

Capítulo 5 Managerial Accounting Overview

Exercise P-4 (20 minutes)

1. Failure to report the obsolete nature of the inventory would violate the IMA's Statement of Ethical Professional Practice as follows:

Competence

- Perform duties in accordance with relevant technical standards. Generally accepted accounting principles (GAAP) require the write-down of obsolete inventory.
- Prepare decision support information that is accurate.

Integrity

- Mitigate actual conflicts of interest and avoid apparent conflicts of interest.
- Refrain from engaging in any conduct that would prejudice carrying out duties ethically.
- Abstain from activities that would discredit the profession.

Credibility

- Communicate information fairly and objectively.
- Disclose all relevant information.
- Hiding the obsolete inventory impairs the objectivity and relevance of financial statements.

Members of the management team, of which Perlman is a part, are responsible for both operations and recording the results of operations. Because the team will benefit from a bonus, increasing earnings by ignoring the obsolete inventory is clearly a conflict of interest. Furthermore, such behavior is a discredit to the profession.

(Unofficial CMA solution)

Exercise P-4 (continued)

2. As discussed above, the ethical course of action would be for Perlman to insist on writing down the obsolete inventory. This would not, however, be an easy thing to do. Apart from adversely affecting her own compensation, the ethical action may anger her colleagues and make her very unpopular. Taking the ethical action would require considerable courage and self-assurance.