Stan sewall case

Finance

What is unethical about this situation The unethical part about this situation is that thought Stan Sewall paid only $50, 000/- for the franchisee he has been able to window dress his balance sheet by 10 times without actually investing the funds into the enterprise at all. This is very similar to the Enron saga where the balance sheet was " pumped up" to hide the huge debts of the company and keep the investors, majority of the employees, and government in dark about the true state of affairs. The transaction to inflate the value cannot be said to be at arms' length as the parties involved have no real financial stake knowing very well from the beginning that the funds changing hands are in circuitous route and intended to flow back to the original lender.

Who can be harmed

All third parties are a risk. Primarily the general investors, creditors, Stan Sewall, the law firm and the customers can be harmed.

How can they be harmed

As evaluation of the enterprise is at shored up value the investors and creditors can be harmed. When the law catches up with Stan Sewall, he, the law firm, the third party and the customers would all be harmed for trying their hand at cheating.

What role does Accounting play

Per se it would be difficult to catch up with Stan Sewall if the transactions are seen in isolation. Here the fine print of GAAPs & FACBs would need to be invoked to see through this creative set of transactions. Perhaps SOX Audit would help nab the culprit at a nascent stage