

Understanding & Overcoming Manipulation in Financial Reporting

2 Days

COURSE OVERVIEW

Almost every day we're hearing about how corporations have played fast and loose with accounting rules to hype their reported earnings – Enron and Worldcom being two of the most head of horrifying stories. So it's not surprising that quality of earnings is top of mind for many investors and analysts these days.

However, most investors and analysts may not have been trained to scrutinize financial statements. This is where this course will help – by providing you with all the necessary tools to facilitate this process, in an orderly and structured manner. Here you will be given the opportunity to understand the basic and underlying mechanisms used by companies to 'cook the books' – and how to improve your detective assessment process.

The course tells you everything you need to know to detect discrepancies when company executives resort to creative accounting practices to meet their numbers. The course also covers a lot of territory while giving you the opportunity to learn how you can put their concepts into practice when you're analyzing a stock or company numbers.

WHO'S IT FOR?

Delegates who attend this course will be given a quick overview of Understanding the Basics of Financial Reporting to get everyone on a 'level playing field'.

This course is particularly suitable for:

- Corporate, Consumer, Bank Treasury Managers
- Internal and/or External Audit Managers, supervisors, team members
- Financial Analysts working for Investment Banks, Stock Broking Firms, Asset Management Companies, Investment Funds, Financial Planning and Advisory firms
- Company Secretaries and Compliance Managers within financial institutions
- Risk Managers
- Investor Relation Officers in financial institutions
- Institutional, Investment and Pension Funds or individual investors who wish to understand more about the financial statements of companies in which they invest
- All other professionals, or those studying for professional exams such as ACCA, CIMA, CPA with an interest in financial markets and reporting

LEVEL

Intermediate - Advanced

WHAT DO I GET OUT OF IT?

- Understand Financial Statement Analysis
- What the Balance Sheet, Profit and Loss Accounts and Cash Flow Statements really mean
- 'Looking beyond the numbers' – what accounting standards allow and how to 'see through' the flexibilities of standards
- Putting together 10 standard accounting adjustments
- What rating agencies can teach the markets
- Scores that act as 'indicators' of crises
- Case studies that show how manipulations usually work

COURSE CONTENT

Day 1

The major aspect of material covered during Day One will center on looking at major techniques used in manipulating accounts.

Introduction – Accounting Standards, Policies, Concepts & Disclosure Requirements

- Level Playing Field – IFRS & US GAAPs
- Overview IFRS
- Overview US GAAPs

'Cooking the Books' – Overview of Major Techniques Used By Various Corporations & Organizations

- Revenue streams wrongly timed and/or of questionable quality
- B bogus Revenue streams
- One Time Gains
- Shifting current expenses between periods
- Failing to record or improperly reducing liabilities
- Shifting current revenues to later periods
- Shifting future expenses to current periods as special charges
- Pre-acquisition write downs
- Disposal of assets
- Deferred consideration
- Extraordinary and Exceptional items
- Goodwill and other Intangibles
- Off Balance Sheet Items
- Contingent Liabilities
- Capitalization
- Brand Accounting
- Depreciation and amortization policies
- Derivatives – Puts and Calls
- Pension Fund Accounting
- Accounting for Stock Options
- Timing of income
- Related party transactions

Exercise: Case Studies

Day 2

On Day Two, participants will be provided with relevant tools to analyze financial statements and look for tell-tale signs of manipulation in the Balance Sheet, Profit and Loss Accounts & Cash Flow Statements

Goals of Financial Reporting – 7 Guiding Principles

- Revenue recorded after the earnings process has been completed
- Capitalization and expensing of cost items
- Expensing or writing off the benefit of using an asset or part thereof
- Impairment
- Recording Liability when obligation arises
- Revenue recording in period it is earned
- Matching principles

Techniques for Detecting Manipulation

- Database Searches – Qualitative Aspects
- Analyzing Financial Reports or Statements

Key Aspects of Understanding Financial Statements – Ratio Analysis

- Profitability
- Liquidity
- Solvency
- Activity

The Balance Sheet & Profit & Loss Statements

- Earnings
- Profits
- Depreciation and amortization policies
- Capitalization and impact on Profit and Loss
- Timing of income
- Use of off-balance sheet entities
- Mistreatment of extraordinary, abnormal and non-recurring items to mislead
- Option Plans
- Goodwill and Intangibles
- Off-balance sheet items – Non consolidation of associate companies, Sale and Lease-back
- Contingent Liabilities

Cash Flow Statement Analysis

- The importance of cash flows
- Meaningful cash flow analysis
- Ratios analysis
- Manipulative measures
- Analysis and predictions of corporate collapse

Course Summary & Conclusion