



## Creative Accounting Resurfaces in Tight Times

ACCOUNTING, CORPORATE, EARNINGS, EXPENSES, RECESSION, DOWNTURN, IRREGULARITIES

**Reuters** | 29 Oct 2009 | 05:51 AM ET

Corporate balance sheets may be showing signs of the wear and tear from the prolonged U.S. recession as accounting irregularities are starting to surface at growing numbers at U.S. companies.

"When things get difficult companies tend to stretch even further and utilize whatever games that they can get away with and sometimes they don't get away with them," David Tice, chief portfolio strategist for bear markets at Federated Investors, said in an interview with Reuters television on Wednesday.

Accounting irregularities are increasingly showing up in U.S. regulatory filings and corporate announcements.

Shares of **Apollo Group** sank 18 percent on Wednesday after the parent of University of Phoenix said the U.S. Securities and Exchange Commission had launched an informal inquiry into its revenue recognition practices.

Apollo is just one of several big name companies that have disclosed they have accounting issues over the last few weeks.

Internet retailer **Overstock.com** said last month that it was under scrutiny from government regulators over the way it accounted for some expenses.

The company restated financial results in 2006 and 2008.

New York Sports Clubs owner **Town Sports International Holdings**

said last month that the SEC was formally investigating its deferral of certain payroll costs related to membership sales.

And jewelry chain **Zale** said it will report fourth-quarter financial results on Thursday, after it twice-delayed its earnings results due to an accounting review of prepaid advertising costs.

"Statistically you can show any time you have a recession or some type of tremendous decline in an economy you're going to see financial pressures on companies," said Bruce Dorris, program director at the Association of Certified Fraud Examiners, noting that corporate employees can sometimes be motivated to be overly aggressive with accounting or commit outright fraud to meet targets, particularly in difficult economic times.

"If revenues start to dry up in other areas that they could use to mask it, it makes it much more difficult," Dorris said, adding that corporate frauds can unravel in a recession in the same way that Ponzi schemes like Bernard Madoff's become impossible to keep going. "The recession exacerbates the issue and makes it harder for them to control," Dorris added.

Nearly a third of corporate executives have expected that fraud and misconduct would rise in their organizations this year, according to a survey from accounting firm **KPMG** in August. The most common causes of financial restatements are related to costs, expenses and revenue recognition problems, according to the Government Accountability Office.

Investors, however, often have little notice that anything is wrong, and disclosures of investigations can have a minimal impact on stock prices until investors truly know what has happened. Shares of Overstock, Zale and Town Sports are all trading above where they were when the companies first disclosed these issues.

However, shares of **Huron Consulting**, which said in August that an SEC inquiry into the company's accounting resulted in restatements of three years of results and a withdrawal of its earnings forecast, is still trading about 40 percent below its earlier level.

Investors may expect to see more accounting-related disclosures from corporations ahead, experts said. One reason that more accounting issues are surfacing

now, could be because it is nearing the end of the year and companies and their auditors are trying to close out the books, said David Grubb, a partner at accounting firm Plante & Moran.

"At the end of the year they (the auditors) do a hard close and everything's cut off, everything's scrubbed," Grubb said.

Some companies may have also been forced to cut back on finance support staff during the economic downturn, which can lead to errors, Grubb said.

Regulators at the SEC and other government watchdogs could also be causing an increase in fraud detection, as they have been more focused on investigating tips and sharpening their fraud detection skills after their failure to detect Madoff's scheme, Dorris said.

Tice said that he also expects to see more accounting issues surface at U.S. companies in the months ahead, partially because the motivation is still so great for companies to play games with their numbers.

"Unfortunately, there's still a great deal of latitude inside generally accepted accounting principles and companies -- because there's so much at stake -- will grasp at whatever straws they can in order to post as good numbers as they can," said Tice, who has been known for turning up accounting troubles at companies in his career as a short seller.

*Copyright 2009 Reuters. Click for restrictions.*

URL: <http://www.cnbc.com/id/33528903/>

---

© 2009 CNBC.com