BANK OF GREEN VALLEY – QUESTIONS

In preparing a report for your supervisor at Bank of Green Valley, incorporate answers to the questions below.

Q. 1. Did Victor Hines, LLP owe a duty of care to the Bank of Green Valley?

Q. 2. Assuming Victor Hines LLP owed a duty of care to the Bank of Green Valley, did Victor Hines, LLP breach that duty of care?

In determining whether breach occurred, make sure to perform the following accounting analysis:

* 1. Recreate the journal entry that ZonTech made when it sold the stock to GreenSel. How much gain was recognized on the sale of the stock? How much cash inflow did this transaction create for ZonTech?
  2. Calculate the present value of the note receivable using a 15% interest rate. Using the present value of the note as the only economic benefit received, recalculate the gain or loss on the transaction.

Q. 3. Assume Victor Hines LLP breached the duty of care owed to the Bank of Green Valley. Were the damages sustained by the Bank of Green Valley caused by Victor Hines’s breach of the duty of care? In answering this question do the following: (a) correct the 2004 income statement using the analysis in question 2 above; (b) perform ratio analysis on the four year’s income (as originally stated and then after your corrections in requirement a) to determine if the firm actually had a pattern of income stability. Calculate standard profitability ratios (Return on Sales, Gross Profit Margin, Earnings per share, plus any other analysis you wish to perform.)

Q. 4. In this case, there were many people who had to deal with ethical issues. Analyze the issues faced by Michael Free, Roger Shaw, and Lily Meza, and indicate the following for each:

1. Were their actions ethical? In each case indicate which principle or test of ethics you are applying to determine your answer.
2. Indicate whether you think their actions were justified or not given the circumstances they were faced with.

Q. 5. Analyze this case using a strategic perspective. In your answer cover the following:

a. Look at this case from the standpoint of the auditors and from your own (Rosie Cruz’s) standpoint.

b. Knowing what you know now, which strategic principles would you say were ignored or misunderstood by the auditors and yourself?