MAJOR ACCOUNTING FRAUDS OF THE LAST DECADES AND THE NEED FOR ETHICAL JUDGEMENT

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Abstract: The aim of this article is to explain and focus on the need for ethical judgement in accounting through analysing the accounting frauds of the last decades. Accuracy and transparency are of major necessity when aiming to omit such cases, so the accountant profession should provide high standards services. In response to that, this article takes a look on several examples, their correspondent accounting environment and draws the conclusion that ethics awareness should be risen among worldwide accounting.

Key words: accounting; ethical judgement; frauds.

JEL Classification M40; G10.

1. Introduction
Accounting lays at the basis of each economic entity’s activity. As domain and tool of economic reality knowledge, regarding the economic resources, patrimonial separated, accounting is a true guide in directing every business; it is actually the condition for any honest transaction. Due to this, major frauds can be generated through improper accounting decisions. Accounting should be a normative representation of the economic reality, until that limit when it starts using creative techniques in order to adjust needed results. As people become more familiar with accounting science each of them prefers that aspect of accounting that fit more their essence, consequently they deviate from the norms. At this moment appears an outline between fair accounting and “bad” accounting. The presence of different accounting policies and options gives the possibility to the appearance of creative accounting.

The last decades have witnessed a surprising and disheartening number of accounting scandals, implying a significant failure in the management oversight and reporting process, despite the existence of the professional ethics standards developed by the Institute of Management Accountants. Due to diverse range of accounting services and recent corporate collapses, attention has been drawn to current ethical standards accepted within the accounting profession, which resulted in a widespread disregard for the reputation of the accounting profession. To combat the criticism and prevent fraudulent practices, various accounting organizations and governments have developed regulations and remedies for improved ethics among accounting profession.

2. Major Accounting Frauds
The basic purpose of preparing financial statements of any organization is to represent or portray its financial position and health. Accounting transactions are recorded as per the accepted accounting standards of that particular nation. The financial statements should reflect the accounting position of the company. Also, it is the auditor's duty to ensure that the books are maintained in a fair manner - the company does not intend to mislead its stakeholders.

A carefully planned accounting fraud looks out for loopholes in laws, or simply uses accounting gimmicks to present financial statements that are completely misleading. Fake and fabricated accounts, fake expenses, assets, or income to show that the company is in good financial
condition is simply done to maintain the company's brand name in the financial market, and increase its stock prices. It is saddening to know that big giants with good reputation have been involved in such frauds. While greed is a human tendency, an accounting fraud at such a high level can ruin the stakeholders of the company—with employees losing their jobs and investors losing their hard-earned money. Top management has been involved in such frauds for myriad of reasons: to give an optimistic outlook to the company, or the use the funds of the company for personal use, or simply to earn more revenue. Of course, sometimes, a fraud can be so effectively laid out that even the auditors fail to detect it. In some cases, even the auditors have been deemed guilty, though unfortunately, some of them willingly were a part of the ploy, while some were negligent in discharging their duties.

In Table 1, we presented some of the top accounting frauds that shook the world. The scandals are mentioned according to the potential harm they caused to the investors, and the repercussions that followed.

<table>
<thead>
<tr>
<th>Company</th>
<th>Year</th>
<th>What happened?</th>
<th>How they did it?</th>
<th>How they got caught?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Waste Management</td>
<td>1998</td>
<td>Reported $1.7 billion in fake earnings.</td>
<td>Allegedly falsely increased the depreciation time length for their property, plant, and equipment on the balance sheets.</td>
<td>A new CEO and management team went through the books.</td>
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<tr>
<td>Enron</td>
<td>2001</td>
<td>Shareholders lost $74 billion, thousands of employees and investors lost their retirement accounts, employees lost their jobs.</td>
<td>Kept huge debts off the balance sheets.</td>
<td>Turned in by internal whistle-blower and high stock prices fuelled suspicions.</td>
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<td>WorldCom</td>
<td>2002</td>
<td>Inflated prices by as much as $11 billion, leading to 30 000 lost jobs and $180 billion in losses for investors.</td>
<td>Underreported line costs by capitalizing rather than expensing, and inflated revenues with fake accounting entries.</td>
<td>WorldCom’s internal auditing department uncovered $3.8 billion in fraud.</td>
</tr>
<tr>
<td>Tyco</td>
<td>2002</td>
<td>CEO &amp; CFO stole $150 million and inflated company income by $500 million.</td>
<td>Siphoned money through unapproved loans and fraudulent stock sales. Money was smuggled out of the company disguised as executive bonuses.</td>
<td>SEC and Manhattan D.A. investigations uncovered questionable accounting practices, including large loans to the CEO that were then forgiven.</td>
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<tr>
<td>HealthSouth</td>
<td>2003</td>
<td>Earnings numbers were allegedly inflated $1.4 billion to meet stockholder expectations.</td>
<td>Allegedly told underlings to make up numbers and transactions from 1996 – 2003.</td>
<td>Sold $75 million in stock a day before the company posted a huge loss, triggering SEC suspicions.</td>
</tr>
<tr>
<td>Freddie Mac</td>
<td>2003</td>
<td>$5 million in earnings were misstated.</td>
<td>Intentionally misstated and understated earnings.</td>
<td>An SEC investigation.</td>
</tr>
</tbody>
</table>
While fraudulent accounting practices are still a part of the corporate world, more stringent laws and monitoring might ensure that there are fewer instances. While corporate social responsibility might be on the rise, as long as 'money make the mare go', it is difficult that the corporate world will be devoid of such unethical practices. Other than stringent laws, whistle-blowers might help improve the situation. However, even employees should hold themselves accountable and report to appropriate authorities if they come across falsification of accounts. Needless to say, again, the internal and statutory auditors both play a pivotal role in detection of such fraud.

3. Ethical Judgement

The financial statements based on accounting data should provide a fair picture of reality. However, accounting also involves perceiving the real, based on a conceptual system that consists of objectives, postulates, principles, rules and regulations. Meanwhile, the area of accounting research is restricted due to statements made without taking into account the qualitative, human or environmental features.

The nature of the work carried out by accountants and auditors requires a high level of ethics. Shareholders, potential shareholders, and other users of the financial statements rely heavily on the yearly financial statements of a company as they can use this information to make an informed decision about investment. They rely on the opinion of the accountants who prepared the statements, as well as the auditors that verified it, to present a true and fair view of the company. Knowledge of ethics can help accountants and auditors to overcome ethical dilemmas, allowing for the right choice that, although it may not benefit the company, will benefit the public who relies on the accountant/auditor's reporting.

Requiring financial statements to portray the full reality about the position and financial performance would involve the use of assessments and estimates that may be wrong sometimes. The representation of economic reality through accounting is the result of professional skill. The
true picture cannot be identified with a facsimile of economic reality, but it is represented by the image that you can rely on, that you can count on in determining economic decisions.

4. Conclusion
To sum up, ethical judgement improves the accounting profession by restricting the number of creative options and adding more regulations. Therefore, it is essential to develop ethical practices in accounting, in order to prove proper functioning and to avoid fraudulent cases as the ones examined in this article. Ethical judgement helps to establish the barrier between creative accounting in the limits of the legal framework and illegal practices, which lead to negative consequences.

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