

ETHICS CHALLENGE

P2



BTN 9-3 Anton Blair is the manager of a medium-size company. A few years ago, Blair persuaded the owner to base a part of his compensation on the net income the company earns each year. Each December he estimates year-end financial figures in anticipation of the bonus he will receive. If the bonus is not as high as he would like, he offers several recommendations to the accountant for year-end adjustments. One of his favorite recommendations is for the controller to reduce the estimate of doubtful accounts.

Required

1. What effect does lowering the estimate for doubtful accounts have on the income statement and balance sheet?
2. Do you believe Blair's recommendation to adjust the allowance for doubtful accounts is within his rights as manager, or do you believe this action is an ethics violation? Justify your response.
3. What type of internal control(s) might be useful for this company in overseeing the manager's recommendations for accounting changes?