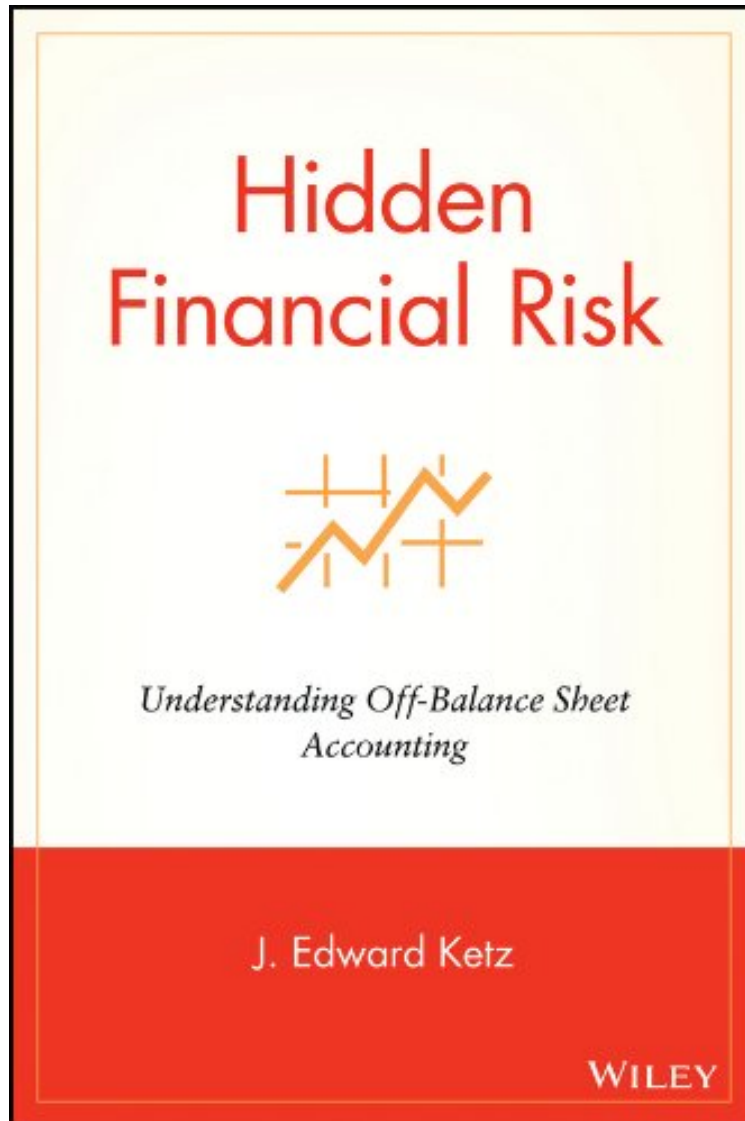


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Hidden Financial Risk: Understanding Off-Balance Sheet Accounting

J. Edward Ketz

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Uncover the hidden risk
By Mariusz Skonieczny
This is a book that elevates investors to another level. The author describes how management can hide debt with the equity method, lease accounting, and pension accounting. Looking at the consolidated financial statement is not enough to determine the financial condition of a company. Investors must dig deeper and read the footnotes. This book educates investors about how to read some of these footnotes. Remember what Warren Buffett said:
* Rule No. 1: Never lose money* Rule No. 2: Never forget rule No 1
This book helps investors do just that. I highly recommend it.
- Mariusz Skonieczny, author of Why Are We So Clueless about the Stock Market? Learn how to invest your money, how to pick stocks, and how to make money in the stock market

An insider's guide to understanding and eliminating accounting fraud
How do these high-profile accounting scandals occur and what could have been done to prevent them. Hidden Financial Risk fills that void by examining methods for off balance sheet accounting, with a particular emphasis on special purpose entities (SPE), the accounting ruse of choice at Enron and other beleaguered companies. J. Edward Ketz identifies the incentives for managers to deceive investors and creditors about financial risk and also shows investors how to protect their investments in a world filled with accounting and auditing frauds. J. Edward Ketz, PhD (State College, PA) is MBA Faculty Director and Associate Professor of Accounting at Penn State's Smeal College of Business. He has been cited in the press nearly 300 times since Enron's bankruptcy, including The New York Times, The Wall Street Journal, and The Washington Post.. He has a regular column in Accounting Today.

"Ketz' discussion is fascinating, although all too useful to future scamsters wanting to find out just how those clever guys at Enron did it." (UPI Business and Economics, August 11, 2003)
From the Inside Flap
The parade of catastrophic accounting scandals, chief among them the Enron debacle, has intrigued business and the general public as few corporate scandals ever have. The extraordinary number of people materially affected by these episodes, coupled with the irresistible spectacle of base human greed run wild, guarantees that public attention will not soon recede. Everyone agrees that "mistakes were made." There are two very different responses, however, on what to do about it. Are there simply a few bad apples whose just punishment will bring the financial stars back into alignment? Or are the scandals the product of profound systemic failures, the remedy for which can only be revolutionary reform? Accounting professor and renowned authority, Edward Ketz, emphatically proclaims the latter and offers a comprehensive analysis of how firms bury risk, why nobody stops them, and what to do about it in Hidden Financial Risk: Understanding Off-Balance Sheet Accounting. In Hidden Financial Risk, Ketz thoroughly and accessibly explains the dubious methods by which firms hide debt and the failings by managers, directors, auditors, regulators, and investors who allowed these methods to poison financial reporting. Ketz places particular emphasis on understanding Special Purpose Entities (SPEs), Enron's preferred method of deception. Among other services, this compelling analysis: Identifies the incentives for managers to deceive investors and creditors about the firm's financial risk Illustrates the equity method, lease accounting, and pension accounting, popular methods of Off-Balance Sheet accounting, and explains how investors can deconstruct them Examines the failure of boards of directors, accountants, the FASB, and the SEC to minimize accounting failures Discusses what must be done to reduce the number of corporate managers who lie in financial reports Shows what individual investors must do to protect their investments in a world filled with accounting and auditing fraud Explains how the Sarbanes-Oxley bill will affect financial reporting Ketz concludes with an illuminating look at Arthur Andersen who, while one of the biggest losers in the accounting scandals, may nevertheless hold the key to the industry's resuscitation. Financial reporting is in critical condition. Edward Ketz supplies a compelling diagnosis, prescription, and vision of its road to recovery in Hidden Financial Risk.
From the Back Cover
What went wrong and how to fix it "This is a book that well represents the skeptical, probing, and doubting spirit of the time. Professor Ketz explores the ways corporate management and auditors can mislead investors in financial reporting to misinform investors. It is written so that the individual investor can grasp the ideas but will be useful for investment analysts and audit committee members who need a lively briefing in how to spot questionable accounting." ndash;ndash; John H. Biggs Former chairman and Chief Executive Officer TIAA - CREF "Ed Ketz brilliantly illustrates how the improper application of accounting rules misleads users of financial statements. This book is an indispensable resource and greatly enhances one's understanding of the many obscure footnotes found in today's financial statements." ndash;ndash; Albert Meyer 2nd Opinion Research, Plano, TX It is now painfully clear that "earnings management" has managed little, other than some short-term gain for a handful of managers and a long-term catastrophic erosion of the public faith in financial reporting. But it is not too late for the accounting industry to turn back from the brink. Edward Ketz lays out several specific problems in the financial reporting arena, describes how the system failed to correct any of these problems, and suggests a compelling course of action for improvement in Hidden Financial Risk: Understanding Off-Balance Sheet Accounting. Chapter by chapter, Ketz explains how firms hide debt using: The equity method Lease accounting Pension accounting Special Purpose Entities and then illustrates the failures of directors, auditors, regulators, and investors to detect and eliminate these tools of

deception. He concludes by drawing upon his thirty years' experience to propose how the industry can learn to identify fraud and ultimately restore investor confidence. Executives, accountants, and individual and institutional investors will find *Hidden Financial Risk* to be a powerful examination of the present, shifting accounting landscape.