

## CASE 6.2

# Bill DeBurger, In-Charge Accountant

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"Bill, will you have that inventory memo done by this afternoon?"<sup>1</sup>

"Yeah, Sam, it's coming along. I should have it done by five, or so."

"Make it three ... or so. Okay, Bub?"

Bill responded with a smile and a nod. He had a good relationship with Sam Hakes, the partner supervising the audit of Marcelle Stores.

Bill DeBurger was an in-charge accountant who had 18 months experience with his employer, a large national accounting firm. Bill's firm used the title "in-charge" for the employment position between staff accountant and audit senior. Other titles used by accounting firms for this position include "advanced staff" and "semi-senior." Typically, Bill's firm promoted individuals to in-charge after one year. An additional one to two years' experience and successful completion of the CPA exam were usually required before promotion to audit senior.

The title "in-charge" was a misnomer, at least in Bill's mind. None of the in-charges he knew had ever been placed in-charge of an audit, even a small audit. Based upon Bill's experience, an in-charge was someone a senior or manager expected to work with little or no supervision. "Here's the audit program for payables. Go spend the next five weeks completing the 12 program steps ... and don't bother me," seemed to be the prevailing attitude in making work assignments to in-charges.

As he turned back to the legal pad in front of him, Bill forced himself to think of Marcelle Stores' inventory—all \$50 million of it. Bill's task was to summarize, in a two-page memo, 900 hours of work that he, two staff accountants, and five internal auditors had done over the past two months. Not included in the 900 hours was the time spent on eight inventory observations performed by other offices of Bill's firm.

Marcelle Stores was a regional chain of 112 specialty stores that featured a broad range of products for do-it-yourself interior decorators. The company's most recent fiscal year had been a difficult one. A poor economy, increasing competition, and higher supplier prices had slashed Marcelle's profit to the bone over the past 12 months. The previous year, the company had posted a profit of slightly less than \$8 million; for the year just completed, the company's preaudit net income hovered at an anemic \$500,000.

Inventory was the focal point of each audit of Marcelle's financial statements. This year, inventory was doubly important. Any material overstatement discovered in the inventory account would convert a poor year profit-wise for Marcelle into a disastrous year in which the company posted its first-ever loss.

Facing Bill on the small table that served as his makeshift desk were two stacks of workpapers, each two feet tall. Those workpapers summarized the results of extensive price tests, inventory observation procedures, year-end cutoff tests, an analysis of the reserve for inventory obsolescence, and various other audit procedures. Bill's task was to assimilate all of this audit evidence into a conclusion regarding Marcelle's inventory. Bill realized that Sam Hakes expected that conclusion to include the

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1. The source for this case was a former public accountant who is now a college instructor. The names of the parties involved in the case and certain other background facts have been changed.

key catch phrases "present fairly, in all material respects" and "in accordance with accounting principles generally accepted in the United States of America."

As Bill attempted to outline the inventory memo, he gradually admitted to himself that he had no idea whether Marcelle's inventory dollar value was materially accurate. The workpaper summarizing the individual errors discovered in the inventory account reflected a net overstatement of only \$72,000. That amount was not material even in reference to Marcelle's unusually small net income. However, Bill realized that the \$72,000 figure was little more than a guess.

The client's allowance for inventory obsolescence particularly troubled Bill. He had heard a rumor that Marcelle intended to discontinue 2 of the 14 sales departments in its stores. If that were true, the inventory in those departments would have to be sold at deep discounts. The collective dollar value of those two departments' inventory approached \$6 million, while the client's allowance for inventory obsolescence had a year-end balance of only \$225,000. Earlier in the audit, Bill had asked Sam about the rumored closing of the two departments. The typically easygoing partner had replied with a terse "Don't worry about it."

Bill always took his work assignments seriously and wanted to do a professional job in completing them. He believed that independent audits served an extremely important role in a free market economy. Bill was often annoyed that not all of his colleagues shared that view. Some of his coworkers seemed to have an attitude of "just get the work done." They stressed form over substance: "Tic and tie, make the workpapers look good, and don't be too concerned with the results. A clean opinion is going to be issued no matter what you find."

Finally, Bill made a decision. He would not sign off on the inventory account regardless of the consequences. He did not know whether the inventory account balance was materially accurate, and he was not going to write a memo indicating otherwise. Moments later, Bill walked into the client office being used by Sam Hakes and closed the door behind him.

"What's up?" Sam asked as he flipped through a workpaper file.

"Sam, I've decided that I can't sign off on the inventory account," Bill blurted out.

"What?" was Sam's stunned, one-word reply.

Bill stalled for a few moments to bolster his courage as he fidgeted with his tie. "Well ... like I said, I'm not signing off on the inventory account."

"Why?" By this point, a disturbing crimson shade had already engulfed Sam's ears and was creeping slowly across his face.

"Sam ... I just don't think I can sign off. I mean, I'm just not sure whether the inventory number is right."

"You're ... *just not sure*?" After a brief pause, Sam continued, this time pronouncing each of his words with a deliberate and sarcastic tone. "You mean to tell me that you spent almost 1,000 hours on that account, and you're just not sure whether the general ledger number is right?"

"Well ... yeah. Ya know, it's just tough to ... to reach a conclusion, ya know, on an account that large."

Sam leaned back in his chair and cleared his throat before speaking. "Mr. DeBurger, I want you to go back into that room of yours and close the door. Then you sit down at that table and write a nice, neat, very precise and to-the-point inventory memo. And hear this: I'm not telling you what to include in that memo. But you're going to write that memo, and you're going to have it on my desk in two hours. Understood?" Sam's face was entirely crimson as he completed his short speech.

"Uh, okay," Bill replied.

Bill returned to the small conference room that had served as his work area for the past two months. He sat in his chair and stared at the pictures of his two-year-old twins, Lesley and Kelly, which he had taped to the wall above the phone. After a few minutes, he picked up his pencil, leaned forward, and began outlining the inventory memo.

### Questions

1. What conclusion do you believe Bill DeBurger reached in his inventory memo? Put yourself in his position. What conclusion would you have expressed in the inventory memo? Why?
2. Would you have dealt with your uncertainty regarding the inventory account differently than Bill did? For example, would you have used a different approach to raise the subject with Sam Hakes?
3. Evaluate Sam Hakes' response to Bill's statement that he was unable to sign off on the inventory account. In your view, did Sam deal with the situation appropriately? Was Sam's approach "professional"? Explain.
4. Is it appropriate for relatively inexperienced auditors to be assigned the primary responsibility for such critical accounts as Marcelle Stores' inventory? Explain.