What Can Go Wrong: General Ledger & Financial Reporting

1. The CFO, knowing the public accounting firm's scope of their analytical analysis of general ledger accounts, used top-side entries to smooth account fluctuations so the auditors would not notice certain reserve accounts had been unjustifiably cleared into income. The amounts of the individual top-side entries ranged from $150 million to $750 million, and they caused the accounts to show "immaterial" changes over prior year.

2. The owner of a large private company skimmed sales and sent the money to an off-shore bank account. Those sales were not recorded in the books. In the following years, he brought the money back into the company as revenues and made it appear as though the company was achieving steady growth.

3. The CEO, concerned the company's earnings would fail to meet Wall Street expectations, ordered Accounting to take all warranty and receivables reserves into income.

4. A national retailer instructed cashiers to set aside all customer merchandise returns between Christmas and New Year's. As a result, $75 million in merchandise returns was deferred until the following year, and the sales were kept on the books for year-end.

5. Over 6 years, the controller of a company which managed a nationwide fleet of thousands of trucks increased the salvage value of the vehicles and extended their useful lives to thin depreciation expenses. As a result, earnings for those years were overstated by $1.7 billion.

6. Instead of recognizing revenues on long-term contracts as percentage-of-completion over the term of the deal, the executives recognized all revenues up-front. Over three years, the company overstated its revenues by $66 million (out of $365 million reported).

7. Over several years, the CFO of one of the world's largest information technology firms demonstrated steady growth in revenues by building an increasing receivables balance from false customers and creating a fictitious cash account that grew to $1 billion.

8. In bond notices and other public documents, five government officials understated the city's full unfunded pension liability for retirees by $900 million, almost half of the true liability.

9. The Cayman Islands subsidiary of a multi-national dairy company recorded such a high number of powdered milk sales to Cuba that every single citizen of the country would have had to consume 55 gallons of the company's milk in one year.

10. The CEO and CFO agreed to write off $70 million of inventory in a period which they expected to report a loss, so in future periods they would sell the inventory with a 100% gross profit margin and demonstrate earnings growth.

11. The accounting staff created purchase orders, receiver reports, and invoices to support tens of millions of dollars in inventory which they claimed to be in a Canadian warehouse. Neither the inventory nor the warehouse existed.

12. Executives from two companies negotiated a deal to swap $100 million checks, promising each other that their company would, sometime in the future, purchase services from the other. Both recognized $100 million in revenues, although no value was exchanged.

13. A manufacturer stuffed their distribution channels, offering dealers discounts and financial incentives to accept more product than they could possibly sell. The manufacturer recorded all of these revenues up front, hoping to sell the company and dump some stock options before the dealers started kicking back the goods.

14. One year after acquiring a company for $11.1 billion, the acquirer took an $8.8 billion write-down because the acquired company had so grossly overstated its revenue and profits.

15. The executive team directed the CFO to recognize revenues on deals that were not signed and completed as of the period end. They used a pen to backdate the file copy of the contract.

16. Without informing the CEO or the Board, the CFO made a deal to forgive a third party's $5.7 million debt in exchange for a kickback. The CFO reversed the debt off of the books.

17. An executive directed that legitimate sales be held in a suspense account (a 'rainy day fund') and not recorded as revenues until they were needed in a future quarter.

18. An executive, alert to the auditor's scheduling of the inventory counts, ordered goods shipped from a warehouse that had already been subject to a count to another warehouse that was scheduled for a count a few days later.

19. A divisional vice president ordered warehouse staff to fill boxes with bricks and storage tanks with water to inflate the inventory.

20. On a multi-million dollar percentage-of-completion job, the division executive knew the accounting system was set up to automatically recognize revenues based on the amount of incurred costs booked to the job. Therefore, he ordered an accountant in his division to book costs before the division was invoiced, so the revenues would be recognized early.

21. A regional division sold to customers deferred service agreements bearing one-year terms. When the service call came due, the center only made half-hearted attempts to contact the customer, but took all of the liabilities into income whether or not they performed the service.

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