

## LOVE AND A QUESTION: WHAT SHOULD THE CPA DO?

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Todd Davis nudged his wife's foot under the table and grinned at her as she jumped. "I don't know who it is you're thinking about, but it's your husband who is paying for this fine meal."

She smiled back at him, but he could tell that her mind wasn't on the meal. She ate another bite or two, then put her fork down and looked across the table at him. "Todd, why would someone not ring up a sale?"

As he looked back on the evening, he knew he should have anticipated that something was wrong. Carrie had never been interested in hypothetical situations. He couldn't even get her to play "What Would You Do If You Won the Lottery" when they were on long drives.

But Todd wasn't thinking about Carrie's literal mind right now. He was feeling good. After all the fast food meals from his university days, he was having dinner in a nice restaurant. It was his own income that would cover the meal. Carrie was no longer the sole support of the family and Todd the student. He was a staff accountant at a small but highly regarded CPA firm. He had passed the CPA examination and all that stood between him and certification was the experience requirement.

Now, over this pleasant meal, Todd was being given yet another chance to feel good. He had learned that Carrie's eyes tended to glaze over when his conversation turned to accounting or finance. But now her bright, blue eyes were looking directly into his and she was waiting for him to share his knowledge.

“Well, there are a few reasons, and none of them are good. If a business owner doesn’t ring up a sale, he may not be paying sales tax. What is pretty sure is that he is trying to avoid recognizing revenue.”

Carrie glanced down, “Is that such a bad thing?”

“Well, think about it. If the business owner doesn’t recognize revenue on his books, then that revenue will not show up on the financial statements or on the tax return. The value of the business as expressed by its assets will be wrong. It will not reflect the reality of the situation. Financial statements will be fiction. And the most immediate financial issue is that the odds are against the business owner paying appropriate income tax on the unrecorded revenue,” he concluded decisively.

There was a pause as Carrie continued looking at him, then she said, “Mrs. Cook told me not to ring up any of the cash sales we made this afternoon.”

Now it was Todd’s turn to pause – only his pause was more of a freeze. He really didn’t want to hear what he had heard. While he had been in school, Carrie had worked long, hard, dry hours in a law office, doing tasks that made no use of her creativity and talent. Now she had been fortunate enough to find a position in a wonderfully creative design accents shop. The owner, Mrs. Cook, was a charming woman who had taken Carrie in as a kind of combination sales clerk/assistant/apprentice. There was already talk of Carrie buying into the business. While the Davises still needed Carrie’s income to catch up some of the bills that had accumulated while Todd was in school, employment at this particular establishment meant more to Carrie than money. She could see a real future for herself with Mrs. Cook.

“Are you sure you understood what she was saying?” Todd asked. Carrie just gave him a disgusted look and didn’t bother to answer.

Todd continued to eat his dinner almost by reflex. His mind was racing as rapidly and as ineffectually as a hamster on a wheel. “Who is Mrs. Cook’s accountant, Carrie?”

“I don’t know his name, but he’s sitting at the table nearest the window.”

Todd looked across and saw the silver hair of Harold Heywood, the founding partner of one of the other firms in the town. He was standing up to leave, and his eyes caught Todd’s. As Mr. Heywood walked past, he stopped by their table and greeted Todd warmly. Todd introduced him to Carrie, and Heywood welcomed her to the community.

Heywood’s courtly manner did not disguise his intelligence. His accounting practice was only one of his many business activities. Todd was sufficiently in touch with the community to know that Heywood had at least one partnership with Steven Cook, Mrs. Cook’s husband.

As Heywood left, Carrie noticed Todd’s eyes following him, and she became agitated. “You wouldn’t say anything to him about what I told you! Helen Cook isn’t some racketeer. She’s

just a nice lady who runs a neat little business. If she found out I mentioned something that got back to her accountant, she might never trust me again!”

All Todd really wanted was to go back to the beginning of the evening and spend the time discussing football or politics or even kitchen curtains. But that was not possible. He knew he couldn't unhear something or develop a very selective memory loss. He had been given information that he had never really asked for and now he had to decide what to do with it.

### **Questions for Discussion**

1. What should Todd do? What is Todd's responsibility to the profession? What is Todd's responsibility to Carrie?
2. Does it make a difference that Todd is not yet a CPA?
3. Is Todd obligated to take action based on a formal code of professional ethics?
4. Should Todd ask advice of a principal in his firm?
5. What rules of confidentiality are involved?
6. Should Todd, as a professional courtesy, discuss the matter with Harold Heywood? What if he knows Heywood is a close friend of Mr. Cook?
7. In considering broader ethical issues, who is harmed by Mrs. Cook's current practice, if it is being used to avoid the recognition of income?
8. What are the personal and professional benefits or the consequences if Todd takes action on his knowledge? What if he takes no action? Think of this in terms of Todd, of Carrie, of Todd's firm, of Heywood, of the general public.
9. What should Todd do about his information if the CPA firm for which he works is hired to do Mrs. Cook's tax work?
10. What should Todd do about his information if the CPA firm for which he works is hired to audit Mrs. Cook?

### **Bibliography**

*AICPA Code of Professional Conduct*