

Manipulating financial numbers – creativity or fraud?

This training programme considers the variety of methods used to window dress financial statements. The focus will be on identification of creative techniques which have been used in the past, possible new areas and the links which are often present between creative accounting and fraudulent activity. Case study examples will be used to illustrate in a practical manner as many of the techniques as possible.

What is the purpose of financial statements and company reports?

- the accounting framework and the Companies Act requirements
- disclosure and transparency rules
- corporate governance issues
- what has to be disclosed and potential changes in both the nature and type of disclosure
- how easy is it to be creative within the current system?

Revenue recognition problems

- front loading revenue
- contract income recognition
- accounting for long term contracts
- fictitious revenue and corporate governance
- revenue timing
- capital gains and revenue
- acquisition revenue enhancement
- supplier rebates and revenue growth

Expense allocation and recognition

- matching concept and accruals
- capitalisation of costs
- transfer between direct and indirect costs
- cash conversion rate of profit
- depreciation policies
- impairment reviews and legitimate write downs
- provisioning policies

Valuation

- fair value of assets
- intangible values and impact on financial statements
- fair valuation upon acquisition

Liability recognition

- deferred income
- off balance sheet liabilities
- pension deficits
- contingent liabilities
- deferred purchase consideration

- financial derivative risks
- convertible debt

Techniques to spot creativity

- financial issues
 - notes and more notes
 - cashflow
 - growth
 - sector benchmarking
- business issues
 - typical warning signs
 - focus on management