

Detecting Accounting Fraud Before It's Too Late

2nd Edition

Oriol Amat

Table of Contents

Chapter 1 – Fraud and Accounting Manipulations.....	1
Learning Objectives	1
Fraud and Its Effects.....	1
Modifying Companies' Financial Information	1
Calling Things by Their Name: From Creative Accounting to Big Baths	2
Key Topics of the Chapter.....	4
References	5
Review Questions.....	6
Review Answers	7
Chapter 2 – Accounting Fraud: An Ancient Practice	9
Learning Objectives	9
The First Accounting Frauds	9
Accounting Frauds Continue with the Double Entry	9
The Crash of 1929 and the Obligation to Audit Accounts	10
Reinforcement of the Commercial Law and Auditing after the String of Scandals of 2000	11
With the Crisis of 2008, History Repeats Itself.....	11
Key Topics of the Chapter.....	12
References	13
Review Questions.....	14
Review Answers	15
Chapter 3 – Problems with Legislation and Those Involved in the Financial Information	17
Learning Objectives	17
How Financial Information Is Generated.....	17
Auditing of Accounts: Essential, But Not Infallible	18
Analysts and Rating Agencies.....	19
Regulators and the Limitations of Accounting Regulations.....	21
Role of the Media.....	22
Key Topics of the Chapter.....	23
References	23
Review Questions.....	24
Review Answers	25
Chapter 4 – Why Are Accounts Manipulated?	27
Learning Objectives	27
Motivation, Opportunity, and Rationalization.....	27
The Door to Fraud	28
Key Topics of the Chapter.....	33
References	34
Review Questions.....	35
Review Answers	36
Chapter 5 – Legal Accounting Manipulations	37
Learning Objectives	37
Alternatives, Estimations, and Legal Gaps	37
Transactions That Can Be Accounted for by Choosing Among Several Alternatives	37
Uniformity	37
Relative Importance.....	38
Accounting Notes Based on Estimates That Imply a High Degree of Subjectivity	38
Gaps in the Accounting Standards	38
Main Legal Manipulations	39
Impact of Legal Manipulations in the Accounts.....	44
Key Topics of the Chapter.....	45
References	45

Table of Contents

Review Questions	46
Review Answers	47
Chapter 6 – Illegal Accounting Manipulations	49
Learning Objectives	49
Accounting Crime	49
How Illegal Manipulations Are Done	50
Operations Through Tax Havens	51
Main Illegal Manipulations	52
Main Items Affected by Accounting Frauds	54
Key Topics of the Chapter	56
References	56
Review Questions	58
Review Answers	59
Chapter 7 – Ethical Considerations and Economic Consequences of Manipulations	61
Learning Objectives	61
The Ethical Dimensions of Accounting Fraud	61
Economic Consequences of Accounting Fraud	62
Consequences to Managers and Companies that Manipulate Accounts	63
What to Do When a Company Deteriorates	63
Key Topics of the Chapter	65
References	65
Review Questions	67
Review Answers	68
Chapter 8 – Personal Warning Signs	69
Learning Objectives	69
Introduction	69
Moments the Warning Signs Occur	69
Warning Signs Before Fraud Occurs	70
Motivation	71
Opportunity	71
Rationality	71
Profile of the Person	71
Warning Signs After the Fraud Occurs	72
Language of Fraudsters	73
Successful Businessmen Who End Up in Jail	73
Key Topics of the Chapter	76
References	76
Review Questions	77
Review Answers	78
Chapter 9 – Organizational Warning Signs and Nonfinancial Indicators	79
Learning Objectives	79
Warning Signs Before a Fraud Occurs	79
Motivation	79
Opportunity	80
Rationality	81
Profile	81
Warning Signs After a Fraud Occurs	82
Warning Signs Based on Nonfinancial Indicators	83
Key Topics of the Chapter	84
References	84
Review Questions	85
Review Answers	86

Table of Contents

Chapter 10 – Warning Signs in the Accounts	87
Learning Objectives	87
Introduction.....	87
Auditing of Accounts	87
Indicator Related to the Audit	87
Balance Sheet	87
Income Statement.....	88
Cash Flow Statement.....	89
Ratio of Difference Between Profit and Cash.....	90
Ratio of Difference Between Cash Flow and Cash Flow Generated by Operations	90
Statement of Changes in Equity	92
Notes.....	92
Ratios That Anticipate Frauds	92
Profitability and Margin Ratios.....	93
Liquidity Ratio	93
Debt Ratios.....	93
Z-Score Formula.....	93
Variations in Accounts That Warn of Frauds Already Produced	94
Ratios That Warn of Frauds Already Produced.....	95
Term Ratios	95
Asset Turnover	95
Synthetic Index to Detect Manipulating Companies	99
Key Topics of the Chapter.....	103
References	103
Review Questions.....	105
Review Answers	106
Chapter 11 – Some Suggestions to Improve the Current Situation	107
Learning Objectives	107
Introduction.....	107
Reinforce Values and Institute Ethical Codes	107
Teamwork.....	108
Social Responsibility	108
Incentives and Values.....	108
Improve Control Systems in Organizations.....	108
Improve Regulation.....	110
Reinforce Supervision.....	111
Reinforce the Sanctioning Regime	111
The Challenge of Providing Relevant Information for Decision-Making	112
Key Topics of the Chapter.....	114
References	114
Review Questions.....	115
Review Answers	116
Chapter 12 – Criminal Responsibility of Legal Entities and Regulatory Compliance	117
Learning Objectives	117
Introduction.....	117
Typified Conducts	117
Crimes Attributable to Legal Entities.....	118
Organization and Management Models	118
Models of Prevention and Control	118
References	119
Review Questions.....	120
Review Answers	121
Appendix.....	123
Glossary.....	131
Index	133