

Handout 7

Yukon, Inc. is a publicly-traded company with a December 31 year-end. Yukon operates an online retail business that fulfills online orders by shipping products directly to customers through a distribution center that has been located in State Z for the last ten years. This is the only physical presence that Yukon has in State Z. As a result, Yukon does not collect or remit sales tax on sales made to residents of State Z. The distribution center is vital to Yukon because State Z borders eight other states and, therefore, is a central location for Yukon to reach its customers. Yukon would like to construct a second distribution center at the other end of State Z. Such a facility would reduce its delivery costs in the future by millions of dollars.

State Z has denied Yukon a permit to build the distribution center until Yukon pays prior sales taxes totaling \$30 million, \$2 million in interest, and \$3 million in penalties. Yukon's legal position has always been that it does not do business in State Z and is not subject to its laws. And State Z's legal position has always been that the distribution center constitutes a presence in the state subjecting Yukon to its laws as a corporation doing business in State Z.

The year 2019 has ended and the financial statements take approximately two months to prepare and distribute, which is estimated to occur on March 1, 2020. In December 2019, State Z's legislature enacted an amnesty program that would forgive 50 percent of unpaid sales taxes and all interest and penalties if a company agreed to collect and remit sales taxes on all future sales made in State Z. In addition, State Z agreed to permit Yukon to build the second distribution center if they were granted amnesty. In January 2020, Yukon submitted the required application forms to participate in the amnesty and paid State Z a total of \$15 million to settle its obligation through December 31, 2019.

In a meeting of Yukon's CEO, CFO, and Amelia Emerson, the Controller and a CPA, to discuss in what accounting period to include the payment of the prior sales taxes (they were in agreement as to how), Amelia explained that the sales taxes might need to be reported in the financial statements for 2019. The CEO disagreed and argued that the 2019 year was over and proposed to account for the payment in the financial statements for 2020 – the year they were paid. He anticipated higher earnings in 2020, which would easily offset and absorb this \$15 million hit to the income statement. The CEO was concerned that it would result in Yukon having to report a net loss for 2019. Of course, this would result in the CEO and the other executives not receiving their bonuses because Yukon fell short of reaching the forecasted earnings.

The CFO offered what she thought could be a possible compromise by asking "why not just disclose the existence of the amnesty in Yukon's 2019 financial statements and not account for it until 2020?"

The CEO expressed that this might work, but strongly suggested to Amelia that she needed to do more research and be absolutely 100% certain before discussing this issue further. The CEO made it very clear that mere disclosure was the most he would find acceptable. His final comment was "whoever heard of changing the books after the year has ended?"

Amelia disagreed with both executives, but did not want to argue at the meeting until she could support her position with absolute certainty. Amelia thinks she knows in which accounting period to include the payment of the sales taxes, but wants you to provide her with your recommendation. Amelia was only recently hired as the Controller of Yukon and doesn't want to upset the CEO and CFO unnecessarily in case she is wrong. Even though it's Amelia's responsibility to decide when to account for transactions, Amelia is tempted to let the CEO and CFO do whatever they want. However, she also doesn't want to become involved with financial statements that violate GAAP.

Required:

You must complete this assignment independently on your own and not work with or collaborate in any way with any other person, including but not limited to your ACCT 350 classmates. Failure to work alone will constitute academic dishonesty. Further, your assignment will serve as a diagnostic tool for 351COM next semester; submitting work that is not your own will undermine the purpose and value of the feedback you will receive near the beginning of that course.

Prepare a letter (not a memo) addressed to Amelia Emerson, Controller, Yukon, Inc., 350 Accounting Avenue, Northridge, California 91330, advising her about which year to use to account for the sales taxes. You must support your advice by citing any applicable accounting standards. Do not include a reference page until you complete a follow-up assignment in ACCT 351COM. You must limit your letter to one page (single spaced with double space between paragraphs) and one-inch margins. Only submit the one page and nothing else. Create your own letterhead for the accounting firm you represent. The date should be placed no less than one-half inch below the letterhead (or 1.5 inches from the top of the page).

Remember what we discussed in class about not citing a section 55 in the Codification unless you also cite the primary source to which it refers. In other words, citing only section 55 isn't enough.

In addition to analyzing the accounting issue(s) in your letter, include a brief comment about any ethical issue that Amelia faces. You should look at the AICPA Code of Professional Conduct rule on "Integrity and Objectivity". Briefly explain to Amelia the one part of this rule she should most consider in her current situation (e.g., subordination of judgment). But remember (and be careful) that the CEO and CFO may be "secondary readers" of your letter, and that you are creating a written record on this issue. Please note that it is Certified Public Accountants (CPAs) like Amelia who are "members" of the AICPA and must uphold the AICPA Code of Professional Conduct.

Your textbook is not recognized as authoritative sources in accounting research. Therefore, do not use your textbook as support for your recommendation.

Turnitin

In addition to submitting your letter to Professor Weiss, you must also submit your letter to Turnitin. To use Turnitin, access Canvas and follow these instructions.

- In the Course Navigation, click the Assignments link.
- Click Turnitin for Handout 7.
- To submit your assignment, click the Upload Submission button.
- Drag your file to the text box.
- Review the information about your uploaded file, then click the Continue button to preview and accept your file.
- Click the Accept Submission & Save button.

Failure to use Turnitin will result in you losing 10 points in ACCT 350, and your letter will not be accepted in ACCT 351COM.

Additional Information

To access the applicable section of the AICPA Code of Professional Conduct, go to pages 31 and 32 of <http://www.aicpa.org/research/standards/codeofconduct/downloadabledocuments/2014december15contentasof2014may15codeofconduct.pdf>.

To cite and reference this rule, use the following:

Reference

American Institute of Certified Public Accountants, ET Section 1.100.001.01 (2019). Retrieved October, 2019, from <http://www.aicpa.org/research/standards/codeofconduct/downloadabledocuments/2014december15contentasof2014may15codeofconduct.pdf>.

In-text Citation

(AICPA, 2019, ET Section 1.100.001.01)