Analysing Accounting Theories And Issues Of Case Of Enron Scandal

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1 Introduction

The importance of accounting theories and the current issues cannot be neglected at any instance. It is considered that key goal of financial reporting is offering of the high based quality financial statements reporting information in context to economic enterprises, mainly financial in the nature, and suitable for economic decision making. It is considered that offering of high-quality and transparent financial statements reporting data is increasingly significant due to it would affect completely capital providers and other related investors as well as stakeholders in the making of investment, credit and resource allocation choice as improving of market efficiency. FASB stresses the significance of high quality and transparency of financial reports, amongst key problems found in the operationalization and measurement of the quality (Zeff, 2018).

This research report has been conducted within the context of analyzing and discussing the current regulator frameworks prepared of the financial statements in-country, Australia. Furthermore, Enron Scandal has been in detailed discussed in context to the identifying of the main factors, lessons learned, violation of the accounting practices and many others is in detailed discussed.

2 Preparing of the Financial Statements and Regulatory Frameworks in Australia

The significance of considering and analyzing existent regulatory regulations or frameworks which encompass the preparation of the financial statements by the reporting entities in country, Australia cannot be neglected at any instance. ASIC is deliberated as one of the independent Australian bodies that does acts as Australian corporate regulator. The main role of ASIC is enforcing and regulating of the companies and financial service laws for the protection of consumers, creditors and investors. It has been established on 1st July 1998, followed by the recommendation from Wallis Inquiry (Tania & Yates, 2018). In simple terms, ASIC is considered as one of Australian corporates, financial services, and financial markets regulators.

Regulatory framework aims and deals with financial report objectives, qualitative characteristics which does determine the usefulness of the information in the financial reports. Secondly, it focuses in the measurement and recognition of elements through which the financial statements can be well constructed with the maintaining of capital.

The current framework does assists AASB in the development of the future Australia’s Accounting standards and in context to review of the existent Australia’s Accounting standards, that includes evaluation of proposed international accountings standards and secondly, AASB in

promotion of harmonization of the regulations, processes and accounting standards that is related to presentation of the financial reporting through providing the basis for the reduction of number of the alternative accounting treatment permit by accounting standards of Australia (Zeff, 2018).

It is considered that the framework does assist the preparers of the financial reports in the application of accounting standards of Australia. It does assists the auditors in the forming of opinion to whether the financial reports conforms with the accounting standards and does assists the users of the financial reports in an interpretation of information contained and comprised in the financial reports which are prepared in a conformity with the accounting standards in Australia.

3 Regulation of Australian financial reporting environment

It is considered that companies are reporting the information of financial accounting to the external parties since last many years. But, particular perspective in that the companies report the financial situation to outside globe differs from the country to the country and does evolves over the time. As mentioned in (Acerete et al., 2019), financial reporting completely revolves the shapes by interplay of parties in the society that have the interest in the information that includes preparers and users of regulators, auditor, information and information intermediaries. It is considered that main three sources of the regulations governs the financial reporting and accounting policies and practices in country Australia, which mainly includes accounting standards issued by Australia's accounting standard board.

Basically, ASIC is considered as regulator of the markets as well as financial services of Australia. ASIC does ensures that the financial markets of Australia are highly transparent, and fair. ASIC is considered as independent commonwealth government bodies which are established by Australian Securities and Investment Commission Act of the 2001. Companies, firms and organizations operating in country, Australia are well required for preparing and lodging the financial reports with the ASIC, mostly in end of financial years. It is considered that annual financial reporting is well required to be adequately audited. In most of the scenarios, firms might be well exempted from the financial reporting (Jehu & Ibrahim, 2017).

ASIC does develops and considers the guidance and policies about laws which it does administers, monitors and licenses the compliance by the participants in financial systems, as well as provides the accurate and comprehensive information regarding the corporate activities and companies. The main focus is on considering and integrating of effective financial reporting so that accordingly productive outcomes and results (Stubbs & Higgins, 2018).

4 Analysing and Discussing Enron Scandal as financial reporting accounting fraud

4.1 Overview and Key facts of Enron Fraud

Enron Corporation has been considered as United States energy, the commodities and Service Company which is based out of the Houston Texas (Camfferman & Wielhouwer, 2019). It has been recognized as one of significant controversial scandals of accounting in past decade. It has been discovered in year 2001 that company have been utilizing accounting loop holes for

the hide the billions of the dollars of the bad debt, whilst, simultaneously inflate earning of company.

This scandal resulted shareholders and stakeholders to lose more than $74 billion. This is mainly because share pricing of the Enron had collapsed around $90 to under the $1 within year. In accordance to SEC examinations and investigations did highly and indicate that the Company's CEO, did keep billions of dollars of debt off the company's balance sheet.

Additionally, they had also pressured the auditing of company firm, the Arthur Anderson in ignoring issue (Agnihotri et al., 2018). Two were well convicted, increasingly based on testimony of the former, Enron Employee, who is Sherron Watkins.

However, Lay has died before the serving time in the poison. Due to which, Jeff Skillings have been sentenced to the twenty four years in the prison. The scandal led to the bankruptcy of Enron and had dissolution of Arthur Anderson. Convictions had being highly controversial as the collapse has really shocked, as the prosecutor had indicated that only individuals, but the complete accounting firm of Arthur Anderson effectively put the company business out. It had little consolation of the 20000 employees who lost jobs.

Most of Enron executives have been indicted on several charges and have been later sentenced to the prison. Damages to the reputation of company have been really severe which has forced in dissolving itself. Additionally, to the federal lawsuits, hundreds of the civil suits have been filed by the shareholders against the Anderson and Enron (H et al., 2016).

4.2 PAT's Hypothesis predict Practice of Parties

The concept of positive accounting theories plays an active role in part of any organization to do financial activities as per management standards. The theory Positive Accounting Theory work in command to measure good prediction of real world events and shows translate them to do accounting transactions. It has being examined that Positive Accounting Theory’s operate its major functionality to well perform normative theories that tend or to lead recommend by using positive theories for explain and predict company future (Onyinyechi & Ihendinihu, 2016). This predicts company future is considered as a powerful tool to take efficient mode of actions and decisions according to current market situations to do financial aims. Some of the PAT analyses are presented as followed:

1. In command to perform action by using accounting policies of company that choose
2. The company can act and reacts lead towards newly proposed accounting standards.
3. Management need to work in part or intention to understand and predict accounting policy to across differing firms (De Villiers & Sharma, 2017).
4. And the act of PAT, Company maximizes their prospect for more survival, so major operations are organizing themselves in the form of efficiently.
5. Companies are needs to be viewed as accumulation tools of contracts in which they entered (Fung, 2019).

On the basis of Enron Scandal, the business model of the firm has been based on the future contract with the energy supplier and buyer. It is considered for the manager of Enron with the bonus plan; they would be adopting an accounting method which could maximize current financial profit of Enron. Secondly, in terms of considering debt covenant hypothesis, Enron

managers will be raising increase debt over the $13billion in order to remain their overall cash flow.

In the Enron case, it is considered that PAT does explains that managers had made the decision on the basis of the self-interest for hiding negative outcomes that had led to firm going into bankruptcy (Fung, 2019).

4.3 Violation of Specified Accounting regulation

The federal security laws do require that the accounting statements of public trade corporation by well certified by independent auditor (Edwards et al., 2019). Enron's Auditor has well-turned eye to improper accounting practices and standards, and is actively engaged in division of complex and critical financial structures and the transactions that facilitated deception. It is considered that in Enron case, the main question is that not only GAAP were well violated, but, it is indicated that the existing accounting standards had also permitted the corporation in playing the numbers games.

Investors are well exposed to increase risks by financial statements does lacks an increase clarity and consistency (Dibra, 2016). Accounting standards of corporations set by the financial accounting board, that considered as non-governmental entity, that there are considered the requirements of Securities and Exchange Commission.

Enron has well-incorporated mark to the market accounting for an energy trading business and have been utilized in unprecedented scale in context for trading transaction. It is deliberated that, firms have the outstanding energy relatable and other relatable derivatives contracts on unrealized loss or gain to the income statement.

4.4 Lessons from Enron as Accounting Fraud

In the initial phases, it is considered that Enron has increasingly focused on the share price and earnings growth and related financial incentives which had overall led to the necessary lack of the transparency as figures have been fiddled. It is indicated that one can argue that the Enron had felt really much accountable to the shareholders for the delivering of consistently above the average growth in market capitalization of Enron. However, the growth have been accomplished by the deception and subterfuge. One of the major lessons which has been learned from the scandal is transparency in the accounting dealing in order to assist in accomplishment of organizational goals and objectives.

Secondly, Enron case does teaches us that considering the transparency does carries an immense importance. It is considered that hiding the right situation by the auditors does not work; rather, it does leads to an enormous negative outcomes and results which do lead to the bankruptcy. Similarly, it is considered that in the initial phases of the issue raised, everything should have been well resolved so that accordingly the productive outcomes could be generated.

4.5 Recommendations to the Australian financial reporting regulators regarding Enron Scandal

It has being highly recommended that Australian financial reporting regulatory plays an active

role in part of any organization to do financial transaction by using advance accounting model. This advance accounting model is very helpful tools for minimize frauds and take effective mode of actions and decision according to management and company should need to best performed in future.

In accordance to present information, companies are facing various kinds of financial reporting fraud that involved by overstating or understanding the real position of an organization's to perform through net assets or earning to do financial goals. By using the concept of overstatement management should need to work in generally occurs in following business scenarios to overcome reporting fraud are assumed below:

1. Management should need to in preparation major ways of divestiture financial activities
2. Management should need to work in the area of preparation or promote the concept of joint venture arrangements as defense mechanism to deter hostile takeovers to do aims.
3. Need to overall improve credit rating and in command to obtain favorable financial conditions.
4. In command to demonstrate the ways of compliance with having loan agreement and work according to contract (Garcia-Blandon et al., 2018).

It is considered that the two major recommendations to Enron Case is that the communication and discussion of the problem raised in the auditing needs to be highly considered and accordingly the productivity can be enhanced. Secondly, it is recommended that the strong and good auditors should have been hired in order to accurately deal with the situation and to gain increase outcomes (Chen & Zhao, 2017).

5 Conclusion

Current Regulatory Framework encompassing preparation of Financial Statements in Australia does increasingly matters and it does assists the firm in making of the good decisions and enhancing of their performances.

In context to the in-depth analysis and considerations, it has been indicated and recognized that Enron has been marked as one of the massive failures, mainly because of the complexity, control in protecting of integrity in the capital market failure, size and specifically due to massive collusion and greed of the major participants. The main reason of the failure was the management, auditor, and analyst and most importantly regulator failure. It is considered that most of the accounting practices importance was neglected which overall led to negative outcomes

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