

Inventory fraud by miniscribe inc. essay sample



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Sales at Miniscribe Corp. grew from just over \$5 million in 1982 to approximately \$114 million in its fiscal year ended in 1985. The 1986 and 1987 annual reports talked enthusiastically about new manufacturing initiatives. MiniScribe's success continued well into the first half of 1988, when the company seemed to be the only disk drive manufacturer in the industry to buck another slump.

The improved financial results of the company were mostly fabricated, including fictitious shipments to boost revenue and manipulated reserves to reduce expenses.

The measures the group took to meet its announced annual profit goal for 1987 included:

False inventory was generated by packaging bricks as finished products and shipping them to distributors at the end of the year, so that they would be in transit at the time of the 1987 fiscal inventory. A computer program was created that would generate fictitious inventory serial numbers for the boxes of bricks. The program was named "Cook Book." After the inventory the company called the distributors and requested that they return the products that have been shipped to them by mistake. Obsolete parts from the Longmont warehouse were shipped to MiniScribe's plants in Singapore and Hong Kong. Together with scrap in obsolete parts that had accumulated in Singapore and Hong Kong, they were repackaged and labeled as active parts, which were then included in the 1987 inventory at those Far East locations. In Longmont and other US warehouses, obsolete parts relabeled to

be current inventory items. For example, 10 MB hard drives were relabeled to be the then current item of 40 MB hard drives.

Near the end of the year 1987, MiniScribe established three just-in time warehouses near distributors. Management then increased sales by shipping product from the factory to the just-in-time warehouses and recording them as sales to the distributors. In 1988, the false inventory was again created by packaging bricks as inventory. This year, however, they were not shipped out to distributors. At year-end the company was shipping products to customers that had not yet made orders. This is often referred to as channel stuffing and the company will often then make good offers to customers to keep the goods. However, in at least one case, boxes of bricks were shipped out to a customer by mistake. When they opened the box they discovered that a brick was in the box instead of a hard drive, which they did not order. This customer did not call the company to report what they had found, but rather called the United States Justice Department to report what they been shipped.

Later, the fraud unraveled and company sought bankruptcy protection and sold its assets in 1990.