Enron accounting methods

Business

Accounting methods have changed over the last couple decades. Numerous Fortune 500 companies were concealing debt in an accounting method known as mark-to- market (Farrell, O.

C. , Halt, G. A. , & Farrell, L. 2005). Enronwas one of several companies that was holding their debt, while reporting annual earnings of $1 1 1 billion. Many Fortune 500 companies went under fire In the early uses for their misleading accounting methods, leading investors to believe the company was making billions; in which the government step-in, and created the Serbians-Solely

Act (SOX) of 2002. In early sass's, numerous Fortune 500 companies, Enron, World, Arthur Anderson and Delphic and others, were alleged practicing complex accounting methods to cover their huge debt, while claiming they were making billions of dollars (Farrell, O. C. , Hire, G.

A. , ; Farrell, L. 2005). However, the accounting profession faced severe criticism and lack of respect in the profession when these Fortune 500 companies started to crumble. The accounting profession faced a major over-haul at this time (Relentless, A. , ; Welch, T.

2002). However, the accountants could not take al the blame, because Enron, Anderson, and the other company executives was focused on the " letter of the law" rather than the proposed accounting appeared ethical and " fair. " Consequently, this lead to numerous Fortune 500 companies in one of the largest scandals in news history. Enron, World, and the other Fortune 500 companies lead the public (including current and future investors) to believe that they were profiting billions annually, while covering-up their huge amounts of debt.

Large companies, like Enron, " conceal their debt through complex schemes of off- lance-sheets partnerships and the use of a method of accounting called mark-to- market" (Farrell, O. C.

, Hire, G. A. , ; Farrell, L. 2005). Therefore, this method of mark-to- market hind the company's debt from their Investors. Mark-to-market allowed the accounting papers to show expected future earnings on the current side of the financial papers.

Consequently, this method of accounting Is deceiving, and covers- up massive amounts of debt that normal leads to bankruptcy.

Eventually, several of the Fortune 500 companies filed bankruptcy, including Enron filing Chapter 7 bankruptcy. In 2002, World filed the largest Chapter 11 bankruptcy protection in U. S. History.

Consequently, Delphic communication filed bankruptcy in 2002. The U. S. Government introduced the Serbians-Solely Act (SOX) of 2002, because of these corporate greed that produced the scandals (Farrell, O. C. , Hire, G.

A. , & Farrell, L. 2005). The Serbians-Solely Act (SOX) was signed in July 2002, by President Bush. The SOX act established oversight of public corporate governance and financial reporting obligation and designed accountability and ethics standards for corporate officers, auditors, and analysts" (Farrell, O. C.

, Halt, G. A. , & Farrell, L. 2005). Previous accounting error was apparent to be a self-regulating process. Consequently, the previous mistakes made It acknowledged that Is could not be a self-regulating process any longer.

Thousands of people lost their Jobs, their retirement, and their lifetime investments.

However, the government had to choice other than to take SOX is an expensive accounting method, and is not popular on behalf of many companies for this reason. Therefore, in 2007, an group have well-respected business individuals gathered, and proposed that the government ease corporate governance extractions, class-action lawsuits, and criminal prosecution that linked to the corporate scandals (Farrell, O. C. , Hire, G. A.

, & Farrell, L. 2005). The Securities and Exchange Commission (SEC) was sued by the U. S. Chamber of Commerce, citing extreme regulations.

Therefore, this got the attention of everyone, including Treasury Secretary Henry Paulson , fearing what it could do to the U.

S. Financial markets. Consequently, it had no effect on the SEC and they did not lighten up at all. The experts say the scandals tend to cyclical, in which the government must be persisted ND attentive about the level of control that are over the companies. Fortune 500 companies topped the headline news in early the sass's, in which the accountants and the company executives was faulted for hiding the company's huge debt.

Poor accounting methods and bad choices by company executives lead to numerous corporate bankruptcies, thousands of individuals losing their Job, retirement, and their life-savings, in which executives spend several years in prison for their wrong doing.

Unfortunately, the accounting profession took the blunt of these errors. However, the government created the Serbians-Solely Act (SOX) to reverent other corporate scandals in the future, and to rebuild the confidence in the accounting profession and in the investors.

I personally think that the Serbians-Solely Act of 2002 was the right reaction to the accounting scandals associated with Enron and World. However, the accounting profession showed they cannot be trusted with executives that were wanting to show large annual profits, and the profits were truly not there. The SOX Act of 2002 helped to preserve the accounting profession, and helped to build the confidence back in the accounting profession.

In light of 2008-2009 accounting scandals, it has been effective in not repeating the same mistakes.

Companies will always find new and creative ways to make the profits (increase or decrease) in a way that favors the company. Therefore, there is no way to prevent 100 percent of accounting misconduct in a business or company of any size. Even small companies get in trouble for pinching money for personally or other reasons. However, even here in my local committee individuals make the headline news for accounting misconduct over periods of time, in small or large companies or organizations.

Reference Farrell, O. C. , Hire, G. A. , & Farrell, L.

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Fortune 500 companies such as Enron use complex accounting schemes and loopholes to show larger annual profit margin. Showing a larger profit margin helps the stock shares increase and, therefore investors are attracted to companies such as Enron. Companies such as Enron concealed their debt through the complex accounting schemes, and this method is increases the company's revenue on paper. When the company assigns a value to an rake accounting will show an increased revenue.

Consequently, several of the mark-to-market never mature therefore the profit margin is never gained or correct. If I were CEO of a Fortune 500 company, I would try to ensure that all accounting systems were in compliance with regulations to the best of my ability.

The books need to be kept open to all that is involved within the my company, including employees and investors. Profits, large or small, should be honest. Honesty is everything when operating a Fortune 500 company. I would ensure that my accounting system was in compliance with regulations and best practices within my industry.

However, I would operate a honest company to the best of my ability, hiring honest individuals in which I would have their accounting monitored on a monthly basis.

Therefore, this would protect the individual (employee), myself, and my company. There is no amount of money worth spending the 10 plus years in prison for a careless crime. When the profits to decrease or the debt increases, first be honest with myself then my employees. There is no shame with failure. However, the shame in cheating and covering up fraud is real, it is painful and individuals spend years in prison for accounting misconduct.