**ETHICAL DECISION MAKING**

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| LO 4,5,8 |  | DECISION CASE 1-6 IDENTIFICATION OF ERRORS IN FINANCIAL STATEMENTS AND PREPARATION OF REVISED STATEMENTS |

 **1.** Errors made in preparing the financial statements:

 **a.** The recognition of the 2009 season ticket sales as revenue in 2008. Because Lakeside has not provided these fans with any service yet (the games), the sale of the 2009 season tickets does not result in revenue in 2008.

 **b.** The recognition of $100,000 in advertising revenue. The contract with the advertisers required Lakeside to average 2,000 fans per game. Because it averaged only 1,500, the revenue should not be recorded.

 **c.** The treatment of the player contracts. The $5,000 paid to the parent club for each of the 25 players on the roster is an expense, not an asset. Also, the amount owed to the parent club is not an element of stockholders’ equity but instead is a liability, since this amount is due by February 1, 2009.

 **d.** The recognition of the value of the controller’s personal residence as an asset. Under the economic entity assumption, the personal affairs of the owner of a business should not be intermingled with those of the company. The controller’s personal residence is not an asset of the business.

 2. LAKESIDE SLAMMERS INC.

INCOME STATEMENT

FOR THE YEAR ENDED DECEMBER 31, 2008

 Revenues:

 Single-game ticket revenue $420,000

 Concessions revenue 280,000 $ 700,000

 Expenses:

 Cost of concessions sold $110,000

 Player contracts 125,000

 Salaries—players 225,000

 Salaries and wages—staff 150,000

 Rent 210,000 820,000

 Net loss $(120,000)

LAKESIDE SLAMMERS INC.

STATEMENT OF RETAINED EARNINGS

FOR THE YEAR ENDED DECEMBER 31, 2008

 Beginning balance, January 1, 2008 $ 0

 Deduct: Net loss (120,000)

 Deduct: Cash dividends (40,000)

 Ending balance, December 31, 2008 $(160,000)

DECISION CASE 1-6 (Continued)

LAKESIDE SLAMMERS INC.

BALANCE SHEET

DECEMBER 31, 2008

 **Assets Liabilities and Stockholders’ Equity**

 Cash $ 5,000 Notes payable $ 50,000

 Equipment 50,000 Due to parent club 125,000

 Capital stock 40,000

 Retained earnings

 (deficit) (160,000)

 Total liabilities and

 Total assets $55,000 stockholders’ equity $ 55,000

Need best answers to 3 and 4

3. On the basis of your revised financial statements, identify and ethical dilemma you now may face. Does the information regarding the season ticket revenue provide reliable information to an outsider? Does the advertising revenue on the income statement represent the underlying economic reality of the transaction? Do you have the responsibility to share these revisions with the other three owners? What is your responsibility to the bank?

4. Using exhibit 1-13 and the related text as your guide analyze the key elements of the situation and answer the following questions. Supporting your answers by explaining your reasoning.

A. Who may benefit or be harmed?

B. How are they likely to benefit or be harmed?

C. What rights or claims may be violated?

D. What specific interests are in conflict?

E. What are your responsibilities and obligations?

F. Do you believe the information provided by the organization is relevant, reliable, accurately represents what it claims to report, and is unbiased?