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WORLD ACCOUNTING SCANDALS

Annotation. The most famous accounting scandals in the economic world and their consequences are examined.

Анотація. Розглянуто найвідоміші бухгалтерські скандали в економічному світі та їх наслідки.

Аннотация. Рассмотрены наиболее известные бухгалтерские скандалы в мире экономики и их последствия.

Key words: accounting scandal, regulations, business ethics, management, revenue.

Looking back at the major accounting scandals that have changed the business world, it was noted that most of their unraveling came about during the turn of the new millennium, which was a time when the American trade and industries were beginning to experience the benefits and detriments of high-tech computerization. Information storage and communication became sophisticated, which made possible the compilation of hordes of information in an instant. Recording and verification of accounting transactions in real time were made easier and more accurate, which facilitated the reconciliation of supporting documents versus sources, with very little effort needed.

The purpose of work is to consider the biggest, famous in whole world, accounting scandals.

The main objectives of the article are:

- to be aware of accounting scandal definition;
- to analyse the most known and meaningful accounting scandals;
- to learn the mechanisms that can influence the activity of accountants;
- to study some basic points of business ethics.

There are some scientists, who worked in the direction of learning and discussing this question: Aliyasha Dey, Thomas Z. Lys, Franklin James and others.

Accounting scandals, or corporate accounting scandals, are political and business scandals which arise with the disclosure of misdeeds by trusted executives of large public corporations. Such misdeeds typically involve complex methods for misusing or misdirecting funds, overstating revenues, understating expenses, overstating the value of corporate assets or underreporting the existence of liabilities, sometimes with the cooperation of officials in other corporations or affiliates.

Among the most widely known financial scandals they usually mention more than ten accounting scandals, but in this article an attempt to characterize the latest three of them is made.

The first one is Enron, which used various financial and offshore schemes. Despite complexity of the schemes, a principle of their action was simple: on the one hand, operations with the electric power, spent through affiliated companies, increased the cost price, on the other hand, on offshore debts of corporation which the management didn't want to advertise were made out. So, Enron's swindle consisted in concealment of losses.

The second is WorldCom. The fraud in this company was accomplished primarily in two ways:

- booking line costs" as capital on the balance sheet instead of expenses;
- inflating revenues with bogus accounting entries from corporate unallocated revenue accounts".

And the last one is Parmalat. Scandal round the company has inflamed in 2003 when new CEO Enrico Bondi has lifted the accounting reporting and has found out that the firm for a long time (more than 10 years) hid losses. The company was convicted of illegal manipulations at stock exchanges. The former general director has been sentenced to long imprisonment. After that the company has transferred long process of reorganization.

Those scandals became the reasons of tough control from the taxing authorities to check accountants' and CEOs' work.

It became evident that some legal measures and regulations were needed. Among them one should to mention widely known Sarbanes-Oxley Act, which was created when scandals from various large companies resulted in lost of billions by investors. This act was drawn up to make companies more accountable, and also further reduce the occurrence of other financial scandals. The laws implemented by the SOX Act brought about changes that deal heavily with offenders and do not excuse anyone from ignorance of the GAAP accounting rules and policies.

The great value for prevention of scandals has business ethics, like a form of applied ethics or professional ethics that examines ethical principles and moral or ethical problems that arise in a business environment. Business ethics is part of the philosophy of business, the branch of philosophy that deals with the philosophical, political, and ethical underpinnings of business and economics.

The key to real accounting reform is to remove the economic incentive for accountants to be halfhearted in their audits. One way would be to make the audit of public companies a federal function. That would guarantee independence, to be sure.

In order to assess the risk of insuring a company's books, insurance companies would hire accountants and pay them to conduct annual audits. Since the auditors would be representing their new customers — insurers — not the audited companies, they would have both the freedom and the incentive to be tough and thorough. Meanwhile, accountants could continue to offer their consulting services to public companies, because the conflict of interest created when they both audited and consulted to the same company would disappear.

Accounting insurance would have other salutary effects. When honest companies are victimized by fraud — say by an internal bad apple or by a company that they acquire — the litigation and hangover can last for years. Insurance might provide a more rapid settlement and allow new management teams to revive the business faster.

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