The enron and worldcom scandals

The Enron and WorldCom ScandalsThere have been several accounting scandals that shocked the world in the past. Arthur Andersen, Enron, and WorldCom are three familiar names involved with some of these scandals. Enron question # 1Enron difficulties began with the establishing of Special Purpose Entities (SPE) such as Chewco, LJM1, LJM2, and the Raptors to generate false profit. An employee of Enron, Michael Kopper worked for Fastow and was appointed as manager of Chewco later created a new structure for the company that put no cash into the SPE. Question # 3I do believe the board understood how profits were being made because of the compensations that were received.

Once the board heard Fastows proposal to create a new type of financing that would remove debt from the companys balance sheet, they were all on board (Abelson, 2002). Question # 5Kenneth Lay showed lack of proper governance as CEO when Cliff Baxter and Sherron Watkins came forward to report wrong doing no action was taken. Lay along with Fastow were trusted by the board, shareholders, pensioners to server with their best interest in mind, but this did not happen. Question # 6The failure of Enrons governance system was a combination ranging from management to directors and the audit committee to regulators and analysts.

With the conflict of interest between Fastow, the senior management team, Arthur Andersen, and the lawyers it was difficult for the board to ensure they were receiving the correct information and the policy was being followed (Brooks, 2007). Question # 9Enron set up SPEs to falsify earnings by hiding their debt. The conflict of Arthur Andersens activities is when he acted as the auditor and consultant. The executives activities created a conflict of interest when some created and managed SPEs and set on the board to make sure their own interest was met. WorldCom: Question # 1 WorldComs management increased its net income and assets by transferring part of certain line cost to capital account. “ First, WorldCom improperly released certain reserves held against operating expenses.

Second, WorldCom improperly recharacterized certain operating costs as capital assets. This was repeated in the third and fourth quarter to hide WorldComs actual debt.” (Brooks, p. 115, 2007) Question # 3WorldCom did not have a code of ethic at the time of the scandal, so the board of directors could have prevent manipulations by establishing a more stable internal control.

The board could have been more involved by reviewing the information reported carefully. Question 4I think WorldComs accountant went along with Ebbers because they (Sullivan and Myers) worked for Arthur Andersen, which had practice the same deceit with Enron. It was all about making a profit for them while the employees and shareholders suffered. Question 5The board approved loans of over $408.

2 million to Ebbers because they thought he was buying or paying margin calls on WorldCom stock. Instead of using the money for the intended purpose, he used it for his on personal wants. Strong internal control should be established and followed in companies to prevent such scandals as Enron and WorldCom. Good code of ethic is a vital in accounting and Arthur Andersen proved he did not possess any. ReferencesAbelson, R. (2002, February 22).

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