

## Brad's Time for a Decision

**Wayne G. Bremser \***

Professor of Accountancy  
Department of Accountancy and Information Systems  
Villanova School of Business  
Villanova University,  
Villanova, Pennsylvania, USA 19085  
[wayne.bremser@villanova.edu](mailto:wayne.bremser@villanova.edu)

**James L. Bierstaker**

Associate Professor of Accountancy  
Department of Accountancy and Information Systems  
Villanova School of Business  
Villanova University,  
Villanova, Pennsylvania, USA 19085  
[James.bierstaker@villanova.edu](mailto:James.bierstaker@villanova.edu)

\*Corresponding Author

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Wayne G. Bremser, Villanova University, [wayne.bremser@villanova.edu](mailto:wayne.bremser@villanova.edu)  
James L. Bierstaker, Villanova University, [James.bierstaker@villanova.edu](mailto:James.bierstaker@villanova.edu)

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### Abstract

In the following case a new auditor feels under pressure to report time that does not exceed a high-stretch budget, even if the audit task takes more time than budgeted. It provides an opportunity for students to make a decision with ethical dimensions. Students also can debate whether the cultural setting makes a difference. It also reviews some budgeting concepts.

#### I. Brad's Situation

After graduating as an accounting major from a large university, Brad was excited to start his career at Bier & Associates CPAs, an international professional services firm. The firm has offices in eight countries and offers assurance, tax and consulting services. Brad had made an intense effort to get his job in a time of economic uncertainty and high unemployment. He knew that it would be an important first step in his career, and looked forward to gaining valuable experience. After a week of orientation and training, he was sent to the firm's largest audit client in New York City.

It was a sunny Monday morning in January 2011, and his first assignment was to audit the Cash Account. He liked his immediate supervisor Lauren Lind, and at first, things went well. However, at the end of the week, he started to notice some strange rumblings amongst the staff. Word was that the client had demanded a 15 percent fee cut from all their vendors, including their auditor.

On Monday afternoon (the sixth day of the audit), Lauren called him to her desk. Lauren said, "The audit partner has cut my time budget by 15 percent. This puts considerable pressure on our audit team. I had given you a time budget for cash of 160 hours, which was the amount of time required in the prior year. I am counting on you to get the job done in 136 hours."

Brad tried to be as efficient as possible while auditing the cash account, but he also wanted to be thorough and not miss any discrepancies. By Wednesday afternoon, he concluded that it was unrealistic to do less work than last year and maintain audit effectiveness.

He discussed his view with Lauren at 4:30 PM on Wednesday. In responding, Lauren seemed sympathetic. She said, "I can see your point. However, our performance evaluations will be based on staying within the bounds of the revised time budgets. I want you to get the job done in 136 hours." Brad interpreted this message as do not report more than 136 hours.

#### II. Time for a Decision

Brad worked until 8:30 PM on Wednesday. He did not get paid for overtime. Brad had planned to spend two or three hours studying for the CPA exam, but he was too tired. Also, he was worried. Brad's views on the time budget had not changed. He realized that he had to decide what to do by Thursday morning.

Brad is concerned that he will not be able to confirm the cash balances with all of the banks and finish the cash audit program without going over budget. Should he bring this to the attention of Lauren again? Or, should he go over her head and talk to the audit manager, who may also be focused on promotion to partner and concerned with audit time budget as well? Brad does not want to get Lauren, or him, in trouble.

### III. Required

1. Why do firms use time budgets? What is a high-stretch budget?
2. Identify at least three alternatives that Brad should consider. Discuss the alternatives and factors that Brad should consider in making his decision. In your discussion, give consideration to using an ethics model. Examples of ethics models or guidance are listed in Appendices A and B.
3. What should Brad do? Explain why the alternative that you selected was preferable to the others.
4. Would your decision be influenced if Brad's discussions with some staff accountants who were hired last year revealed that underreporting time was a common practice in the firm. According to the grapevine, some partners underreported time.
5. Would your analysis (including consideration of cultural factors) and decision be different if Brad was an expatriate working at an audit firm in:
  - a. Berlin Germany?
  - b. Shanghai, China?

The Geert Hofstede™ Cultural Dimensions model (see Appendix C) may be helpful.

### Case Appendices

#### Appendix A

##### Professional Association Ethics Guidance: AICPA Code of Professional Conduct

<http://www.aicpa.org/Research/Standards/CodeofConduct/Pages/default.aspx>

#### Appendix B

##### Traditional Ethics Stakeholder Models

In ethics decisions, any individual or group that may be impacted has a stake in the outcome. Thus, alternative actions should be evaluated from a number of perspectives:

What stakeholder rights are being violated?

Is there an overriding duty to any stakeholders?

Will an alternative benefit any stakeholder to the detriment of another stakeholder? If a possible detriment to a stakeholder is a concern, should this be remedied? If so, what modification of alternative would provide relief?

##### Utilitarian Model

The utilitarian believes that the morally correct course of action is one that brings about the greatest good for the greatest number of people?

##### Golden Rule Model

An action is morally appropriate if it treats all stakeholders with the same respect and dignity one would expect from others.

### **Kantian Model**

An action is morally correct if those impacted by any decisions are respected as free and rational individuals. An action is morally correct if it minimizes the violation of the rights of all stakeholders. Important considerations are:

- Rights
- Free consent
- Privacy
- Freedom of conscience
- Freedom of speech
- Due process

### **Enlightened Self-Interest Model**

An action is morally correct if it maximizes benefits for the individual in a way that does not arbitrarily hurt others and attempts to minimize any harm that ensues, when possible. An action is morally correct if it maximizes benefits for the stakeholders in a way that attempts to minimize harm to other stakeholders.

## **Appendix C**

### **Hofstede™ Cultural Dimensions model**

The Geert Hofstede™ Cultural Dimensions model is widely cited (Hofstede, 1980, 2001). Hofstede's five cultural dimensions are summarized as:

- Power Distance Index-degree of inequality in society
- Individualism- self-sufficient vs. Collectivism (loyalty)
- Masculinity- distribution of gender roles> male [assertive] vs. female [modest and caring]
- Uncertainty Avoidance Index- tolerance for uncertainty and ambiguity> degree of comfort in unstructured situations
- Long-term Orientation- perseverance and thrift vs. short term (tradition, social obligations, protecting face)

Hofstede's five cultural dimensions and data on various countries are available to students at:

[http://www.geert-hofstede.com/hofstede\\_dimensions.php](http://www.geert-hofstede.com/hofstede_dimensions.php)

### **References**

- Geert Hofstede, *Culture's Consequences: International Differences in Work-Related Values*. Beverly Hills CA: Sage Publications, 1980
- Geert Hofstede, *Culture's Consequences: Comparing Values, Behaviors, Institutions and Organizations Across Nations*. 2<sup>nd</sup> Edition, Thousand Oaks CA: Sage Publications, 2001