of the transfer?
    c. Why do you think the Regions posted the transfer?

APPENDIX

Figure 1

Before Asset Transfer	Reg 1	Reg 2	Reg 3	Reg 4	Totals
Rental Fleet	1,200,000	1,400,000	1,300,000	1,000,000	4,900,000
Net Profit (Loss) as reported	700,000	20,000	500,000	300,000	1,520,000
Admin expense allocated	(244,898)	(285,714)	(265,306)	(204,082)	(1,000,000)
Turn Around Entry	162,500	162,500	162,500	162,500	650,000
Net Profit (Loss) as adjusted	617,602	(103,214)	397,194	258,418	1,170,000

Figure 2

After Asset Transfer	Reg 1	Reg 2	Reg 3	Reg 4	Totals
Rental Fleet	1,200,000	800,000	1,300,000	1,600,000	4,900,000
Net Profit (Loss) as reported	700,000	20,000	500,000	300,000	1,520,000
Admin expense allocated					(1,000,000)
Turn Around Entry					650,000
Net Profit (Loss) as adjusted					1,170,000