

Examining the multiple types of accounting flashcard



The systematic recording, coverage and analysis of fiscal statements of the concern are called as Accounting. The individual in charge of accounting is called as Accountant. Accounting provides the system which provides a system of regulations and ordinances which govern the format and content of the fiscal statements.

Following are the methods of fiscal statements fraud: -

Fabricated Grosss: Recording of the services that did non happen.

Clocking differences: Recording grosss and/or disbursals in improper methods.

Concealed liabilities: Omissions of liability/expense

Improper revelations: One signifier of deceitful fiscal coverage is ' creative accounting '

Types of fiscal histories:

Fiscal histories:

These histories are used by the company to describe to their stockholders. Therefore it should supply a true statement of company ' s fiscal place.

Internal direction histories:

Internal direction histories histories for the internal operations of the concern. It shows whether the finance is consistently utilized in the concern.

Role of Accountants:

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There are fundamentally two types of comptrollers:

One who works for the company and has an duty as an employee to the company.

The other who is an independent certified public comptroller and may be hired by the company as the outside advocate.

Accountants employed by the organisation:

They are divided into two wide classes:

Management comptroller

Fiscal comptroller

Management comptroller:

The chief undertaking of the direction comptroller is to ease the determination doing procedure by supplying the relevant information which the company needs for explicating assorted policies.

If he fails to supply the needed information it would impact the long-run aims of the company.

Fiscal Accountant:

A fiscal comptroller provides economic information to providers, employers and people external to the organisation.

The function of fiscal comptroller besides involves reding managers on the points that have to be selected for fiscal statements.

Accountants in Professional pattern include:

The hearer

Related services

Ethical Audited account:

Main intent:

It is to look into the actions of the house, which are directed at maximising long term proprietor value and the extent of distributive justness.

Features:

It assesses the concern constructions and processs, systems and policies.

It besides measures the extent to which the concern activities comply with the criterions it has publically declared to its external clients.

It measures the concern behavior against the moral or spiritual criterions of the community.

ETHICAL ISSUES IN INFORMATION TECHNOLOGY

Following are the ethical issues that need to be addressed:

Security of the cyberspace minutess

Delivery of the goods

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Tax return of the goods with which the client is dissatisfied.

Cyber offenses such as:

Choping

Virus

Software buccaneering has added to the jobs in The Information Age.

To halt all this, parliament passed its first cyber jurisprudence, the Information Technology Act, 2000, which provided the legal substructure for electronic commercialism in India.

Examples:

American Insurance Group

Company Profile:

American International Group, Inc. (AIG) is an American insurance corporation. Its corporate central offices are located in the American International Building in New York City.

AIG suffered from a liquidity crisis when its recognition evaluations were downgraded below " AA " degrees in September 2008. The United States Federal Reserve Bank on September 16, 2008, created an \$ 85 billion recognition installation to enable the company to run into increased collateral duties consequent to the recognition evaluation downgrade, in exchange for the issue of a stock warrant to the Federal Reserve Bank for 79.

9 % of the equity of AIG. The Federal Reserve Bank and the United States Treasury by May 2009 had increased the possible fiscal support to AIG, with the support of an investing of every bit much as \$ 70 billion, a \$ 60 billion recognition line and \$ 52. 5 billion to purchase mortgage-based assets owned or guaranteed by AIG, increasing the entire sum available to every bit much as \$ 182. 5 billion.

Case

In this instance the Securities and Exchange Commission alleged that AIG ' s reinsurance minutess with General Re Corporation (Gen Re) were designed to blow up falsely AIG ' s loss militias by \$ 500 million in order to squelch analyst unfavorable judgment that AIG ' s militias had been worsening. The ailment besides identifies a figure of other minutess in which AIG materially misstated its fiscal consequences through assumed minutess and entities created for the intent of misdirecting the puting populace.

It was alleged that in December 2000 and March 2001, AIG entered into two assumed reinsurance minutess with Gen Re that had no economic substance but were designed to let AIG to improperly add a sum of \$ 500 million in bogus loss militias to its balance sheet in the 4th one-fourth of 2000 and the first one-fourth of 2001. The minutess were initiated by AIG to squelch analysts ' unfavorable judgment of AIG for a anterior decrease of the militias. In add-on, the ailment alleged that in 2000, AIG engaged in a dealing with Capco Reinsurance Company, Ltd. (Capco) to hide about \$ 200 million in underwriting losings in its general insurance concern by improperly change

overing them to capital (or investing) losings to do those losings less abashing to AIG

BERNARD L. MADOFF-PONZI SCHEME

Madoff is a occupant of New York City and is the exclusive proprietor of BMIS. BMIS ' web site indicates that Madoff founded BMIS in the early 1960s and that he is an lawyer.

Madoff is a former Chairman of the board of managers of the NASDAQ stock market. BMIS is both a broker-dealer and investing advisor registered with the Commission. Madoff oversees and controls the investing advisor services at BMIS every bit good at the overall fundss of BMIS.

The SEC alleged that Friehling and F & A ; H enabled Madoff ' s Ponzi strategy by falsely saying, in one-year audit studies, that F & A ; H audited Bernard L. Madoff Investment Securities LLC ' s (" BMIS ") fiscal statements pursuant to Generally Accepted Auditing Standards (GAAS) . F & A ; H besides made representations that BMIS ' fiscal statements were presented in conformance with Generally Accepted Accounting Principles (GAAP) and that Friehling reviewed internal controls at BMIS. The ailment alleged that all of these statements were materially false because Friehling and F & A ; H did non execute a meaningful audit of BMIS and hence had no footing to organize an sentiment about the house ' s fiscal status or internal controls.

Afraid that his work for BMIS would be capable to peer reappraisal, as required of comptrollers who conduct audits, Friehling lied to the American

Institute of Certified Public Accountants for old ages and denied that he conducted any audit work.

The SEC further alleged that Friehling and F & A ; H obtained dirty additions through compensation from Madoff and BMIS, and besides from retreating returns from histories held at BMIS in the name of Friehling and his household members.

WorldCom

MCI, Inc. was an American telecommunications subordinate of Verizon Communications that is headquartered in Ashburn, unincorporated Loudoun County, Virginia. The corporation was originally formed as a consequence of the amalgamation of WorldCom (once known as LDDS followed by LDDS WorldCom) and MCI Communications, and used the name MCI WorldCom followed by WorldCom before taking its concluding name on April 12, 2003 as portion of the corporation ' s outgrowth from bankruptcy. The company once traded on NASDAQ under the symbols " WCOM " (pre-bankruptcy) and " MCIP " (post-bankruptcy) . The corporation was purchased by Verizon Communications with the trade shutting on July 7, 2006, and is now identified as that company ' s Verizon Business division with the local residential divisions easy integrated into local Verizon subordinates

Case

It was alleged that WorldCom falsely portrayed itself as a profitable concern during 2001 and the first one-fourth of 2002 by describing net incomes that it did non hold. WorldCom did so by capitalising (and postponing) instead

than write offing (and instantly acknowledging) about \$ 3. 8 billion of its costs: the company transferred these costs to capital histories in misdemeanor of established by and large accepted accounting rules (“ GAAP ”) . These actions were intended to misdirect investors and pull strings WorldCom ‘ s net incomes to maintain them in line with estimations by Wall Street analysts.

Get downing at least in 2001, WorldCom engaged in an improper accounting strategy intended to pull strings its net incomes to maintain them in line with Wall Street ‘ s outlooks, and to back up WorldCom ‘ s stock monetary value. One of WorldCom ‘ s major operating disbursements was its alleged “ line costs. ” In general, “ line costs ” represent fees WorldCom paid to third party telecommunication web suppliers for the right to entree the 3rd parties ‘ webs. Under GAAP, these fees must be expensed and may non be capitalized. Nevertheless, get downing at least every bit early as the first one-fourth of 2001, WorldCom ‘ s senior direction improperly directed the transportation of line costs to WorldCom ‘ s capital histories in sums sufficient to maintain WorldCom ‘ s net incomes in line with the analysts ‘ consensus on WorldCom ‘ s net incomes. Therefore, in this mode, WorldCom materially understated its disbursements, and materially overstated its net incomes, thereby victimizing investors.

Case

Kelsey, a senior comptroller at a multi-office CPA house, is assigned to the audit of Compo Corporation. Compo is a closely held corporation and a major client of the house. During the audit, Kelsey finds a material cutoff mistake

which causes Compo ' s income to be significantly misstated. Kelsey is cognizant that the CPA house ' s policy clearly states the audit senior must document any possible staff accommodation in the work documents. The concluding finding of materiality is so made by the spouse in charge of the audit. Kelsey besides knows Compo does non desire to do the accommodation.

Before wrapping up the field work, the audit director, Bruce, tells Kelsey, Let ' s non advert this accommodation in the work documents. Since Compo is closely held and there are non revenue enhancement deductions, the spouse has decided non to coerce an accommodation. Compo is our largest client. We need to acquire the Compo work up to the spouse every bit shortly as possible. "

Kelsey is concerned and upset after the conversation with Bruce. Failure to document such a material sum merely does non look right.

Solution

This instance tells u about the ' COGNITIVE DISSONANCE ' of the person.

Kelly is a senior comptroller at a CPA house.

He is assigned with the responsibility of scrutinizing Compo, one of the major clients with the company.

While scrutinizing he comes to cognize that the company has misstated the income.

At this point of clip Kelly gets into the quandary whether to ' FOLLOW THE CODE OF CONDUCT ' or to Protect the company by non documenting the accommodation.

Failure to document such an accommodation would intend that he is non responsible to the SOCIETY at big.

On the other side if he paperss the accommodation he would be FIRED from the company.

Case

While reexamining the current-year audit working documents of Coshocton National Bank (CNB) , the battle director, Jennifer Grace, noted something funny. In the working documents related to loan rating, Jennifer saw that the commercial loan of Antic Developments had been indiscriminately selected for verification but that Fantastic had non responded to either the initial or 2nd verification petition.

The audit staff disposed of this " loose terminal " by alternate processs: analyzing hard currency aggregations (which had become slightly sporadic) and vouching to underlying loan certification, including a set of recent (unaudited) fiscal statements that showed Fantastic ' s solid fiscal place and operating profitableness.

Jennifer noted this mention to Antic Developments because this private company was besides a client of her house. In fact, Jennifer had served as the audit senior on the prior-year audit of Fantastic. She knew that the

company had been fighting for a twosome of old ages and had experienced
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repeating operating losings. Her cognition of Fantastic did not accommodate with the treatment in the audit working documents related to the fiscal statements furnished to the bank.

When Jennifer contacted Fantastic ' s CFO, Tom Ward, and inquired about the company ' s seemingly marvelous turnaround, he was noncommittal and unhelpful. Tom replied that concern had picked up. He apologized for not naming Jennifer ' s house himself because he had been so busy, and so he told her that Fantastic had decided to prosecute another CPA house for its accounting and scrutinizing demands. Although baffled, Jennifer evidently could not reject the possibility that this disconnected dismissal was a direct effect of her enquiry.

As a consequence, Jennifer wonders whether the fiscal statements which Fantastic furnished to the bank as a footing for a loan application are deceitful. The bank seemingly has no such intuition, nevertheless.

Solution

In this instance Jennifer, the battle director notes something funny in the working documents related to loan rating.

She sees that commercial loan for Fantastic Development has been indiscriminately selected for verification

The verification surprises Jennifer because she knew that the company was fighting for a twosome of old ages and had experienced repeating operating losings when she used to carry on audit.

When she inquired sing company ' s marvelous turnaround she was told by CFO that the company has decided to prosecute another CPA house for its accounting and scrutinizing demands.

FROM THE CASE WE CAN SEE THAT PERFORMING THE DUTY CAN PROVE TO BE DANGEROUS SO MUCH SO THAT YOU CAN Be FIRED FROM THE Company

Case

Maria and Andy worked good together to form the accounting system and records of a turning Health Maintenance Organization (HMO) . Bob and Connie, the two top executives in the HMO, were tightly focused on company growing as it related to monthly and annual gross. Bob was besides in charge of budget studies.

Every month Maria and Andy would roll up fiscal statements which were reviewed by company officers and subsequently reported in patient and employee newssheets. Oftentimes gross revenues would fall below Bob ' s original projections. At such times, Bob would mouth off and rave about the low patient gross accumulations and remark " that certainly more must be accrued. " Andy and Maria would frequently note to each other " why do n't we merely book the budget, " since that is basically what they did every month after their initial fiscal figures were reviewed, at least in footings of gross revenues.

Although Andy and Maria realized that at year-end the hearers would non excuse Bob ' s recording patterns, they were still slightly angry that " their "

precise accounting system required monthly accommodations because of Bob and Connie ' s demand to “ look good to the board. ”

Of class, when year-end came, the glowing fiscal intelligence fell abruptly of projections. Although the deficit was non plenty to raise the HMO rates, it did direct a terror through the accounting section. This information was non reported straight to stockholders, but it was abashing to do the year-end accommodations while scrambling to bring out extra grosss ; and explicate to coworkers why monthly newssheets were wrong.

Solution:

In this instance Maria and Andy worked good to form the accounting system and records of a turning HMO.

Andy and Maria would roll up the fiscal statements which would be reviewed by the company officers every month.

Every clip the gross revenues figures would fall below Bob ' s projections because of which he rave about low patient accumulations and remark “ that certainly more must be accrued. ”

This led to CUMULATIVE EFFECT and when the twelvemonth ended the glowing fiscal intelligence fell abruptly of projections which sent a terror to the accounting section.

Lesson learnt: DO N'T SACRIFICE LONG TERM GOALS FOR SHORT TERM GAINS

Creative Accounting

One may believe accounting is a distinct issue, but originative accounting sure is non. On one manus, originative accounting is non precisely illegal, but on the other manus, it is non precisely widely promoted. The argument gets down to the issue of whether it is ethical or non. To a certain extent, originative accounting does non interrupt any Torahs, but whether this makes it ethical depends on one ' s point of position. A chief constituent of accounting is fiscal statements, where the intent is to show a just representation of the company ' s fiscal standing.

Directors and comptrollers can use originative accounting to significantly skew their fiscal statements. However, this does non happen with all originative accounting cases-managers and comptrollers can really good use originative accounting to the best usage for the house, lawfully and financially

There is non a set definition of originative accounting, so to clear up, originative accounting in this paper is defined as " a procedure whereby comptrollers use their cognition of accounting regulations to pull strings the figures reported in the histories of a concern "

For illustration, in the instance of calculating depreciation, directors and comptrollers have several methods from which they may take. Some of these are straight-line, declining-balance, and double-declining-balance depreciation. Not merely can the directors and comptrollers select any of the multiple depreciation methods when calculating depreciation cost, but they can besides pick one method for deprecating one thing, such as edifices, and <https://assignbuster.com/examining-the-multiple-types-of-accounting-flashcard/>

another method for depreciating another thing, such as equipment (Stice & A ; Stice, 2006, p. 550-553) . This depreciation illustration is merely one of the many multiple accounting methods that a company can lawfully use. Thus, companies will most probably, if non likely, utilize the accounting method that will give them their most preferable image.

Another ground why a distinct line can non be drawn on the moralss of originative accounting is that directors and comptrollers must gauge certain figures in accounting. Not all the Numberss are known to the exact denary topographic point and some Numberss are non even known near to the “ existent ” sum, so fiscal statement preparers must utilize their best judgement in these instances. Traveling back to the depreciation illustration, directors must gauge an plus ‘ s residuary value and utile life value in order to cipher the depreciation cost. (The residuary value and the utile life value must be estimated because direction must account for depreciation cost as they are utilizing the plus.

Management merely discovers the existent sums of these values when they dispose of the plus, but by this clip, they can non deprecate the plus any longer, so this is the ground they must do the estimations.) Therefore, directors could basically pull strings the depreciation sum to the figure that they want. Technically, this is non illegal because they are within their rights to gauge the Numberss, but it could fall into an unethical country if the true values are grossly misrepresented.

Another originative accounting technique that directors and comptrollers can use is come ining unreal minutess into the fiscal statements. With this

technique, fiscal statement preparers can pull strings figures on the balance sheet and travel net incomes from one period to another. For illustration, a company can carry on a “ sale and leaseback ” dealing where they sell an plus to a 3rd party and so arrange to rent that good back for the balance of the utile life. Therefore, the sale monetary value under the understanding can be “ pitched above or below the current value of the plus, because the difference can be compensated for by increased or decreased

leases ” (Amat et al. , 1999) . This allows the company to lawfully pull strings their income sum in the fiscal statements, but whether this is ethical or non is an wholly different narrative.

There is besides a originative accounting technique that can be used by clocking when a dealing occurs. Management can clip genuine minutess to happen at a period of their choosing. This action is decidedly within their rights, and they can take when they want to move upon it. An illustration of this method is the timing of a gross revenues dealing. If a company owns a piece of land that is deserving \$ 250, 000 at historic cost, which is the book value sum on the fiscal statements, and that piece of land now has a current market value of \$ 950, 000, direction can take when they want to sell. They can maintain the plus until they want to sell it at a period where they want the company ‘ s income to increase. This scheme raises some concerns. On the ethical side, the company has non broken any Torahs, nor have they overstepped any boundaries, but on the unethical side, in a sense, the company is blow uping how good they are making. So yet once more, there is no unequivocal boundary with the moralss of originative accounting.

Advocates of originative accounting argue that all the illustrations given are done in an ethical capacity. They claim that the FASB has set the by and large accepted accounting rules to give directors and comptrollers assorted accounting methods from which they can choose. When using certain methods, the companies are traveling to take the 1s that make their fiscal statements better. This is the nature of business-to make the company win every bit good as possible. Creative accounting aids in this enterprise.

On the other manus, oppositions of originative accounting see it as “ accounting use ” (Simon, 1998) . The oppositions believe that originative accounting is used when directors and comptrollers want to pull strings the fiscal statements to demo a certain result. For case, when directors want to portray better figures in certain histories to shareholders, they will use originative accounting techniques to acquire their coveted consequences. In these instances, direction is most likely non accomplishing a company ‘ s ultimate end of increasing stock value.

In the short tally, the company ‘ s stock value might lift due to the Numberss shown by the originative accounting, but in the long tally, the originative accounting hurts the ultimate end of increasing stock value because the company can non use the originative accounting techniques everlastingly. Since the company can non continually deceive shareholders with the figures derived by originative accounting, the world of the state of affairs must finally be

divulged. When this occurs, this hurts the value of the stock non merely at the clip, but besides in the long tally if the

company does not travel out of concern.

The recent accounting dirt of Enron, WorldCom, Tyco, Adelphia, and the similar illustrate when creative

accounting unimpeachably becomes unethical and illegal. In these instances, originative accounting was taken to the

extreme. "The coevals of hearers, comptrollers, and directors present in these companies at the clip

of their prostrations did not react right or rapidly plenty when confronted with ethical dilemmas"

(Jennings, 2004). In the instance of Enron, direction employed " aggressive accounting " where there was a

sum of about \$ 1 billion in accounting " mistakes " by the clip the company collapsed. Oppositions of originative

accounting usage this instance as an illustration of why originative accounting should not be employed. However, on the

other manus, advocates argue that Enron is an utmost instance and a instance where the effects are not what

originative accounting is intended for. All can see that direction was evidently moving unethically in Enron ' s

instance, and originative accounting was unluckily utilised as a manner to accomplish their agencies.

Yet with all the contention environing originative accounting, originative accounting has non been abolished and in

all chance will non be. With the assorted accounting options and techniques available to fiscal statement

preparers, originative accounting will ever be. It is dubious and highly improbable that these options will

be taken off so originative accounting must be endured whether it is used in an ethical manner or non. Ultimately,

originative accounting should be used if, and merely if, it is within the branchings of the jurisprudence and it achieves the

company ' s ultimate end of increasing stock value. Hence, when utilizing originative accounting, direction can non

merely profit the company in the short tally. The originative accounting must besides profit the company in the long tally,

which is what finally affairs.

fifty Student Bio cubic decimeter

Acclaiming from Palm Beach County, Florida, Sue Chong is presently a sophomore pupil at the University of

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