**Case 2-5**

**Blues Brothers**

Assume it is December 31, the last day of the fiscal year, and you are an internal accountant for Saturday Night Accessories, a privately-owned company run by the Blues Brothers, that provides personal services to consumers. On that date a $1.2 million major contract for one year of services is received. You are instructed by your supervisor who reports to the “Brothers” to record the full amount of the $1.2 million as revenue on December 31. You know that management will receive a bonus for the boosted revenue and you will receive recognition in an upcoming performance review.

**QUESTIONS**

1. **What is the proper way to account for the revenue in this case? Why?**

The $1.2 million contract of one year of services should be recorded as revenue in the year earned, the next fiscal year; this is required by the matching principle.

1. **How might you go about convincing your supervisor of the proper accounting? That is, what factors might enable you to get your point across and what are disablers that might prevent you from achieving that result? Under what circumstances might you consider going to the Brothers to discuss the matter?**

Your superior would like the revenue booked on December 31 in the current fiscal year. The increased revenue for the current year will increase bonuses and will help performance reviews. These are all short-term views. Long-term views would note the revenue may be needed to make next year’s goals. Thus, the company is borrowing from the future to make the present look better and creating a scenario where the charade has to be continued each and every year. The snowball effect eventually collapses under its own weight. Moreover, the recording of the revenue in the current year will eventually be found out and could harm the company’s and executives’ reputations. A reputation of manipulating earnings could drive interest rates on financing and bank loans.

As you review the short-term and long-term views of the recording of revenue, you need to find enablers or people who support you doing the ethical action. It is helpful if you know an enabler in the company; one who may act as the conscience of the company. However, it is also helpful to find personal enablers who help you vocalize the ethical course of action and will not let you rationalize an unethical course of action. These personal enablers can also be the ones that you would not want to disappoint by being unethical and ending up on the front page of the paper. You need to plan on talking to your supervisor and your supervisor’s boss. You should be prepared that the supervisor may resist waiting to record the contract until the next fiscal year. This may be due to wanting a larger bonus or wanting to please the “Brothers,” whether they want this revenue recorded this year or not. You may also find that your supervisor’s boss may also resist waiting to record the revenue for similar reasons as your supervisor’s. You will need to explain the correct accounting treatment and emphasize the long term effects on reputation and lending costs for recording revenue in the current year. You should try to find out if the “Brothers” ordered the recording of revenue in the current year or if it is just the perception of what “Brothers” want. Many times reminding the disablers of the ethical alternatives and the importance of being ethical is enough to have them down from doing the unethical thing.

1. **Under what circumstances might you consider going to the “Brothers” to discuss the matter?**

In a private company, the “Brothers” may be hands-on acting as be the top executives of the company or may be hands-off acting as a Board of Directors. You should go the “Brothers” only after going up the chain of command in the company. If in discussing the accounting treatment of the revenue with your supervisor and his boss you were told that the “Brothers” ordered the recording of revenue in the current year, then you need to prepare for the possibility that talking to the “Brothers” may lead you to find a new job (whether by your choice or not). If the “Brothers” act more as a Board of Directors, you may want to consider talking to them individually or as a group. Also if one brother tends to understand the accounting/finance aspect of the company best, this is the brother you may want to talk to first. Like the above question, you should not discount that one person standing up for the ethical action can change minds and hearts.