

Tesis

Detecting Accounting Irregularities: A Study of Specific Transactions Indicative of Inappropriate Practices

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Synopsis

In today's economy, efficient functioning of capital markets depend on the reliability and transparency of financial statements. However, sometimes financial information received reflects accounting irregularities that if not detected in time lead to incorrect investment and credit decisions.

These irregularities intend to hide or distort the real financial performance or financial condition of an entity. While they vary in degree they have similar effects; financial statements that are used for important decisions are misleading and do not "...represent fairly, in all material respects..." the financial position of companies.

Companies have cast aside constraints on how they report their financial activities. Variations in how they report their results make it harder to know if their valuation is cheap or rich compared with their peers and the rest of the market. They are evading accounting rules built up over decades, choosing instead unconventional and often questionable practices.

This study analyses the financial reporting system and identifies the most common types of transactions that are manipulated to achieve desired results, specifically those involving revenue recognition, liability disclosure and reporting of current expenses. Cases of companies that have used irregular accounting practices are studied along with its impact if any, to financial statements and share prices among others.