

Explain to Jane Noonan in a memo (a) the purpose of a balance sheet, and (b) why this balance sheet is incorrect and what she should do to correct it.

ETHICS CASE



BYP1-8 Rules governing the investment practices of individual certified public accountants prohibit them from investing in the stock of a company that their firm audits. The Securities and Exchange Commission (SEC) became concerned that some accountants were violating this rule. In response to an SEC investigation, PricewaterhouseCoopers fired 10 people and spent \$25 million educating employees about the investment rules and installing an investment tracking system.

Instructions

Answer the following questions.

- (a) Why do you think rules exist that restrict auditors from investing in companies that are audited by their firms?
- (b) Some accountants argue that they should be allowed to invest in a company's stock as long as they themselves aren't involved in working on the company's audit or consulting. What do you think of this idea?
- (c) Today a very high percentage of publicly traded companies are audited by only four very large public accounting firms. These firms also do a high percentage of the consulting work that