

S1-4 Ethical Decision Making: A Real-Life Example

In June 2005, John Rigas, the 80-year-old founder and former chief executive officer (CEO) of **Adelphia Communications** was sentenced to 15 years in jail for defrauding investors and lenders of over a billion dollars. His son, the former chief financial officer (CFO), was sentenced to 20 years in jail. To understand the charges, you need to first understand a bit about Adelphia's history. Adelphia started as a one-town cable company in 1952 and, at the time the fraud accusations were made public, had grown into the sixth-largest cable television provider in the country. With the company starting as a family-owned business, Adelphia's operations were always a central part of the personal lives of the Rigas family members. However, the extent to which their personal lives were mixed in with the business activities was never clear to stockholders—at least, not nearly as clear as when they were reported in an article in the August 12, 2002, issue of *Fortune*. Below the following questions we present a table from that article, which summarizes how the Rigas family allegedly used over \$1.2 billion of Adelphia's money—money that ultimately belonged to Adelphia's stockholders.

1. What is the accounting concept that the Rigas family is accused of violating?
2. Based on the information provided in the following table, can you determine which of the family's dealings are clearly inappropriate and which are clearly appropriate?
3. As a stockholder, how might you attempt to ensure that this kind of behavior does not occur or, at least, does not occur without you knowing about it?
4. Aside from Adelphia's stockholders, who else might be harmed by these actions committed by the Rigas family?

LO 1-2, 1-3, 1-4**Adelphia Communications****Family Assets, Sort Of**

Some of the notable ways the Rigas family used Adelphia shareholder dollars.

On the Receiving End	Who's behind the Entity	How Much?
Dobaire Designs	Adelphia paid this company, owned by Doris Rigas (John's wife), for design services.	\$371,000
Wending Creek Farms	Adelphia paid John Rigas's farm for lawn care and snowplowing.	\$2 million
SongCatcher Films	Adelphia financed the production of a movie by Ellen Rigas (John's daughter).	\$3 million
Eleni Interiors	The company made payments to a furniture store run by Doris Rigas and owned by John.	\$12 million
The Golf Club at Wending Creek Farms	Adelphia began developing a ritzy golf club.	\$13 million
Wending Creek 3656	The company bought timber rights that would eventually revert to a Rigas family partnership.	\$26 million
Praxis Capital Ventures	Adelphia funded a venture capital firm run by Ellen Rigas's husband.	\$65 million
Niagara Frontier Hockey LP	Adelphia underwrote the Rigas's purchase of the Buffalo Sabres hockey team.	\$150 million
Highland 2000	Adelphia guaranteed loans to a Rigas family partnership, which used the funds to buy stock.	\$1 billion
Total		<u>\$1,271,371,000</u>

S1-7 Preparing an Income Statement and Balance Sheet

Electronic Arts is a leading developer and publisher of interactive entertainment software for personal computers and advanced entertainment systems made by **Sony**, **Nintendo**, and **Microsoft**. Assume that the company is revising its methods for displaying its financial statements, and the controller in the accounting department has asked you to create electronic worksheets that they can use as their standard format for financial statement reporting. The controller has provided you with an alphabetical list of statement categories and account names (below), with corresponding balances (in millions) as of September 30. She has asked you to use a spreadsheet program to create two worksheets that organize the accounts into a properly formatted balance sheet and income statement, and then use formulas to compute amounts marked by a ? below.

LO 1-2**Electronic Arts Inc.**

Accounts Payable	\$ 171	Liabilities		Revenue	
Accounts Receivable	328	Net Income	?	Sales Revenue	\$675
Assets		Notes Payable	\$ 12	Selling Expense	223
Cash	2,412	Other Assets	283	Stockholders' Equity	
Contributed Capital	986	Other Expenses	1	Total Assets	?
Cost of Goods Sold Expense	284	Other Liabilities	587	Total Expenses	?
Expenses		Promotion Expense	107	Total Liabilities	?
Income Tax Expense	9	Property and Equipment	364	Total Liabilities and	
Inventories	367	Retained Earnings	1,998	Stockholders' Equity	?
				Total Stockholders' Equity	?

Not knowing where to start, you e-mailed your friend Owen for advice on using a spreadsheet. Owen's detailed reply follows.

Required:

Follow Owen's advice to create a balance sheet and income statement, with each statement saved on a separate worksheet in a file called *meEA.xls* where the *me* part of the filename uniquely identifies you.

From: Owentheaccountant@yahoo.com
To: Helpme@hotmail.com
Cc:
Subject: Excel Help

Hey pal. Long time, no chat. Here's the scoop on creating those worksheets, with a screenshot too. If you need more help, let me know and I'll submit an application for your position there. ☺

1. Start-up Excel to open a new spreadsheet file. You'll need only two worksheets for this assignment, so delete the third worksheet by right-clicking on the *Sheet3* tab at the bottom of the worksheet and selecting Delete. While you're at it, rename *Sheet1* and *Sheet2* to *Balance Sheet* and *Income Statement* by double-clicking on the worksheet tabs and typing in the new names.
2. Plan the layout for your reports. Use the first column as a blank margin, the second column for account names and their headings, and the third column for the numbers corresponding to each account name or total. If you want to apply the same format to all worksheets, begin by right-clicking on the tab at the bottom of a worksheet and choosing Select All Sheets. Next, resize the first column by clicking on the A at the top of that column, then from the Home tab, in the Cells group, click on Format then Column Width . . . , and enter a width of 2. Using this same procedure, resize columns B and C to 50 and 15, respectively.
3. Starting with cell B1, enter the company's name. Enter the report name and date in cells B2 and B3. To merge cells so these headings span more than one column, select the cells to be merged and then click on Format in the Cells group, select Format Cells . . . and click the Merge Cells box in the Text Control section of the Alignment tab. Continue with the body of the report in cell B5, entering any necessary amounts in column C.
4. To use formulas to compute subtotals and totals, the equals sign = is entered first into the cell and is followed immediately by the formula. So, to add a series of amounts, say C7 through C11, use a formula like =SUM(C7:C11), as shown in the screenshot below.
5. After you enter all the data and calculate totals, be sure to save the file. To do this, just click on the Office button in the top left and choose Save As. . . .
6. If you need to print the worksheets, it might be best to highlight what you want printed, then click on the Office button, choose Print . . . , and choose Selection in the Print What box.
7. Go to it, you accounting guru!

S1-7.xlsx - Microsoft Excel

Home Insert Page Layout Formulas Data Review View

C12 fx =SUM(C7:C11)

	A	B	C	D
1		Electronic Arts		
2		Balance Sheet		
3		As of September 30		
4		(in millions)		
5				
6		ASSETS		
7		Cash	\$ 2,412	
8		Accounts Receivable	328	
9		Inventories	367	
10		Property and Equipment	364	
11		Other Assets	283	
12		Total Assets	\$ 3,754	
13				
14		LIABILITIES		
15		Accounts Payable	\$ 171	
16		Notes Payable	12	
17		Other Liabilities	587	
18		Total Liabilities	770	
19		STOCKHOLDERS' EQUITY		
20		Contributed Capital	986	
21		Retained Earnings	1,998	
22		Total Stockholders' Equity	2,984	
23		Total Liabilities and Stockholders' Equity	\$ 3,754	
24				

Balance Sheet Income Statement

Ready 100%