

Solution:

From the ethical point of view, the managerial decision to do LIFO liquidation depends on the circumstances of the company's profit-making venture as well as its future.

In normal circumstances, companies do not do LIFO liquidations because LIFO reduces taxes that need to be paid and hence enhances the cash flow statements.

On the other hand, if the company has suffered from losses doing business under LIFO, they can face scrutiny of the shareholders as well as the analysts. So, to show that they are sustainable, companies might be obliged to deplete their LIFO reserves, inflating their income.

This is, however, accompanied by a proportional increase in the taxes needed to be paid. Thus, this is a two-pronged sword; the company gets a profit statement and faces a higher tax (the reason why companies use LIFO whenever applicable in preference to FIFO & weighted average methods.).

Thus, from an ethical perspective, considering the managerial decision, it is a way of manipulating your income as per your preference, which should be seen as unethical but to save the future and face of the company, these decisions do have impacts that outweigh unethical manipulation.