

# 4 ACTIVITIES

For Groups or Individuals, written or oral responses.

## I. ETHICS

**ACT 1.** You work for Mason Distributors, a business owned by a single individual and your boss, T. Mason. You are in charge of managing the landscape maintenance for the firm's headquarters property. Mason Distributors uses a contractor, Greenway Grounds Maintenance to perform weekly landscape maintenance. In early spring your boss asks you to tell Greenway to schedule weekly landscape maintenance of his personal residence. He adds, "I want it included in Mason Distributors bill".

You realize that the owner will save income taxes with this scheme. He will pay for his personal maintenance with pre-tax dollars. The alternative for him would be to pay income tax on the firm's profits and then draw the after tax net income and pay for the personal expense. This is the first well paying job you have had. You just graduated from college, you're married and have a 6 month old daughter, two car payments, a large student loan and mortgage on a new home. Your spouse is still in school. You are concerned about losing your job if you express a concern about this arrangement with your boss. After all, he is the boss and it's his business and his money.

### What would you do?

- Is this a questions of ethics?
- How do you know that your boss won't reconcile the bill when his taxes are prepared and pay income tax on the personal services paid for by his firm? Maybe he just feels he will get a better price from Greenway if the bill is combined and he will fix it at tax time.
- Is this matter your business or is it your bosses' business?
- What would you do?

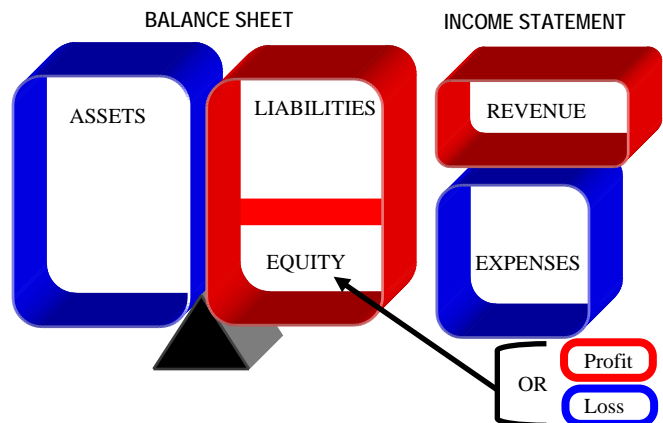


## II. CRITICAL THINKING:

**ACT 2.** Why is it important for a firm to follow the objectivity concept when recording the cost of assets other than cash that are invested by owners? What kind of things can happen if values are recorded without a solid third party source for those values?

**ACT 3.** The Debt to Worth ratio for a firm is 3 to 1. The owner is considering personally investing the cash into the firm and increasing her Equity. What will happen to the Debt to Worth ratio if she does? Will it increase or decrease?

Suppose the owner considers having the firm borrow that same sum of cash from a bank instead of investing it personally. What will happen to the Debt to Worth ratio if the firm borrows? Will it increase or decrease this ratio? Which will result in more financial risk?



## 4

## ACTIVITIES

**III. OTHER ACTIVITIES:**

**ACT 4.** Go to the Small Business Administration website at <http://www.sba.gov> or use a search engine such as Google to find the site. Answer the following questions:



1. Who pays the salaries of SBA employees?
2. What is the mission of the SBA?
3. How does the SBA determine the size requirements for firms to be considered “small” and therefore eligible for SBA assistance.?