1. Accounting standard setting has been characterized as a political process. Discuss this proposition giving an example.
2. Briefly explain what is meant by a subsequent event. Give two examples of subsequent events.
3. Briefly explain why the income statement is referred to as a change statement.
4. You have recently been hired as the assistant controller for Clayton, Inc., a large, publicly-held manufacturing company. Your immediate superior is the controller who, in turn, is responsible to the chief financial officer. The controller has assigned you the task of preparing the year-end adjusting entry for bad debts. The allowance for uncollectibles accounts has a credit balance of $86,000 before the year-end adjustment. Your analysis indicates that an appropriate balance for the allowance account is $210,000. After showing your analysis to the controller, she tells you to adjust the allowance account to $310,000. Tactfully, you ask the controller for an explanation for the amount and she tells you "We are having a really good year. Let's bump up the allowance."
Discuss the ethical dilemma you face. Consider your options and responsibilities along with the possible consequences of any action you might take.
5. Briefly describe why companies that use perpetual inventory systems must still perform physical inventories. Give three specific examples of conditions that would exist that would reduce inventory levels without management's knowledge.