

Ethics Case: Capital Leases

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*Response to an ethics scenario for my accounting course, spring 2008*

Cuby Corporation probably has an economic interest in being able to claim the copier arrangement as an operating lease, because this will allow it to keep the rent payments from appearing as a liability on the balance sheet. The ethical issue arises, then, from the fact that the company's own financial incentives might influence the (admittedly somewhat subjective) decision as to whether the \$1000 copier-purchase option qualifies as a "bargain" for purposes of FASB 13. Is it wrong for Glenn Beckert to err on the side favorable to his company when the factual question of whether the purchase option is a bargain is unclear?

I would suggest that the above question may be something of a false choice. It's true that Glenn is unaware of what the actual value of the copiers will be in five years, but he has so far only asked one colleague who admitted not knowing much about the situation. The IMA Standards recommend that an accountant "Recognize and communicate professional limitations or other constraints that would preclude responsible judgment [...]" (I.4), of which this seems to be a clear case. Presumably there are other individuals at Cuby Corporation who work with copy-machine purchases and have a better sense of where prices will be in five years. Communicating with knowledgeable employees would fall under the accountant's responsibility to "Regularly communicate with business associates to avoid apparent conflicts of interest" (III.1). If, after such communication, the issue remained unclear, Glenn should follow the suggested procedure for "Resolution of Ethical Conflict" by discussing the issue with a supervisor.