



CREATIVE ACCOUNTING, FRAUD AND INTERNATIONAL ACCOUNTING SCANDALS

Michael Jones (Editor)



Copyright © 2011 Michael Jones
Published in 2011 by John Wiley & Sons Ltd, The Atrium, Southern Gate, Chichester,
West Sussex PO19 8SQ, England
Telephone (+44) 1243 779777

Email (for orders and customer service enquiries): cs-books@wiley.co.uk
Visit our Home Page on www.wiley.com

All Rights Reserved. No part of this publication may be reproduced, stored in a retrieval system or transmitted in any form or by any means, electronic, mechanical, photocopying, recording, scanning or otherwise, except under the terms of the Copyright, Designs and Patents Act 1988 or under the terms of a licence issued by the Copyright Licensing Agency Ltd, 90 Tottenham Court Road, London W1T 4LP, UK, without the permission in writing of the Publisher. Requests to the Publisher should be addressed to the Permissions Department, John Wiley & Sons Ltd, The Atrium, Southern Gate, Chichester, West Sussex PO19 8SQ, England, or emailed to permreq@wiley.co.uk, or faxed to (+44) 1243 770620.

Designations used by companies to distinguish their products are often claimed as trademarks. All brand names and product names used in this book are trade names, service marks, trademarks or registered trademarks of their respective owners. The Publisher is not associated with any product or vendor mentioned in this book.

This publication is designed to provide accurate and authoritative information in regard to the subject matter covered. It is sold on the understanding that the Publisher is not engaged in rendering professional services. If professional advice or other expert assistance is required, the services of a competent professional should be sought.

Library of Congress Cataloging-in-Publication Data

Jones, Michael, 1953–
Creative accounting, fraud and international accounting scandals / edited by Michael Jones.
p. cm.
Includes index.
ISBN 978-0-470-05765-0
HF5636.J65 2010
364.16'3–dc22

2010024558

British Library Cataloguing in Publication Data

A catalogue record for this book is available from the British Library

ISBN 978-0-470-05765-0

Typeset in 11/13pt Times by Aptara Inc., New Delhi, India
Printed and bound in Great Britain by CPI Antony Rowe, Chippenham, Wiltshire

List of Contributors

Michael Jones (editor)

Michael Jones, MA Oxon, is Professor of Financial Reporting at Bristol University. Formerly, he taught accounting for 33 years, first at Hereford Technical College, then at Portsmouth Polytechnic (now University) then at Cardiff Business School (1989–2009). He has taught financial accounting at all levels from GCSE level to final-year degree and MSc courses. He has published over 140 articles in both professional and academic journals. These articles cover a wide range of topics, such as financial accounting, the history of accounting and international accounting. He is joint editor of the *British Accounting Review* and serves on two more editorial boards. As well as being Director of the Financial Reporting and Business Communication Unit, he chairs the British Accounting Association Financial and Reporting Special Interest Group. He has served on the British Accounting Association Committee and on the Committee for Professors of Accounting and Finance. He has written three textbooks: *Accounting*, *Financial Accounting* and *Management Accounting*. (Author, Chapters 1–7, 21–23)

Bhabatosh Banerjee

Dr Bhabatosh Banerjee, MCom, PhD, AICWA, is Professor of Commerce and Co-ordinator, MBA in Finance, University of Calcutta; Editor, *Indian Accounting Review*; and President, Indian Accounting Association Research Foundation. A former Dean of Commerce and Management (1987–89 and 2003–5), Dr Banerjee has 39 years' postgraduate teaching experience including two years in the USA (1995–97). The first recipient of the International Educator Award (2006) from the Indian Accounting Association, his numerous research publications include *Contemporary Issues in Accounting Research* (ed.) (1991), *Accounting Education in India* (1994) and *Regulation of Corporate Accounting and Reporting in India* (2002). (Author, Chapter 12 on India)

Garry Carnegie

Garry Carnegie is Professor of Accounting in the School of Accounting, RMIT University, Melbourne. Prior to joining academe, Professor Carnegie gained experience in IT, public accounting and in the financial services industry. He has held full-time professorial posts at Deakin University, Melbourne University/Private University of Melbourne and the

University of Ballarat. Professor Carnegie's expertise embraces financial reporting and accountability as well as accounting history. His published research appears in books and monographs and also in articles in respected journals in the fields of accounting, accounting history, archaeology, economic history, law, museum management and public administration. He is joint editor of *Accounting History*, the journal of the Accounting History Special Interest Group of the Accounting and Finance Association of Australia and New Zealand. (Co-author, Chapter 8 on Australia)

Nieves Carrera

Nieves Carrera has a PhD in Business Administration and Quantitative Methods from University Carlos III Madrid (Spain) and a degree in Economics (University of Vigo, Spain). Before joining the Instituto de Empresa Business School, she was a lecturer in accounting at the School of Accounting and Finance (Manchester University). Her research interests cover different aspects of auditing and financial reporting, such as the role of women in the auditing profession, the structure of the audit market and the impact of regulation on the audit market and on financial reporting. (Author, Chapter 16 on Spain)

Catherine Huirong Chen

Catherine Chen, PhD, MBA, BSc, is a Senior Lecturer, Business School, Middlesex University. Catherine's main research interests are in corporate governance and executive remuneration. She obtained her PhD in Accounting and Finance at Cardiff Business School. Her PhD thesis examined the determinants of executive remuneration in China, focusing on the role of the board of directors, ownership structure and market comparison factors. (Co-author, Chapter 9 on China)

Eugene Comiskey

Eugene E. Comiskey is the Fuller E. Callaway Chair, Professor of Accounting and Associate Dean for Faculty and Research at the Georgia Institute of Technology. He received his doctorate in accounting from Michigan State University and is a Certified Public Accountant (CPA). Dr Comiskey has co-authored four books with Dr Charles Mulford, as well as about 70 journal articles in a wide range of both professional and academic journals. He has served on a number of committees for the American Accounting Association and has also served as its director of research, president of its financial reporting and accounting section, as an editorial consultant and as a member of its editorial board. (Co-author, Chapter 19 on the USA)

David Gwilliam

David Gwilliam is Professor of Accounting at the University of Exeter, UK, having previously held academic posts at the University of Cambridge, London School of Economics and Political Science and University of Wales, Aberystwyth in the UK, and Monash University in Australia. He is a Fellow of the Institute of Chartered Accountants in England and Wales, having qualified with Price Waterhouse, and was the P.D. Leake lecturer at ICAEW in 2003. David's research interests include accounting and audit regulation, accounting and the law, and corporate governance. (Co-author, Chapter 18 on the UK)

Yuanyuan Hu

Yuanyuan Hu, PhD, MAcc, MA, BSc, is a lecturer in accountancy at the School of Accountancy, Massey University, New Zealand. Yuanyuan has research interests in the areas of corporate social and environmental reporting, corporate social accountability and responsibility, Chinese accounting and corporate governance. The prime focus of her PhD, awarded by Cardiff University, was on the willingness of Chinese listed companies to participate in corporate environmental reporting. (Co-author, Chapter 9 on China)

Richard Jackson

Richard Jackson is Associate Professor of Accounting and Finance and former Head of Department of Accounting at the University of Exeter, UK, having moved from the University of Wales, Aberystwyth, UK. He is a Fellow of the Institute of Chartered Accountants in England and Wales, having qualified with Ernst & Young. Richard was the Henry Ford II Scholar at Cranfield University, and later worked with NatWest Group and Accenture prior to his academic career. His research interests include earnings management and dynamics, market asset valuation and econometric methodology. (Co-author, Chapter 18 on the UK)

Kristina Jonäll

Kristina Jonäll, Ekon Lic (Licentiate of Philosophy), is a doctoral student in the Financial Reporting & Analysis Group at the Department of Business Administration at the Göteborg School of Business, Economics and Law. Her research is in the accountability aspects of business communication. Her licentiate thesis explored how textual analysis can be a useful tool to analyse business communication. She is also a participant in the research programme 'The Role of Trust in Communication of Accounting Information Research'. (Co-Author, Chapter 17 on Sweden)

George Kontos

George Kontos graduated from the Athens University of Economics and Business. He has over 30 years' experience in the banking industry, of which the last 12 years have been as the Group Financial Reporting Officer for Alpha Bank SA. He is a member of the board of directors for Alpha Bank Romania, Alpha Bank Srbija and Alpha Bank Skopje AD. Since 2001, he has also been a lecturer in bank accounting at the University of Piraeus. (Co-author, Chapter 11 on Greece)

Maria Krambia-Kapardis

Maria Krambia-Kapardis, PhD, MBus, BEc, ACA, has until recently been Professor of Accounting and holder of the PricewaterhouseCooper Chair in Applied Accounting Research, Intercollege, Nicosia, Cyprus. She is now Associate Professor of Accounting at the Cyprus University of Technology. She has published books, many articles in academic journals internationally and presented her work at local and international conferences. Her research interests include forensic accounting, fraud investigation and prevention, Corporate Social Responsibility and Corporate Governance. (Co-author, Chapter 11 on Greece)

Henk Langendijk

Henk Langendijk has a Masters degree in Business Economics from the University of Amsterdam. He has practical business experience in accountancy and consulting in the Netherlands with the audit firms Arthur Andersen and BDO. He is currently Professor in Financial Accounting and Reporting at Nyenrode Business University and the University of Amsterdam. His PhD was entitled: 'The market for statutory audits in the Netherlands' (University Leiden). His recent research is in the field of IFRS-conversions, quality of financial reporting (creative accounting and fraudulent reporting) and corporate governance. He has published numerous books in the field of accounting and many articles in international journals, such as the *Accounting Auditing Accountability Journal*, *Corporate Governance: An International Review*, the *European Accounting Review*, the *European Journal of Finance* and national Dutch accounting journals. He is editor of the Dutch accountancy journal *Maandblad Accountancy en Bedrijfseconomie*. (Author, Chapter 15 on the Netherlands)

Hansrudi Lenz

Hansrudi Lenz has been a Professor of Accounting and Auditing at the University Wuerzburg since 1996. He received his doctoral and post-doctoral degrees in Business Administration from the Free University of Berlin in 1986 and 1994, respectively. His main areas of research are related to accounting and auditing. He has published several articles in refereed German and international journals. Professor Lenz acquired professional experience as an employee in the controlling department of the Treuhandanstalt (former state-owned holding company for all former East German firms) and in a management holding in Berlin. He is currently chairman of the Accounting Commission of the German Academic Association of Business Research. (Author, Chapter 10 on Germany)

Andrea Melis

Andrea Melis is Associate Professor of Accounting and Business Economics at the Department of *Ricerche aziendali*, University of Cagliari, Italy. His Masters degree was taken at the Nottingham Business School (UK) and he received a PhD from the University of Rome TRE, Italy. His main research interests are financial reporting and corporate governance. He has published two monographs on corporate governance, several chapters in edited books and articles in international journals such as *Accounting, Business and Financial History*, *Corporate Governance: An International Review*, *Corporate Ownership and Control*, *The ICAI Journal of Accounting Research* and other premier accounting and business journals in Italy. (Author, Chapter 13 on Italy)

Nikolaos Milonas

Nikolaos T. Milonas, PhD, MPhil, MBA, BA, is a Professor of Finance at the Department of Economics at the University of Athens. He has held academic positions at Baruch College (CUNY), the University of Massachusetts at Amherst, the Athens Laboratory of Business Administration (ALBA) and the University of Wales, Cardiff Business School. He has teaching and research interests in the stock market, institutional investing, derivative markets and energy risk management. He is the author of two recent books on mutual funds and derivative markets and of numerous articles appearing in leading academic journals, including the *Journal of Finance*, *Journal of Futures Markets*, *European*

Financial Management, Financial Review, Housing Finance Review and Applied Financial Economics. (Co-author, Chapter 11 on Greece)

Charles Mulford

Charles W. Mulford is Invesco Chair and Professor of Accounting in the College of Management at the Georgia Institute of Technology. He has a doctorate in accounting from the Florida State University and is a Certified Public Accountant (CPA). Dr Mulford has co-authored four books with Dr Eugene Comiskey: *Financial Warnings*, published in 1996; *Guide to Financial Reporting and Analysis*, published in 2000; *The Financial Numbers Game: Identifying Creative Accounting Practices*, published in 2002; and *Creative Cash Flow Reporting: Uncovering Sustainable Financial Performance*, published in 2005. In 2002, he founded the Georgia Tech Financial Analysis Lab, which is dedicated to conducting independent stock market research. Dr Mulford has appeared on numerous broadcast networks, including CNBC, ABC News and Bloomberg TV. In addition, he has been quoted in several business publications, including *The Wall Street Journal*, *The Financial Times*, *Business Week*, *Forbes* and *Fortune*. (Co-author, Chapter 19 on the USA)

Brendan O'Connell

Brendan has extensive teaching and research experience in leading Australian and US universities including Monash University, Deakin University and the University of Richmond in Virginia. He has published numerous papers in leading academic journals, such as the *Journal of Accounting Auditing and Finance*, *Critical Perspectives on Accounting*, *Issues in Accounting Education*, the *Australian Accounting Review* and the *Journal of Applied Finance* on topics such as earnings management, financial statement fraud, business ethics, accounting education and securitization. Brendan was guest editor of a special issue of *Critical Perspectives on Accounting* entitled 'Enron.con' and a special issue of *Accounting History* that provided an historical perspective on accounting and audit failure within corporate collapse. He is also a member of the editorial board of the *Australian Accounting Review*. His case studies on the collapses of Enron and HIH Insurance are now part of the CPA programme in Australia. In 2004, Brendan was a recipient of \$95 000 from the Australian Research Council Discovery Grant Scheme to study 'Audit Failure in Corporate Collapse: An Historical Perspective'. Prior to working in academia, he worked in both accounting and the investment banking industry. (Co-author, Chapter 8 on Australia)

Simon Norton

Dr Simon D. Norton is a lecturer in the law relating to banking, the capital markets, and financial services at Cardiff Business School, Cardiff University. His areas of research, and in which he has published, include: corporate governance in the context of financial institutions; the impact of banking activities upon the natural environment, including the Equator Principles and the United Nations Environmental Programme; and Islamic finance and financial innovation in the context of Sharia principles. Dr Norton gained his doctorate in shipping finance, and is actively involved in the promotion of professional standards and training in the ship broking industry. (Author, Chapter 20 Creative Accounting and the Financial Crisis of 2008–2009)

Gunnar Rimmel

Gunnar Rimmel, Ekon Dr (PhD), is Associate Professor and Head of the Financial Reporting & Analysis Group at the Department of Business Administration at the Göteborg School of Business, Economics and Law. After the public defence of his thesis 'Human Resources Disclosures' in 2003, he received a post-doctoral position from the Adlerbertska Research Foundation. In recent years, he has been involved in a number of international research projects and has been a visiting research fellow at Kobe University. He was Secretary General of the 25th Annual Congress of the European Accounting Association (EAA) and currently is a member of the EAA Conference Committee. (Co-author, Chapter 17 on Sweden)

Kazuyuki Suda

Kazuyuki Suda, PhD, BEcon, MCom, is Professor of Accounting at the Graduate School of Finance, Accounting and Law, Waseda University. He has been a Visiting Professor of Accounting at the University of Alberta (1996–97) and Visiting Research Associate at the University of Rochester (1987–88). He was a Chair of the Specified Issues Study Committee of the Japanese Accounting Association (2004–6) and a Vice President of the Japanese Association for Research on Disclosure from 2005 to date. He has served as a member of the Technical Committee of Accounting Standards Board of Japan, the Examinations Committee of Security Analysts Association of Japan, and a Commission of CPA Examinations of Certified Public Accountants and Auditing Oversight Board in Japan. He has published many books in Japanese as well as articles in English. (Author, Chapter 14 on Japan)

Jason Zezhong Xiao

Jason Xiao, PhD, MSc, MEcon, ITML, is Director of the Chinese Accounting, Finance and Business Research Unit and Professor of Accounting at Cardiff Business School, Cardiff University. Jason has researched into accounting and corporate governance in China and accounting information systems. He has published over 30 articles in international journals and over 50 articles in Chinese journals and is a member of five journal editorial boards. He is a member of ACCA's Research Committee and a board director of the Chinese Auditing Association. (Co-author, Chapter 9 on China)

Preface

Enron, WorldCom and Parmalat are well-known accounting scandals. However, what is not so well known is that every country has its own accounting scandals. The basic motivation for this book is to explore the role of accounting, particularly creative accounting and fraud, in accounting scandals across different countries. I therefore approached people from different countries to see if they would be prepared to help me. In almost every case they did not say 'what accounting scandals?' but 'which accounting scandals would you like me to write about?'

Accounting scandals, by their nature, are extreme cases. They generally involve creative accounting and fraud. The title of the book reflects this: *Creative Accounting, Fraud and International Accounting Scandals*. This book covers 58 high-profile accounting scandals across 12 countries. However, it also deals with many other cases of creative accounting and fraud.

Accounting scandals are inherently interesting because they indicate extreme abuse of financial reporting. They show how, in extremis, the accounting numbers can be manipulated so as to deceive and defraud. This book provides an insight into the methods of creative accounting and fraud, the motivations that underpin the scandals and the consequences of the scandals, both in the short term and the long term.

The book aims to inform. The information is presented in as accessible a way as possible. There is a focus on presenting the big picture. The book should prove very interesting to readers. It provides a global approach to the topic. It covers 12 countries with representatives from Australasia (Australia), Asia (China, India and Japan), Europe (Germany, Greece, Italy, the Netherlands, Sweden, Spain and the UK) and North America (USA). It therefore represents leading global economies, developed and developing countries as well as the majority of the world's population. In addition, there is a chapter dealing with bank failures in the recent credit crunch.

The book is presented in three broad sections. In the first section I explore the basic themes which underpin the book. I examine the creative accounting environment, motives, methods and impression management. I site this within the academic and largely descriptive professional literature.

In the next section, individual authors, all native to their respective countries, provide an in-depth look at the major accounting scandals and instances of creative accounting that have occurred since the 1980s. Each author contextualizes the accounting issues and looks

at the motives, methods and consequences of the creative accounting and the accounting scandals. These chapters give a unique insight into the global nature of the problem. There is also a final chapter in this section looking at the consequences of the recent global banking crisis.

To write this book I depended upon the expertise of the individual authors. This book would not have been possible without my reliance on their research and local knowledge. To the best of my knowledge the facts which they have described and on which this book is based are correct.

The authors were given general parameters within which to write their chapter. I rely upon the expertise and factual accuracy of the individual country author chapters to synthesise and distil the material. The material in Chapters 21–23 and Appendices 1 and 2 thus relies principally on these individual chapter contributions. Generally, I have not changed the accounting terminology that they have used. Therefore, within the book certain accounting terms are used somewhat interchangeably such as inventory or stock; accounts receivable or trade receivables or debtors; accounts payable or trade payables or creditors; property, plant and equipment or fixed assets. This is because different countries have their own terminology or use International Accounting Standards Board terminology.

In the last three chapters, I draw out some general themes from the chapters. I look at the methods used, the motivations for the creative accounting, fraud and accounting scandals, the role of powerful individuals, and I highlight failures of internal control and external auditing. Finally, I investigate the long-term impact of accounting scandals on the regulatory environment.

This book has several novel and original features:

- An accessible overview of the methods, motives and nature of creative accounting and fraud drawing on prior literature and past accounting scandals.
- For the first time, an in-depth study of international accounting scandals in both developed and developing countries.
- Individual chapters are written by experienced authors native to each country.
- A global synthesis of the motivations, methods, control failings and consequences of major accounting scandals is provided.
- An historical overview of accounting scandals and creative accounting is provided from the ancient period into the 1980s.
- A chapter looking at the banking crisis of 2008/9 from an accounting perspective.

As such, this book provides a rare glimpse into the murky world of accounting scandals. It will be ideal for the general reader, professional accountant and businessman worldwide. It is also well suited for undergraduate students taking courses in forensic accounting and fraud. It may also prove a useful supporting book on more general accounting and finance courses. The book is uniquely positioned to support specialised MSc courses in accounting and finance or MBA courses.

Michael Jones
August 2010

Acknowledgements

I am extremely grateful to the 21 authors who have helped me to write this book. Without them, a book of this type would have been impossible. They have provided the detailed factual knowledge of their particular scandals and the national accounting environments in which those scandals occurred. I have relied upon the factual accuracy of their work when preparing the rest of the book.

I am very appreciative of the help and unfailing support of my partner, Jill Solomon, whose insightful comments have helped me immensely. I should also like to thank Steve Hardman, Jenny McCall and the team at John Wiley for their help and support. Finally, last but certainly not least, I should like to thank Jan Richards for her unstinting patience and hard work in turning my generally illegible scribbling into the final manuscript.

Contents

List of Contributors	xvii
Preface	xxiii
Acknowledgements	xxv
PART A	1
1 Introduction – Setting the Scene	3
<i>Michael Jones</i>	
1.1 Introduction	3
1.2 Exploring the Terms	4
1.2.1 Creative Accounting	4
1.2.2 Fraud	7
1.2.3 Other Terms	9
1.3 Structure of the Book	11
1.3.1 Increase Income	12
1.3.2 Decrease Expenses	12
1.3.3 Increase Assets	12
1.3.4 Decrease Liabilities	12
1.4 Conclusion	18
2 The Creative Accounting and Fraud Environment	21
<i>Michael Jones</i>	
2.1 Introduction	21
2.2 The Main Actors	22
2.2.1 Managers	22
2.2.2 Investment Analysts	24
2.2.3 Regulators	24
2.2.4 Auditors	25
2.2.5 Shareholders	26
2.2.6 Merchant Banks	26

2.2.7	Other Users	27
2.2.8	Legal Authorities	27
2.3	Effective Corporate Governance	28
2.3.1	Effective Internal Controls	28
2.3.2	Division of the Responsibility between Chief Executive and Chairman	28
2.3.3	Audit Committee	28
2.3.4	Independent Board of Directors	28
2.4	Economic Environment	28
2.5	Conclusion	29
3	Motivations to Indulge in Creative Accounting and Fraud	31
	<i>Michael Jones</i>	
3.1	Introduction	31
3.1.1	Personal Incentives	33
3.1.2	Market Expectations	34
3.1.3	Special Circumstances	36
3.1.4	Cover-up Fraud	39
3.2	Conclusion	39
4	Methods of Creative Accounting and Fraud	43
	<i>Michael Jones</i>	
4.1	Introduction	43
4.2	Basic Principles	44
4.3	Nature of Accounting	45
4.4	Methods of Creative Accounting	45
4.4.1	Strategy 1: Increase Income	46
4.4.2	Strategy 2: Decrease Expenses	48
4.4.3	Strategy 3: Increase Assets	56
4.4.4	Strategy 4: Decrease Liabilities	58
4.4.5	Strategy 5: Increase Operating Cash Flow	60
4.5	Simple Numerical Example	61
4.6	Fraud	62
4.6.1	Misappropriation of Assets	64
4.6.2	Fictitious Transactions	65
4.7	Conclusion	67
5	Evidence for Creative Accounting and Fraud	69
	<i>Michael Jones</i>	
5.1	Introduction	69
5.2	The Descriptive Studies	69
5.2.1	Ian Griffiths, <i>Creative Accounting</i> (1986)	71
5.2.2	County Natwest WoodMac, <i>Company Pathology</i> (1991)	72
5.2.3	UBS Phillips & Drew, <i>Accounting for Growth</i> (1991)	73
5.2.4	Trevor Pijper, <i>Creative Accounting</i> (1993)	76

5.2.5	Frank Clarke, Graeme Dean and Kyle Oliver, <i>Corporate Collapse: Accounting, Regulatory and Ethical Failure</i> (2003, first issued 1997)	77
5.2.6	Frank Clarke and Graeme Dean, <i>Indecent Disclosure: Gilding the Corporate Lily</i> (2007)	78
5.2.7	McBarnet and Whelan, <i>Creative Accounting and the Cross-eyed Javelin Thrower</i> (1999)	78
5.2.8	Charles Mulford and Eugene Comiskey, <i>The Financial Numbers Game</i> (2002)	79
5.2.9	Beasley, Carcello and Hermanson, <i>Fraudulent Financial Reporting 1987–1997: An Analysis of U.S. Public Companies</i> (1999)	81
5.2.10	Joseph Wells, <i>Principles of Fraud Examination</i> (2005)	82
5.3	The Statistical Studies	84
5.3.1	Earnings Management Studies	84
5.4	Conclusion	93
6	Impression Management	97
	<i>Michael Jones</i>	
6.1	Introduction	97
6.1.1	Accounting Narratives	97
6.1.2	Graphs	102
6.2	Conclusion	111
7	Taking the Long View: Accounting Scandals over Time	115
	<i>Michael Jones</i>	
7.1	Introduction	115
7.1.1	Ancient and Medieval	117
7.1.2	Seventeenth and Eighteenth Centuries	118
7.1.3	Nineteenth Century	119
7.1.4	Twentieth Century: Before Second World War	122
7.1.5	Twentieth Century: 1945–1980s	127
7.2	Conclusion	132
PART B		135
8	Accounting Scandals in Australia since the Late 1980s	137
	<i>Garry D. Carnegie and Brendan T. O'Connell</i>	
8.1	Introduction	137
8.2	Overview of Accounting Scandals during and since the 1890s	138
8.3	Case Studies of Accounting Scandals since the Late 1980s	141
8.3.1	Adelaide Steamship	142
8.3.2	Bond Corporation	143
8.3.3	Harris Scarfe	145
8.3.4	One.Tel	146

8.4	HIH Insurance	147
8.4.1	Background	148
8.4.2	Why did HIH Collapse?	149
8.4.3	Accounting Issues	150
8.4.4	Legal Outcomes Arising from the HIH Collapse	152
8.5	Corporate Governance Reforms Following the Accounting Scandals of the Early 2000s	155
8.6	Conclusion	156
9	Corporate Accounting Scandals in China	163
	<i>Catherine Huirong Chen, Yuanyuan Hu and Jason Zezhong Xiao</i>	
9.1	Introduction	163
9.2	Summary of Corporate Scandals	164
9.2.1	Shenzhen Yuanye	164
9.2.2	Great Wall Fund Raising	166
9.2.3	Hongguang	167
9.2.4	Daqing Lianyi	168
9.2.5	Kangsai Group	169
9.2.6	Lantian Gufen	170
9.3	A Case in Depth – Zhengzhou Baiwen	172
9.3.1	Background	172
9.3.2	Themes of the Scandal	174
9.3.3	Who is to Blame?	176
9.3.4	Consequences of the Baiwen Scandal	178
9.3.5	Aftermath	179
9.4	Conclusion	180
10	Accounting Scandals in Germany	185
	<i>Hansrudi Lenz</i>	
10.1	Introduction	185
10.2	Accounting Scandals Between 1985 and 2006	186
10.2.1	Co op AG (1988)	186
10.2.2	Balsam AG (1994)	187
10.2.3	Bremer Vulkan Verbund AG (1995)	189
10.2.4	Philipp Holzmann AG (1999)	191
10.3	Most Important Cases: Flowtex and Comroad	193
10.3.1	Flowtex Gmbh & Co. KG (2000)	193
10.3.2	ComRoad AG (2001)	195
10.4	Accounting Scandals and Regulatory Responses	200
10.5	Examinations of the German Financial Reporting Enforcement Panel 2005–2006	202
10.6	Conclusion	208

11 Creative Accounting and Fraud in Greece	211
<i>George Kontos, Maria Krambia-Kapardis and Nikolaos Milonas</i>	
11.1 Introduction	211
11.2 Two Accounting Scandals	213
11.2.1 ETBA Finance	213
11.2.2 Dynamic Life	217
11.3 The Bank of Crete Scandal	220
11.3.1 Koskotas's Employment with the Bank of Crete	221
11.3.2 The Accounting Information Systems of the Time	223
11.3.3 The Economic Environment at that Time	225
11.4 The Aftermath	229
11.5 Conclusions	231
12 Corporate Creative Accounting in India: Extent and Consequences	233
<i>Bhabatosh Banerjee</i>	
12.1 Introduction	233
12.2 Some Examples of Creative Accounting in India	234
12.3 Some Important Corporate Cases in India	239
12.4 The Satyam Computer Services Ltd Scandal (2009)	240
12.4.1 Background	240
12.4.2 Satyam: A Global Organisation	240
12.4.3 Alleged Possible Processes and their Impact	241
12.4.4 Good Guy, Bad Choices	243
12.4.5 Role of the Auditors	243
12.4.6 Institution of Legal Proceedings	245
12.4.7 Salvaging Satyam	245
12.4.8 Rebuilding the Corporate Image	246
12.4.9 Some Antidotes	247
12.5 Aftermath	247
12.5.1 Changes in the Companies Act	247
12.5.2 Measures Taken by the SEBI	248
12.5.3 Prudential Norms of the RBI	249
12.6 Conclusion	250
12.7 Acknowledgements	251
13 Creative Accounting and Accounting Scandals in Italy	253
<i>Andrea Melis</i>	
13.1 Introduction	253
13.2 Creative Accounting Practices in Italy: A Case Study Analysis	255
13.2.1 The Choice of Consolidation Technique	255
13.2.2 The Accounting of Stock Options	256
13.2.3 The Accounting of 'Creative Gains' in Football Club Companies	257

13.3	The Most Important Accounting Fraud in Italy: The Parmalat Case	259
13.3.1	Parmalat: Was it a Case of Creative Accounting or of False Accounting?	260
13.3.2	Key Accounting Issues at Parmalat: Some Examples of the Accounting Fraud	261
13.3.3	The Role of Corporate Governance Actors	265
13.3.4	The Role of Information Demand-side Actors: Institutional Investors, Financial Analysts and Banks	271
13.4	The Aftermath of the Parmalat Scandal and its Impact on Business and Society	272
13.5	Conclusion	274
14	Creative Accounting and Accounting Scandals in Japan	279
	<i>Kazuyuki Suda</i>	
14.1	Introduction	279
14.2	Accounting Regulations and Standards in Japan	280
14.2.1	Accounting Regulations	280
14.2.2	Accounting Standards	280
14.3	Short History of Accounting Scandals Before the 1980s	281
14.4	Three Types of Accounting Scandal Post-1980s	283
14.4.1	Accounting Scandal to Maintain High Share Prices	285
14.4.2	Accounting Scandal Related to Contracts	289
14.4.3	Accounting Scandal to Avoid Bankruptcy	292
14.5	Consequences of the Accounting Scandals	296
14.5.1	Revision of Accounting Standards for Consolidated Financial Statements	296
14.5.2	Reorganization of Audit Firms	296
14.5.3	Establishing Internal Control Systems	297
14.6	Conclusion	298
15	Financial Accounting Scandals in the Netherlands	305
	<i>Henk Langendijk</i>	
15.1	Introduction	305
15.2	Some Minor Accounting Scandals	307
15.2.1	Creative Accounting at Rijn-Schelde-Verolme (RSV)	307
15.2.2	Creative Accounting at Fokker	309
15.3	Royal Ahold	310
15.3.1	Consolidation of Joint Ventures at Royal Ahold	310
15.3.2	Consolidation Accounting in the Netherlands	311
15.3.3	Consolidation Accounting under US GAAP	311
15.3.4	The Control and Side Letters	312
15.3.5	Accounting for Vendor Allowances at US Foodservice (USF)	315
15.3.6	Proper Accounting Treatment Vendor Allowances	315
15.3.7	Measures Taken by Royal Ahold after Discovering the Fraud	318