Sunbeam corporation

Business, Company

The American corporate world has been rocked by a series of financial frauds committed by the management. These frauds have led to the collapse of the corporations and unheralded investor losses. Greedy executives apply creative accounting techniques that conceal the fraud. However, such financial are hard to conceal for long and at some point they are detected. In the Sunbeam Corporation the fraud was a case offinancial statementfraud orchestrated by the new management.

Albert Dunlap, famously known as ' Chainsaw Al' for his ruthless history in restructuring and downsizing struggling corporations, was hired by Sunbeam as CEO and chairman of the board to carry out a similar program. He surrounded himself with like minded subordinates and commenced his restructuring program by reducing staff and closing plants. Faced by huge and urgent expectations and over-ambitious targets, Dunlap and his team engaged in financial statements fraud.

They were able to commit the fraud since the internal control system was weakened and lacked committed while the employees were submissive. The management reconciled their actions with their job descriptions and felt that they were actually fulfilling their duties in the company. They created ' cookie jar' reserves to project an impression that the corporation had achieved drastic improvements in the performance. They also engaged in bill-and-hold transactions in an attempt to boost the quarterly turn over.

As desperation to cover up for revenue short falls set in they also engaged in channel stuffing. The nature of transactions was not provided in the financial reports and was in fact denied in press releases. The financial misrepresentations finally caught up with the management as the share fell in value and they were sacked. The company restated its revenue and turnover which were greatly overstated. A total of $3. 5billion in investor fund, were lost and the company later filed for bankruptcy. Also read Sunbeam corporationcase study

Investors also lost confidence in the capital markets. The capital markets regulator, SEC, sued the main culprits for flouting the anti fraud laws. Settlements were reached both monetary and punitive though the dependents did not plead either guilty or innocent. The external auditing partner was co-joined in the suit for leniency. He authorized an unqualified report despite having detected some accounting anomalies. His firm may have pressurized him into giving unqualified in a bid to please the management of one of its biggest customers.

The external auditor also encountered a non vigilant audit committee and board of directors. The frequent financial scandals have prompted the Congress to pass the Sarbanes-Oxley act of 2002. The Sunbeam financial statement fraud has in effect challenged investor and other users of accounting information to be more vigilant and not take financial statements and press releases at face value rather they should take an in-depth analysis before making their decision.