The fall and collapse of american international group

Finance

The paper " The Fall and Collapse of American International Group " is a worthy example of an assignment on finance and accounting. Mark to market is a portion of the unbiased value of accounts that can alter over time such as assets and liabilities. It aims to offer a realistic appraisal of a corporations' current fiscal situation (Lasser 2013). The fall and collapse of American International Group (AIG) attribute the scope of the risky investment. The risky investment is evident through the warnings from regulators, auditors, and employees about insufficient financial disclosures. The corporation had trouble with mark to a market accounting rule that forced them to list assets in their books at their actual market value. The listing is not dependent on whether the company intends to sell its assets and incur profit or loss. AIG lacked accuracy and fairness in the valuations of its assets on its accounting and financial report. It experienced material weakness five months prior to an $ 85 billion bailout by the American government. The financial crisis also attributes to lack of regulation on credit default swap. A swap is an accounting act of drafting the price or value of a collateral or account to replicate the existing market value rather than a corporations' book value. The swapped market-based measurement will not accurately reflect the underlying asset's actual value (Lasser 2013). The situation frequently occurs when a company gets an obligation to calculate the selling price of its assets and liabilities during a financial crisis. The liquidity of AIG became low, a condition that scared the investors. The prevailing AIG's contemporary selling price of assets was much lower than the actual value. The mark to market accounting rule hence led AIG's huge unrealistic losses. Like AIG, Enron Company, an American energy company based in Texas collapsed because of the mark to market accounting policy (Mizrach 2006). The policy prompted the corporation to misrepresent information on their assets and liabilities that led to bankruptcy and fall of the corporation. The company had to base its valuations on the inflated market values.