Financial Shenanigans

Antje Seiffert-Murphy, CFA

FCIB Webinar - 24 August 2017
What are Financial Shenanigans?

Actions and omissions that distort a company's financial performance and condition
Financial Shenanigans

1 – Recording revenue too soon or of questionable nature

2 – Recording bogus revenue

3 – Boosting income with one-time gains

4 – Shifting current expenses to a later or earlier period

5 – Failing to record or improperly reducing liabilities

6 – Shifting current revenue into a later period

7 – Shifting future expenses to the current period as a special charge
Financial Shenanigans - Continuum

From benign to outright fraud

- Change in accounting estimates
- Releasing reserves
- Capitalizing operating costs
- Fraudulent recognition of bogus revenue
Inflated or deflate current period earnings, improve credit risk profile

Improved financial picture helps:
- Access to open credit terms and (larger) credit lines with suppliers
- Obtain financing and / or meet covenants
- Increased company valuation / stock price
- Rating from agencies
- Management Bonuses / options tied to valuation
Financial Shenanigans – Warning signs

- Weak internal controls
- Growth of industry doesn’t match with company’s
- Companies under financial pressure
- Complex corporate structures, use of SPV
- Small fast-growth or highly acquisitive firms
- Background management raises questions
- Aggressive accounting policies
How to detect in accounts?

1. Large firm – small unknown auditor
2. Firm headquarter different country than auditor
3. Performance too perfect, i.e. ratios and growth in turnover
4. Read Notes and if changes in accounting principles and estimates
5. Create common-size balance sheet and statement of operations
6. How do CFO and net income compare and evolve over time?
7. Firm acquires underperforming assets but continues to post “perfect” results
A Few Financial Shenanigans Cases

- Logitech International
- Lucent
- Obsidian Energy Ltd
- Enron
- Cendant/CUC
- WorldCom

Coverholder at LLOYDS
Further Reading

Howard Schilit, Financial Shenanigans: How to Detect Accounting Gimmicks & Fraud in Financial Reports, May 2010

“16 Financial Shenanigans that got companies into tons of trouble”


Contact Details

Antje Seiffert-Murphy, CFA
Trade Credit and Political Risk Underwriter

Antje.seiffert-murphy@equinoxglobal.com
D: +1 646 593 8682
N: +1 917 680 2318

US Office Address
Equinox Global Inc.
25 Broadway, 9th Floor, New York, NY 10004

More information about Equinox Global and Lloyd’s of London:
www.equinoxglobal.com & www.lloyds.com