

Accounting Frauds in India – A Case Study

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ARTICLE DETAILS

Article History

Published Online: 03 Oct 2018

Keywords

Frauds, Accounting, frauds, financial frauds and Non- Financial frauds

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ABSTRACT

Fraud is a worldwide phenomenon that affects all countries and all sectors of the economy. India is not exempt from it. Fraud encompasses a wide-range of illicit practices and illegal acts involving intentional deception, or misrepresentation. Nowadays this accounting scandal and frauds has increased both in its frequency and severity. It is a major problem of the corporate and its shareholders. Accounting related frauds, scandal and scams related issues are hike up. For instance, the cases of Dinesh Dalmia, Subrata Roy, Ramalinga Raju, Sanjay Agarwal, Vijay Mallya etc., Hence, the research article focuses on the fraudulence, scams in corporate sector and its impact titled "Accounting frauds in India – a case study".

1. Introduction

Accounting was practiced in India twenty-three centuries ago as is clear from the book named "Arthashastra" written by Kautilya, King Chandragupta's minister. This book not only relates to politics and economics, but also explains the art of proper keeping of accounts. However, the modern system of accounting based on the principles of double entry system owes its origin to Luca Pacioli who first published the principles of Double Entry System in 1494 at Venice in Italy. But, these accounting metamorphoses, become now pollute today in India as well as the universe.

OBJECTIVES

- To evaluate the Theoretical Frame work of accounting frauds.
- To analyze the cases involved in accounting frauds in India.

2. Methodology

In this research article purely based on secondary sources such as research articles, Un-Published thesis and website.

3. Meaning of Fraud:

According to Oxford Dictionary, "Fraud is a false representation by means of a statement or conduct, in order to gain a material advantage".

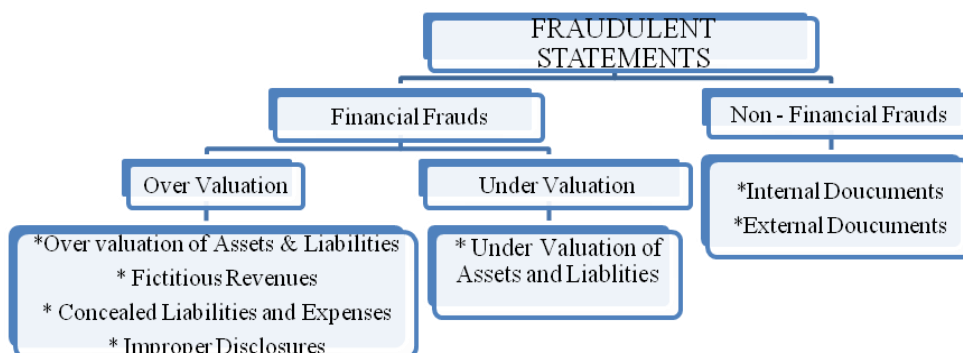
The Association of Certified Fraud Examiners (2008) defined fraud as the use of one's occupation for personal enrichment through deliberate misuse or misapplication of the employing organization's resources or assets. It is therefore any act of misappropriation, theft or embezzlement of corporate assets in a particular economic environment. It has been considered as any act of deception performed by somebody to cheat or deceive another person to his detriment or the detriment of any other, or to cause injury or loss to another person while the perpetrator has a clear knowledge of his intention to deceive, falsify or take advantage over the unsuspecting and innocent victim resulting to suffering loss or damage.

4. Types of Fraud:

Generally, all acts of fraud can be distilled into four basic elements:

1. A false representation of a material nature.
2. Knowledge that the representation is false or reckless disregard for the truth.
3. Reliance—the person receiving the representation reasonably and justifiably relied on it.
4. Damages—financial damages resulting from all of the above.

Chart. 1
 Fraudulent Statements



- **Financial Frauds:** This type of fraud involves the theft of cash or inventory, skimming revenues, payroll fraud, and embezzlement. Asset misappropriation is the most common type of fraud. Primary examples of asset misappropriation are fraudulent disbursements such as billing schemes, payroll schemes, expense reimbursement schemes, check tampering, and cash register disbursement schemes.
- **Non-Financial Fraud:** This type of fraud is characterized by intentional misstatements or omissions of amounts or disclosures in financial reporting to deceive financial statement users. More specifically, financial statement fraud involves manipulation, falsification, or alteration of accounting records or supporting documents from which financial statements are prepared

Table. 1
Details of Corporate Cases Involved in Accounting Frauds

Sl.No	Year Of Frauds / Scandals Occured	Name of the Party Involved	Name of the Company/ Group	Activities	Amount Involved
1.	1998	L.Buntrock&Top ExecutivesAuditor. Arthur Andersen	Houston (Waste Management)	Increased depreciation time duration for their property	\$ 1.7 billion
2.	2001	CEO.Jeff Skilling & Former CEO.Ken Lay	Houston (Energy&Services)	Kept huge debts off the balance Sheets	\$ 74 billion
3.	2001	MD.Dinesh Dalmia	DSQ Software	Shares were transferred without payment of sale considerations	\$ 5.95 billion
4.	2001	CEO.Sanjay Agarwal	Home trade	Fictitious Valuation of Provident Fund	\$ 6 billion
5.	2002	CEO.Bernie Ebbers	Worldcom	Over valuation of revenue & Fictitious entries	\$ 11 billion
6.	2002	CEO.Dennis Kozlowski & Former CEO Mark Swartz	Tyco	Using money through unapproved loans and fraudulent stock sales	\$ 150 billion
7.	2003	CEO.Richard Scrushy	Healthsouth	Fictitious Accounting entries	\$ 5 billion
8.	2003	President.David Glenn Chairman. Leland Brendsel Ex. CFO. Vaughn Clark Sr.VP. Robert Dean & Nazir Dossani	Freddie Mac	Under Valuation of Revenues	\$ 5 billion
9.	2005	CEO.Hank Greenberg	American Insurance Group	Inflate Stock Price & Fictitious Accounting entries	\$ 3.9 billion
10.	2008	CEO.Lehman and Auditor.Ernst & Young	Lehman Brothers	Under valuation of Assets	\$ 50 billion
11.	2008	Bernie Madoff Auditor.David Friebling & Frank Dipascalli	Bernie Madoff	Investors were paid returns out of their reserves.	\$ 64.8 billion
12.	2009	Chairman. Ramalinga Raju & Auditors	Satyam Computers	Over Valuation of Assets & Revenues	\$ 80 billion
13.	2013	MD. Sudipta Sen	Saratha Chit Fund	Fake collective investment scheme& Wrong Utilisation	\$ 40 billion
14.	2016	CEO.Vijay Mallya	King Fisher Airlines	Tax Evasion, Loan Default & Improper Maintenance of Books	\$ 90 billion

Figure. 1

Amount of Accounting Frauds / Scams (amount in billion)

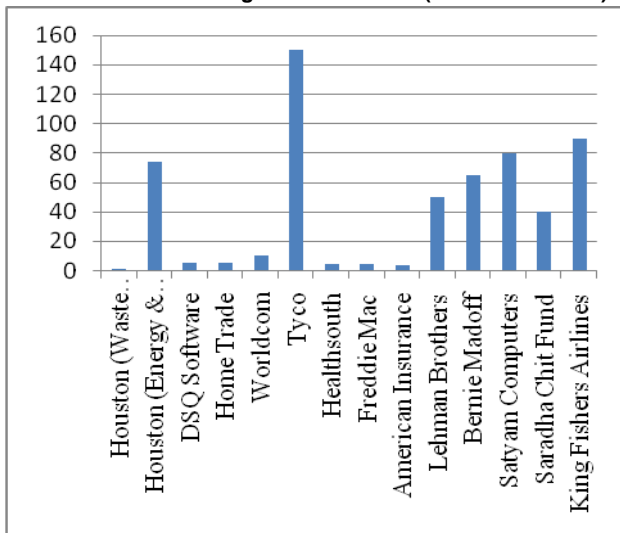


Table. 1 explain that the corporate cases Involved in Accounting Frauds, compare to all the corporate of our Research TYCO Company invoved the more Accounting frauds amounted to \$150 billion. Next King Fisher Airlines

amounted \$90 billion. Then Satyam Computers \$80 billion. Follows Houston(Energy&Services),Lecmanbrothers,Saradha chitfund,Worldcom,Home Trade,DSQ Software amounted to \$ 74, \$ 50, \$ 40, \$ 11, \$ 6. \$ 5.95 billion respectively.The follow as the Health South Freddie Mac involved \$5 billion value of accounting fraud each. Next American insurance group \$3.9 billion. And the next houston waste management involved \$1.7 billion value of accounting fraud.

5. Conclusion

In our case study, accounting fraud related cases and amount of cases are increased. **In our research study the following corporate auditors are involved & supported to the management for accounting frauds, such corporate as Houston (Waste Management) Lehman brothers and Satyam Computer.** Increasing accounting fraud by day-to-day, the government, Comptroller & Audit General and Indian Institute of Chartered Accountant of India will only decrease, if severe penalties and imprisonment are awarded to the criminal Corporate and its chartered accountants.

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