**Cooking the Books: Stretching the Principles of Revenue Recognition**

John is CFO at a venture-backed tech startup with revenues of $20 million and approximately 80 employees. He's worked at the company for several years, and now reports to Ralph, the company's newly hired CEO.

The company had been doing really well, but recently big customers have been placing fewer orders and Ralph is feeling pressure to show growth. This pressure is amplified because the company is venture-backed, and the investors expect results.  While the company did well in the first round of funding, if they don't perform now, they may have trouble with gaining sufficient funding in the second round, which could mean the end of the company.

All of this was on John's mind when Ralph came to him about recording a major order that was still under negotiation. The deal had not gone through, although both parties expected to complete the deal in the next week. With the current quarter ending in the next few days, including this order would give a significant boost to the company's financial reports. Nonetheless, under the generally accepted accounting principles (GAAP), it is clear that this order does not qualify as revenue.

Even so, Ralph was adamant about John booking the order, which could make all the difference in the company's ability to stay afloat. John knew that doing so would constitute fraud; particularly because the Sarbanes Oxley Act requires the CEO and CFO to sign off on all quarterly reports. At the same time, John knew that this order could make all the difference.

Babb, A. (2013). Cooking the books: Stretching the principles of revenue recognition.Retrieved from <http://www.scu.edu/r/ethics-center/ethicsblog/silicon-valley/16454/Cooking-the-Books:-Stretching-the-Principles-of-Revenue-Recognition>

**Homework Assignment**

Answer the following questions using the information in the Case Study - Cooking the Books. Use approximately 300 words. Make sure your assignment is double-spaced and in correct APA format. No title page is necessary, but include title page information at the top of your assignment on the left hand side.

1. What is the issue?

2. What should John do? What are his alternatives? List at least 3.

3. What is the best option and why?

4. What could be the consequences of his decision?

5. What ethical system is he using?