

# Article review responses

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Teacher Article Response Penguin's case is very reminiscent of Enron and Worldcom where they employ exotic accounting method that is not consistent to GAAP to make the company appear stable and profitable. Enron however was worst because it used its "unusual" accounting method to also lure investors to put in more money to the company through the false valuation of its stocks. By not reflecting depreciation, Gross Profit Margin increases and it follows then that the company would appear stable and profitable when it is not.

The article presented about Penguin is a post-Enron reaction of the public, creditor and regulatory agency's increasing awareness of company's attempt to used financial acrobatics to make the company appear stable and profitable. In the case of Penguin, it removed depreciation from its Cost of Goods Sold which is a standard cost of recognizing wear and tear to make it appear to have a more than above industry average Gross Profit Margin of 39.56 percent. It may be less in severity but it is no different from Enron's "future's marketing" where they recorded future sales (sales which are not realize) to make the company appear profitable even if those sales are not yet realized. This of course looks good on paper thereby increasing the valuation of its stock in the market duping its investors to invest on its stocks. Penguin may have said it to be unintentional but again, this practice is far from desirable.

If indeed Penguin did not intend to commit a shady accounting practice to make the company appear to have a higher Gross Profit Margin, it should then revise its accounting method according to GAAP and follow absorption costing that would reflect the true cost of its product and service.