College of Saint Benedict and Saint John's University

DigitalCommons@CSB/SJU

Celebrating Scholarship & Creativity Day

Experiential Learning & Community Engagement

4-23-2015

Accounting fraud motivation

Yuquan (Frank) Yu College of Saint Benedict/Saint John's University

Follow this and additional works at: https://digitalcommons.csbsju.edu/elce_cscday



Part of the Accounting Commons, and the Finance and Financial Management Commons

Recommended Citation

Yu, Yuquan (Frank), "Accounting fraud motivation" (2015). Celebrating Scholarship & Creativity Day. 44. https://digitalcommons.csbsju.edu/elce_cscday/44

This Presentation is brought to you for free and open access by DigitalCommons@CSB/SJU. It has been accepted for inclusion in Celebrating Scholarship & Creativity Day by an authorized administrator of DigitalCommons@CSB/SJU. For more information, please contact digitalcommons@csbsju.edu.

ACCOUNTING FRAUD MOTIVATION

Yuquan (Frank) Yu Accounting' 15

Why focus on Accounting Fraud?

• Accounting fraud is a hot topic in the 21st century, and this phenomenon still exist, especially in the early of 21th century. Each fraud caused investors, employees and stockholders at heavy cost.

For Audiences

- Accounting Students
- Accounting Firm Auditors, Managers and Employees
- Students doing research on accounting fraud

Research Questions

• What are the common themes of these accounting scandals?

Key Papers or Articles

- "The 10 Worst Corporate Accounting Scandals of All Time" The evaluation of the major scandal
- "Freddie Mac, Four Former Executives Settle SEC Action Relating to Multi-Billion Dollar Accounting Fraud" By SEC
- "Waste Management Founder, Five Other Former Top Officers Sued for Massive Fraud" By SEC
- "The Accounting Fraud @ WorldCom: The causes, the characteristics, the consequences, and the lessons learned" By Javiriyah Ashraf

Research Methodology

- Find and analysis the report from SEC and other scholars
- Find the news of those fraud cases
- Collect the information and compare each fraud cases and analysis them based on the fraud triangle

MOTIVATION

Major Accounting Scandal

- Freddie Mac
- Waste Management
- WorldCom
- Xerox
- HealthSouth
- Enron
- Lehman Brothers
- Olympus
- Satyam

Fraud Triangle

Rationalization

Opportunity

Pressure

Pressure

Financial Difficulty

Customers and investors' expectation

Lose Corporation position and statues to the Public

Financial Difficulty

Lehman Brothers Founded in 1850



Hide over

\$50 billion in loans disguised as sales



Under pressure of 2008 financial crisis

Satyam Founded in 1987



Falsely boost revenue by

\$1.5 billion



Under pressure in the financial crisis in 2008-2009

Enron

Founded in 1968



Shareholders lost **\$74 billion**



Burdened with debt and moneylosing in business

Customers and investors' expectation

WorldCom
Founded in 1983



Inflated assets of \$11 billion in 2002



CEO under
pressure to meet
expectations of
analysts at Wall
Street and pressure
pay his luxury
lifestyle

HealthSouth Founded in 1984



\$1.4 billion in arnings to mee

Inflated

earnings to meet stockholders' requirement



Pressure to meet the stockholders' requirement

Xerox

Founded in 1906



Overstated its revenues during the past five years by almost

\$2 billion



Got pressure on selling, they want to meet customers and investors expectation

Lose Corporation position and statues to the Public

SEC investigated **Intentionally** they under Freddie Mac misstated pressure to have a predictable and Founded in 1970 \$5 billion in growing earnings earnings in 2003 to customer **Greed and pressure** Reported Waste a to retain their \$1.7 billion Management corporate positions in fake earning in and status to the Founded in 1971 1998 public Olympus loss almost ¥1,300 billion in **Olympus** Hide near \$1.5 investment. They billion loss Founded in 1919 do not want to

show the loss to the

public

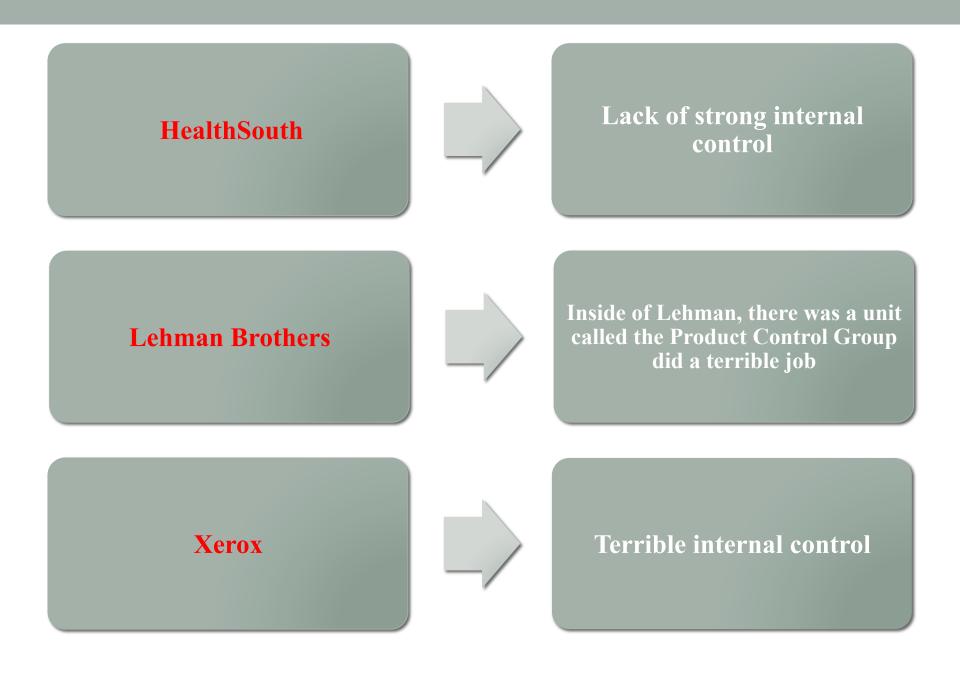
Opportunity

Poor Audit System and Internal Control

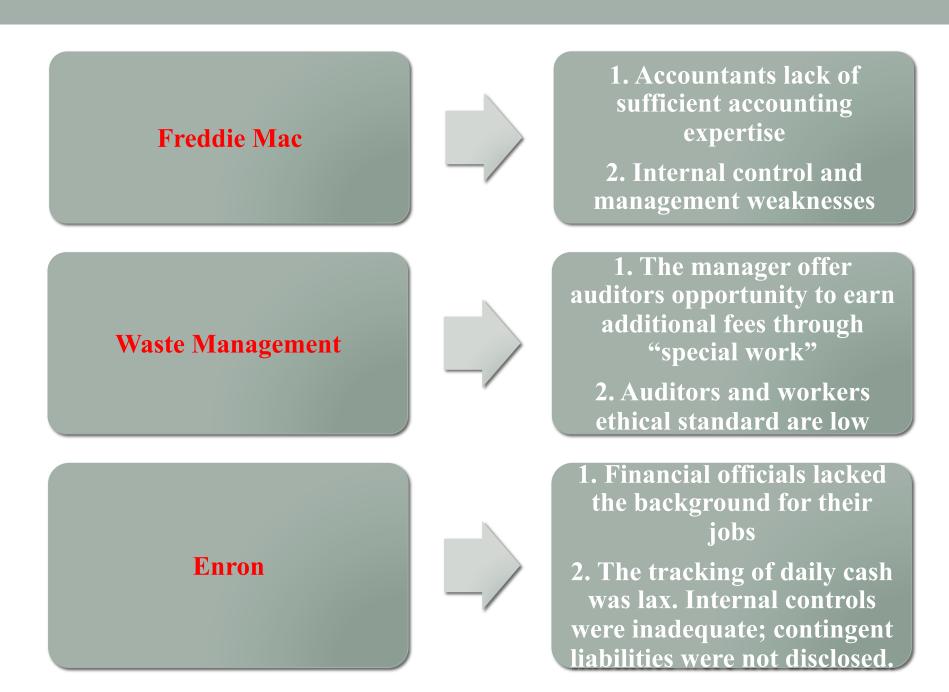
Ethics and Technique Issue

Cultural Issue

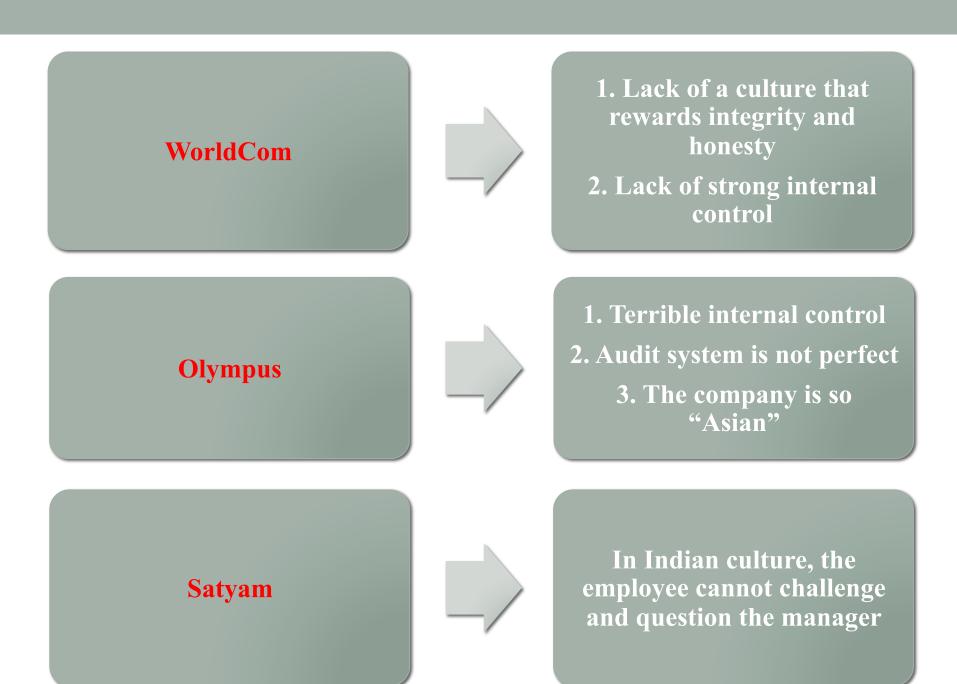
Poor Audit System and Internal Control



Ethics and Technique Issue

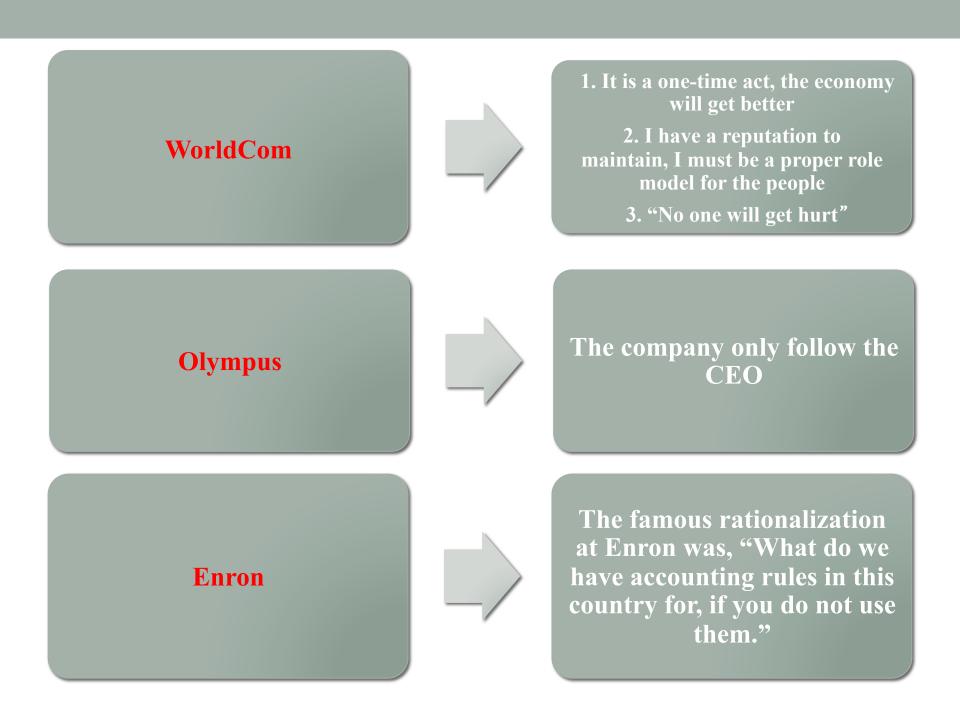


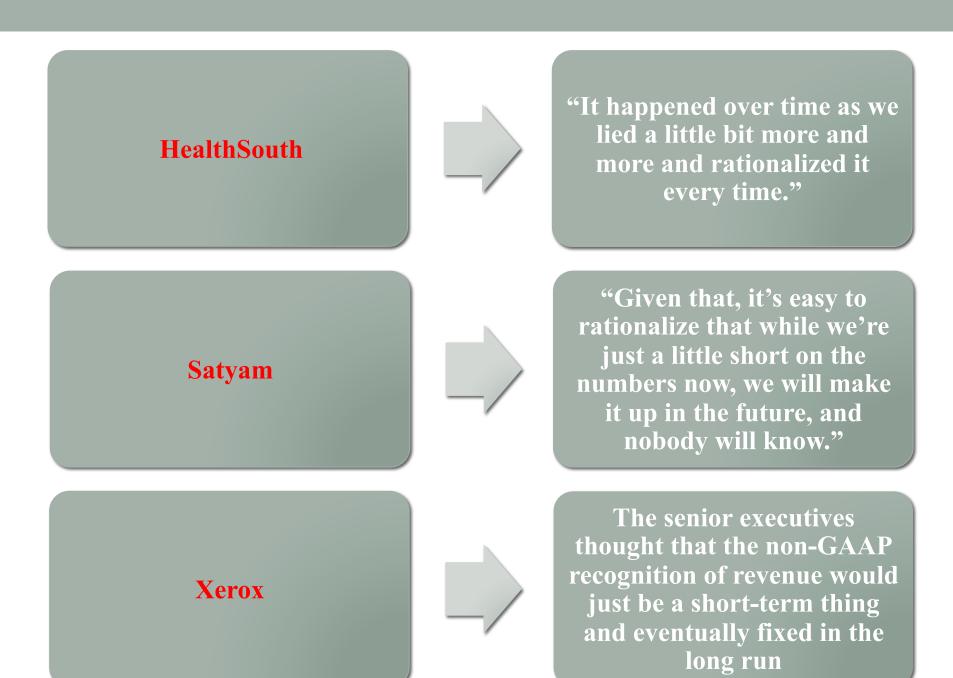
Cultural Issue



Rationalization

• Rationalization is a company's excuse. That can help company to transform their illegal behavior reasonable





Waste Management



They think themselves would honor their agreement and make the adjustments

Lehman Brothers



"Lehman needed to do it to keep the business alive and "protect" the stakeholders."

Conclusion

- The common themes of major fraud:
- 1. The companies need the to make fraud to release pressure
- 2. Lack of the internal control
- 3. Unethical employees and managers
- 4. Do not have a strong company culture
- 5. The employee do not have a good ethical standard
- 6. The management team of the company believe that they would not be caught because they just false report a little amount money each time

Further Research and Limitation of Existing Research

- I will expand the topic more about other factor such as external factors, employees' mental status
- Find more cases in all over the world, and compare them country by country
- Doing research on how to prevent the accounting scandal, and make conclusion of those companies preventing experience

Questions?

Reference

- https://www.centerforpublictrust.org/2014/04/10/healthsouth-whistleblower-weston-smithshares-insider-story-of-2-9b-fraud-marapr-2014/
- http://www.forbes.com/2009/01/07/satyam-raju-governance-oped-cx_sb_0107balachandran.html
- http://www.fraud-magazine.com/article.aspx?id=4294979549
- dustinnystel.myefolio.com
- http://ethix.org/2007/06/01/did-we-learn-the-lessons-from-enron
- http://www.accounting-degree.org/scandals/
- http://www.businessinsider.com/lehman-brothers-was-dramatically-over-valuing-itscdos-2010-3
- http://assets.opencrs.com/rpts/RS21567_20051115.pdf
- http://www.theguardian.com/business/2002/jun/29/2
- http://gpae.bryant.edu/~gpae/Vol3/Enron%20and%20Aurhur%20Andersen.pdf
- http://www.accounting-degree.org/scandals/
- https://www.sec.gov/news/press/2007/2007-205.htm
- http://scholars.unh.edu/cgi/viewcontent.cgi?article=1099&context=honors
- http://www.sec.gov/news/headlines/wastemgmt6.htm
- http://etd.fcla.edu/CF/CFH0003811/Ashraf_Javiriyah_201105_BSBA
- http://www.pxemba.org/News/szmba2439.html
- http://3y.uu456.com/bp_64iu75ujwa3fmdy9vdh9_1.html

Thank You