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Research Article

Forensic Accounting: Review on Global Organization's Scenario

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Abstract
Forensic accounting popularity and application over the decade has intensified immensely though it is not a new concept. Its application is of many importance provided that accounting fraudulent practices are increasing immensely throughout the globe. Forensic accounting is the combination of accounting, auditing and investigative skills. It provides investigative functions and litigation support services to understand the depth and width of the financial scams happening in any economy. This research paper discusses some of well-known global cases of financial fraudulent practices like Worldcom, Krispy Kreme and Enron. The research is based on secondary data collected from published journals, periodicals and books.

Keywords: Financial Scams, Forensic Accounting, Fraud, Investigation, Creative Accounting Practices

Introduction

Financial crime and fraudulent activities have always been one of the most popular challenges facing the global economy. Ehioghiren and Atu (2016) and Onodi et al. (2015) Assume that financial crimes include subsidy fraud, prepaid fraud, identity fraud, bank fraud, mortgage fraud, check fraud, corruption, credit card fraud, hedge fund fraud, consumer and professional fraud. Gottschalk (2010) pointed out that financial crimes are divided into four categories: theft, fraud, manipulation, and corruption; these crimes are committed by individuals, organized people, and institutions. Due to the continued existence of fraud and other related financial crimes in the public and private economic sectors, forensic accounting as an accounting field is gradually attracting people's attention.

1.0 Literature review

Forensic bookkeeping alludes to the use of insightful and analytical abilities to determine monetary issues in a way that fulfills guidelines needed by official courtroom. Scientific bookkeeping is likewise characterized as the utilization of bookkeeping ideas and procedures to lawful issues (Abdulrahman, 2019). This proposes notwithstanding, that the term 'measurable' may cut across a few everyday issues for which confirmations might be looked for suit (Eliezer and Emmanuel, 2015). Bookkeeping, then again, as indicated by Oluyombo (2016), is the way toward gathering, recording, examining, introducing and deciphering monetary data for the clients of fiscal summaries. This includes exact accounting, records, estimating and deciphering the monetary consequences of the business by the arrangement of bookkeeping proportions and conveying these outcomes to the executives and other invested individuals or clients. Consolidating these two phrasings will paint the image of what scientific bookkeeping involves. Legal bookkeeping as per Apostolou et al. (2000) and Kolawole et al. (2018) is the utilization of bookkeeping, inspecting and insightful capacities to offer master help in lawful issue. Jugurnath et al. (2017) depict measurable bookkeeping as a field of bookkeeping that deals with present, existing or projected questions subsequently it is thusly reasonable for lawful evaluation and guarantees an effective decrease of monetary misbehaviors. According to the perspective of the investigator, scientific bookkeeping is worried about gathering, understanding, compacting and showing multifaceted monetary issue in a reasonable, exact, and precise way. Onodi et al. (2015) see scientific bookkeeping as the usage of the ideas of bookkeeping and its definitions in managing lawful issues. Monitoring (2010) characterized scientific bookkeeping as the specialty of gathering and displaying monetary information in a structure that will be recognized by a court of statute against guilty parties of money related infringement.

Ongoing advances in legal bookkeeping or extortion examination might be partitioned into two general classes. The principal class centers around misrepresentation identification and avoidance procedures by upholding the requirement for expanded criminological bookkeeping training among tertiary organizations. A broad writing center around measurable bookkeeping training (for example Rezaee 2002; Crumbley, 2009; Ozili, 2015).

A few components inside firms have been distinguished to support misrepresentation, for example, frail corporate administration structure in firms (see. Beasley, 1996; Abbott et al, 2000; Beasley et al, 2000; Farber, 2005; Agrawal and Chadha, 2005; Ramaswamy, 2005, Ozili and Uadiale, 2017, and so on), misappropriation of resources

“Creative accounting puts into practice in recent years not only in Bangladesh but also in a lot of developed countries. However, it is marked that the level of window-dressing of company financial statements in some developing countries has significantly desecrated all known ethical standards. (Karim Fowzia & Rashid 2011) Here Karim Fowzia and Rashid is emphasizing that the practice of creative accounting is now universal and there is now no limitation as to its application. Even the developing countries are practicing it regularly as the accounting legislative or watch dogs of the accounting rules and policies at times are very weak.

Bangladesh being no exception where there have been cases of financial frauds in companies like Hall Mark ltd. and Destiny Groups”. (Sen and Inanga, 2001) summarize the speech of Jim Kennan, presented before the Australian Society of Accountants, which identified some significant effects of creative accounting. First, there are companies listed on the stock exchange, which show inflated profit and better financial position in their creative accounting statements to attract investors; this creation of accounts just misguides and creates confusion.

Yet another purpose of adapting creative accounting technique may be the managers are interested in paying less taxes and dividends the shareholders in gain with higher dividends, the employees to obtain better salary and higher profit share, the authorities to collect more taxes (Junaid and Asif, 2014).

3.0 Global review

In recent years, the importance of forensic accounting has grown rapidly. This is a career field whose landscape is affected by the rise of financial technology (FinTech). Forensic accounting experts don't just work for law enforcement agencies; They can also be found in the compliance departments of commercial entities, law firms, banks, and government agencies. Most forensic accountants are hired for compliance purposes; They make sure that the financial situation of the company is safe and orderly.

Forensic accountants investigate various fraud-related activities, which can occur in the fields of business, healthcare, real estate, mass marketing, hedge funds, and securities trading.

During the last part of the 1990s, a few organizations occupied with the fake adulteration of budget reports or cooking the books. Bookkeeping embarrassments at Enron, Worldcom, and different firms prompted the Sarbanes-Oxley Act. The Act improved divulgences and expanded the punishments for leaders who purposely approve improper fiscal reports. The Sarbanes-Oxley Act likewise expects organizations to improve their interior controls and review boards. The following are probably the most notorious forceful bookkeeping outrages.

4.0 Review of Global Cases

4.1 WorldCom

Forceful bookkeeping techniques incorporate expanding net gain by recording costs as capital buys, as WorldCom did in 2001 and 2002, or downplaying devaluation costs. Commonly, the costs are recorded when they paid for while capital buys are permitted to be fanned out over the long haul in little additions to permit income to be produced from them. Worldcom spread out their working costs over the long haul in more modest bits, regarding them as capital costs, which swelled the organization's benefits.

4.2 Krispy Kreme

Different strategies include swelling the recorded worth of resources and the untimely acknowledgment of incomes. Krispy Kreme booked income from donut gear it offered to franchisees, well before they needed to pay for it. By offering to the franchisee, the parent organization procured income from the deals of the great benefit machines. Inventive reeling sheet-bookkeeping can likewise be utilized to shroud capital consumptions and corporate obligation. In 2002, Krispy Kreme doughnuts had all the earmarks of being expanding deals with no expansion in capital. As it ended up, it had utilized engineered leases to move $35 million it spent on another assembling and conveyance focus off its monetary record. This was lawful; however, it was likewise a misdirection. Since the new resources were accounted for as a cost on the pay explanation, instead of an obligation on the monetary record, Krispy Kreme seemed to have a preferred profit from capital utilized over was actually the situation.

4.3 Enron

To expand income, energy organizations like Enron revealed the worth of energy contracts as gross income, rather than the commission they got as brokers. Utilizing this stunt, the main five energy exchanging firms the U.S. expanded their absolute income sevenfold somewhere in the range of 1995 and 2000. Enron likewise utilized wobbly sheet organizations called particular reason substances to stow away failing to meet expectations resources and book apparition benefits.

Enron kept on utilizing these bookkeeping stunts to keep its obligation covered up by moving it to its auxiliaries on paper. Notwithstanding this, the organization kept on perceiving income acquired by these auxiliaries. All things considered, the overall population and, in particular, investors were persuaded that Enron was showing improvement over it really was, regardless of the extreme infringement of GAAP rules. The Securities and Exchange Commission (SEC) was reprimanded for being sleeping at the worst possible time, and Enron's reviewer, Arthur Andersen—recently respected as a free proficient bookkeeping firm—was shamed in its treatment of Enron's books and eventually collapsed.

As understood by the AICPA (American Institute of Certified Public Accountants), forensic accountants must possess certain skills and characteristics, including analytical, investigative, and communication skills.

Financial statement manipulation is a type of accounting fraud that remains an ongoing problem in corporate America. Although the Securities and Exchange Commission (SEC) has taken many steps to mitigate this type of corporate malfeasance, the structure of management incentives, the enormous latitude afforded by the Generally Accepted Accounting Principles (GAAP), and the ever-present conflict of interest between the independent auditor and the corporate client continues to provide the perfect environment for such activity.

5.0 Reasons behind Financial Statement Manipulation

There are certain reasons why management manipulates financial statements. Firstly, the compensation of corporate executives is directly tied to the financial performance of the company. Resulting, they have a direct incentive for a rosy financial statement of the company's financial condition in order to meet established performance expectations.

Secondly, The Financial Accounting Standards Board (FASB), which sets the GAAP standards, provides a significant amount of latitude and interpretation in accounting provisions and methods. GAAP standards afford a significant amount of flexibility, making it feasible for corporate management to illustrate a dreamy situation of the financial condition of the company.

Finally, it is unlikely that financial manipulation will be detected by investors due to the relationship between the independent auditor and the corporate client. globally the Big Four accounting firms and of smaller regional accounting firms dominate the corporate auditing environment. The auditors could be tempted to bend the accounting rules to portray the financial condition of the company in a manner that will keep the client happy and to maintain a harmonious relationship among them.

6.0 How Financial Statements Are Manipulated

The approaches to manipulate financial statements are to exaggerate current period earnings on the income statement by artificially inflating revenue and gains, or by deflating current period expenses. This approach makes the financial condition of the company look better than it actually is in order to meet established expectations.

The other requires the exact opposite tactic, which is to minimize current period earnings on the income statement by deflating revenue or by inflating current period expenses.

Aggressive accounting refers to accounting practices that are designed to overstate a company's financial performance. Aggressive accounting can be done by delaying or covering up losses or artificially inflating its value by overstating earnings. Companies can inflate revenue by reporting gross revenue and maintain deferred expenses on the balance sheet instead of reporting them on the income statement.

7.0 Aggressive Accounting Techniques

Aggressive accounting can range from overstating income to understating costs, but below are a few examples of aggressive accounting strategies.

7.1 Revenue

Companies can overstate revenue by reporting gross revenue, even if there are expenses that reduce it. Also, companies can record revenue before a sale has been finalized in order to capture it earlier.

7.2 Inflating Assets

A portion of a company's overhead such as staff is typically allocated to inventory because there are indirect costs associated with finished goods as well as work-in-process items. The allocation increases the value of inventory and, as a result, reduces the value of cost of goods sold (COGS).

7.3 Deferred Expenses

A deferred expense is a cost that a company hasn't consumed yet. As a result, the item is recorded as an asset until it has been consumed, which is typically less than one year. Once the item has been consumed, it's recorded as an expense on the income statement.

Companies can manipulate their profits using deferred expenses by keeping them on the balance sheet instead of bringing them over to the income statement as an expense. The result would be an inflated net income or profit since expenses would be lower than in reality.

8.0 Conclusion

Nowadays, forensic accountants are in great demand, and the public's demand for honesty, fairness, and transparency of reports is growing exponentially. These forensic accountants need accounting, financial, legal, investigative and investigative skills to identify, explain, communicate, and prevent fraud. As more and more companies look for forensic accountants and professional organizations to provide certification in this field, it is clear that forensic accountants have very different skills from auditors or financial accountants.

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