Draft
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English is ~~very~~ rough!
Very painful to read
paper is weak –
9/10/2015

Capstone Research Project

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No Bold!

Capstone Research Project

~~Evaluation of Company's Current problems and Solution~~

Should include short intro to the paper

Financial Statements

Failing to include inventory write-downs in financial statements can have lethal financial repercussions on the company financial health. The data presented in the financial records is not the appropriate data, and this might influence the market ~~players~~ participants' decision making. Lack of including write-downs will have an effect on the gross profit since the cost of goods sold will also vary (Bragg, 2013). High revenue indicates the sound financial health of a company, but as a result of write-downs misstatements. However, the act means that the company management is not doing its work diligently, and there is the lack of honesty with the intentions of defrauding the stakeholders. Investors may overestimate earnings persistence that is a high ethical error due to the danger of not including inventory write-downs. Excessive manager compensation, fraud penalties concealment, loss of faith in the management among others is some of the resulting financial and ethical issues. ?

Being a partner of the 1000 Fortune Company, the CFO needs to be conversant with the IRS negative examination. A lower tax was originally computed as a result of failing to include the inventory write-downs, and they were not included in the fee returns. They did not appear in the income statement. A civil fraud penalty of approximately 75% of tax of the tax owed that is attributable to the fraud will be levied on the organization, as a result of the IRS examination and contacting their head manager and the fraud technical advisor. In controlling fraud, I would recommend implementation of internal controls to the management of the company. Internal control includes whistleblowing strategy implementation, revenue match with cash flows among others.

What is your source of this?

How would this detect this particular problem?

Negative Results

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There could be a 75% tax imposition along with the interest of the company, as it is evident from the IRS examination that 10 percent has underwritten the inventory over three years. The company could face criminal charges if the IRS consults with the Fraud Technical Advisor on the imposition of the penalty. Service? ? Persecution time and jail costs could result in due to criminal tax fraud. The CFO or the company management could be liable for abuse and face jail, due to inventory write-down that could affect the organization severely. The social image of the business is changed, and stakeholders lose confidence in the enterprise. The IRS audit indicates that financial statements information presented is vague and cannot be relied on by the market players in making investment decisions. By using the inventory reserve account, the taxpayer failed to substantiate its inventory write-down and violates the IRC 471. Spell out and s/b in references –

No Academic Sources Cited?

Federal Tax Laws

measure inventory at lower of

There are particular instances in which taxpayers are allowed to l~~ower a fall in the value of their inventory from~~ cost ~~to~~ or ~~reduce~~ market value. In the year in which the decline occurs, which the reduction occurs even though the goods have not been sold, should be the year adjustments to the inventory are taken. Cost and lower of cost or market are the two primary methods valuation. There are steps one can take to claim a tax write-off for inventory they cannot seem to sell, but federal tax law allows one to write off items lost to theft or disaster. In case, the loss has occurred due to shrinkage, loss, or disposal, a corporation can claim the loss for tax reduction. These tax laws are relevant since they help lower the tax rate and loss of merchandise for the company.

No Academic Sources Cited?

The Supreme Court gave a ruling in Thor Power Tool Co. v. Commissioner, 439 US 522. In this case, the inventory write-down resulted in losing tax purposes and the ensuing net operating loss. During evaluation of the stocks, Thor applied the lower of cost method. The regulatory scheme was not consistent with Thor procedure for writing down excess inventory. Thor failed to present itself within either of the allowed exceptions, and the court decision was on looking forward to departing from replacement cost. The company did fail to dispose the excess inventory at prices lower than replacement cost. The excess inventory was selling at the initial prices. In case of inventory write-downs, it is important for a company to present the right claim and ensure that all the internal revenue codes are followed.

NO Academic Sources Cited?

Generally Accepted Accounting Principles (GAAP)

Stock options are put in place to offer employees the ~~power~~ ability to purchase a certain number of shares of a company's stock at a given price after a given duration of time, usually a period of ten years. A controversial compensation method is on stock options. Even though stock options are like wages, they are viewed as a form of payment, and under generally accepted accounting principles (GAAP) corporations are not currently needed to expense stock options on the income statement.

For individual treatment in share-based payment awards that may be in cash, there are classifications rules that allow equity treatment under GAAP. In this case, the share-based compensation for the top executives in the 1000 Fortune Company is treated as equity on the balance sheet (Margret, 2015). In this case, there is an error (misstatement) in recording the share-based transaction. Share-based compensation stock option offers an individual a period to exercise the option until the lapse of the option duration.

SARs have a financial benefit in that the holder gets cash or additional stock payment with the increase in the company's stock. However, it is risky if the company stock falls. Choosing the time to exercise and SARs the holder does not have limitations as compared to stock options. Using the option-pricing model and trued up when SAR is settling the compensation expense of SARs is estimated (Hayes, 2014). The CFO should push for the share-based-stock-appreciation rights plan because it values the benefit based on the stock increment of the company. It means that the company shares the compensation with the employees when they record increase in stock.

Reporting Requirements for Lease Reporting Under GAAP and International Financial Reporting Standards (IFRS)

For many organizations, Leasing is an important activity. A large number of leases are not presented on lessee's balance sheet, ~~by~~ the existing standards. The tenant is expected to recognize assets and liabilities for the rights and obligations created by leases according to the proposed reporting requirements (Williams, 2006). The revised reflection draft implies a dual strategy to the recognition, measurement, and presentation of expenses and cash flows originating from the lease to better those differing economics.

All leases are as capital leases under the proposed standard. Discounted either the lessee borrowing rate or the discount rate implicit the lease, the proposed rule requires tenants to record lease obligations at the present value of the minimum lease payments. The right-of-use is written down by an equal amount. The 1000 fortune company CFO need to lease the business asset since the company retains the title. Rather than the estimated economic life of the underlying asset, the amortization of the right-to-use asset is based on the lease term. It apparently means that the CFO stands a better chance of leasing the asset for a period then repossesses it in the future. ?

The off-the-balance-sheet financing arrangement works best under operating leases. This case the 1000 Fortune Company can lease an asset and buy it at the rental period lapse. In operating leases, the full cost of buying the asset is not recorded. Instead, the expense for the asset is recorded instead. This results in a cleaner balance sheet since the lower price is in the balance sheet rather than the entire price. It is a risky move since it can lead to the misstatement in the financial statements. ?

International Accounting Standards

The appropriate accounting regulations and disclosures used leases for both lessees and lessors are set out by the accounting standards IAS 17. Based on the accounting standards there are things one has to consider and from the look of stuff they are quite remarkable. One ~~it~~ is the materiality concept on leases (Ryan, 2007). The amounts recorded in the financial position statement in connection with the leases are the material of financial statements. It means that leases in the financial statement will be on the basis of the total assets.

It is important for the lessees to classify the leases as either operating or finance leases. It is a demand put across by lease models and has to be adhered to. However, this is not the best kind of solution because, faithful representations of leasing transactions are not in the financial statements, and this does not help in meeting the needs of the financial statement users. In the board's conceptual framework, there is an omission of important data regarding and regulations that meet the explanation of assets and liabilities. Source?

Because of the sharp bright-line difference between finance leases and operating leases, the model lead to the lack of comparability and undue complexity. To show the assets and liabilities originating from operating leases, many financial statement users adjust the amounts presented in the financial statements. One of the benefits is that all the leases across the globe or sector will be for. However, the risk associated with the approach is that the impact does not befall the lessons; instead the market will feel the impact. Apparently, I am for the option that the lease accounting requirements need to be similar across the globe.

Full title and reference

Implications Of SAS 99

SAS 99 is a process that involves gathering of information required for risk of material identification as a result of fraud, assessing the risk following comprehensive consideration of the company and operations and responds to the findings. Following the material misstatement that was revealed in the 1000 Fortune Company, there are several implications that arise. One, there is professional skepticism. SAS 99 demands raised partner contribution in the planning process and increased concentration on professional skepticism. Fraud discussion among all engagement team members is one of the newly required procedures of the new standard. All the players in the 1000 Fortune Company must be part of the discussion. The studies center on the factors that raise the pressure of committing fraud.

No Academic Sources?

Second, there has to be preliminary analytical procedure addition. The performance of the initial analytical method to identify unusual or unexpected relationships surrounding revenues is another new required procedure of the SAS 99. It means that there have to be additional to the more comprehensive examination process to curb fraud. In this case, for instance, the auditor will have to make a comparison of financial statements on the monthly basis of the present year with the previous years.

On the other hand, the risk of management's override of control is another required procedure in this case. The auditor also applies accounting estimates for the management bias using retrospective look-back procedures in evaluating accounting estimates. The impact on their consideration of the views taken as a whole should happen if the examiner finds out that the differences in the current estimates indicate a management bias. Significant estimates reflected in the prior year's financial statements need to have a retrospective review.

Restated Financial Statements

In this case, the material misstatement in the financial statement was the fact that the 1000 Fortune Company did not include inventory write-downs in financial statements. The International Revenue Service brands this as a fraud (Hayes, 2014). Fraudulent financial reporting is an intentional operation that is a deliberate misstatement and contains omissions. The users of the financial statements get deceived by this activity that is the primary objective. In this case, the 1000 Fortune company misstatement is a misrepresentation in or an intentional omission. The management failed to include the inventory write-down in the financial statements, and that makes them incomplete. ? Deliberate omission of significant information is the failure to provide information about going ? concern problems. ?

The CFO of the 1000 Fortune company need to file the relevant documents (SEC form 8-K) within four days to inform the investors of non-reliance on previously issued financial statements, following the determination of the importance to amend financial statements. The stance is to ensure that the involved prospects are aware of the restatement of the financial statements. The implications are as noted below: Source?

Investor's confidence implication- the investors, will not have faith in the company anymore. There is the need to prove to the market players that the misstatement has been corrected. Investor's confidence will be through actual information presentation.

Customer withdrawal-- failure to issue restated financial statement could lead to customers' withdrawal due to breach. Clients and shareholders need to feel that their wants are first, and lack of real proof indicates fraud.

Impact on stock price and market cap- the market tends to react negatively to negative news from the company, and a wide variety of market reactions could be observed.

Economic Effect of the Restatement of the Financial Statements

Restatement of the financial statement is requesting publication and examination of a company past financial statements. In most of the times, the situation happens if there exist material error in the financial statements. Investors, customers, creditors, and employees have great concern about the quality of financial reporting. The Financial Restatement will happen if financial reporting was done without following all the required instruction sand details. The resulting consequences include an increase in capital cost, higher probability of litigation, or turnover management.

The cost of poor financial reporting quality in the form of misstated earning is high, and this is from the perspective of existing shareholders of the restating firms. Reputational loss of the firm, substantial fines, and fall in market value are some of the results. Both diminished company prospects and increased risk are in the significant market reactions at the time of the financial restatements. The existing shareholder might have strong incentives to cooperate with the bidders for a successful bid, in contrast with the incumbent management lowering the probability of withdrawal.

Financial Restatement makes it hard for the investors to make decisions in terms of which juncture to venture in. If the material error exists in the revenue margin, it means that the information might be misleading (Rezaee, 2002). Information asymmetry exists between the investors and the firm. In making an investment decision, investors use several kinds of information. On the other hand, creditors confidence will be shaken by the information on the financial statements do not represent real value or status of the company. The economic impact of the financial restatement on employees and customers will be negative. Source

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