

During the first half of the year, Boeing suffered significant cost overruns because of inefficiencies in its production methods. Had these problems been disclosed in the quarterly financial statements during the first and second quarter of the year, the company's stock most likely would have plummeted, and the deal would have been revoked. Company managers spent considerable time debating when the bad news should be disclosed. One public relations manager suggested that the company's problems be revealed on the date of either Princess Diana's or Mother Teresa's funeral, in the hope that it would be lost among those big stories that day. Instead, the company waited until October 22 of that year to announce a \$2.6 billion write-off due to cost overruns. Within one week, the company's stock price had fallen 20%, but by this time the McDonnell Douglas deal could not be reversed.

Instructions

Answer the following questions.

- (a) Who are the stakeholders in this situation?
- (b) What are the ethical issues?
- (c) What assumptions or principles of accounting are relevant to this case?
- (d) Do you think it is ethical to try to "time" the release of a story so as to diminish its effect?
- (e) What would you have done if you were the chief executive officer of Boeing?
- (f) Boeing's top management maintains that it did not have an obligation to reveal its problems during the first half of the year. What implications does this have for investors and analysts who follow Boeing's stock?