Management of Financial Reports: Waste Management Inc Analysis

Abstract

This paper surveys the growing practice among many business organizations and companies of managing the various financial and accounting reports about their business activities and operations. The paper further analyzes the impact that the interfering or purposeful 'adjustment' of income statements, cash flow statements and balance sheets has on the real values and figures of assets, revenues, liabilities and income among others.

Keywords: *Financial and Accounting Reports, Purposeful 'Adjustment', Assets, Revenues, Liabilities, Income*

Introduction

Many business organizations and companies undertake different business activities and operations in a bid to make sufficient profits and offer various goods, products and services to consumers. In order for a business organization to function effectively and efficiently, it needs to prepare different financial and accounting documents that track the various business activities and operations. These financial and accounting documents and reports normally reflect on the financial position of the business organization, as well as the profitability, productivity and efficiency levels in undertaking different business activities like production, distribution and marketing.

A good example of a company that was involved in the managing of its financial and accounting documents and reports is the Waste Management Inc, which was an American company involved in highly publicized corporate accounting scandal. The management of Waste Management Inc, would in the period between 1992 and 1997, perpetrate massive misrepresentation of the company’s financial statements. The company’s management was involved in a large scale financial fraud;misrepresentation and falsification of the financial performances of the waste management company(AICPA, 2005). The financial misstatements and misrepresentation of the assets, liabilities, revenues sales and income of the company was undertaken by among others; Dean L. Buntrock - Board of Directors’ chairman, founder and CEO, Phillip B. Rooney - president and Chief Operating Officer; James E. Koenig -executive vice president and CFO; Herbert Getz - senior vice president, secretary and general counsel; Thomas C. Hau - vice president, chief accounting officer and corporate controller and Bruce D. Tobecksen - vice president in charge of finance (AICPA, 2005).

Another individual heavily involved in the 'mismanagement' of the accounting and financial documents and reports of the company. was the auditor of the company, Mr. Arthur Andersen. In the position of an auditor, Mr. Andersen assisted in the recording of improper expenses, the altering of profitability and productivity levels as well as the adjustment of asset and liability values, income and total revenues. The management of Waste Management Inc's management also intentionally avoided the recordingof a given number of expenses that were supposed to have been recorded within the income financial statements.

A given number of these expenses were needed to write-off the costs of unsuccessful and abandoned landfill development projects. The waste company's management further failed to establish the sufficient amount of reserves necessary for the payment of other company expenses including income taxes. To ensure many of the excess reserves derived from inflated figures were overlooked, the management of the waste company did not record some of the unrelated operating expenses in its financial and accounting reports and documents. Another incidence of 'mismanaging' financial documents and reports involved the management of the company's eliminating the current operating expenses in the 5 year duration of the financial restatement (AICPA, 2005).

The current operating expenses that were eliminated were approximated at $490 million. The management of Waste Management Inc was also involved in the recording of an increase of the depreciable assets of the company's useful life and salvage value. This was aimed at reducing the amount of depreciation expenses that had accumulated for each operation year. The mis managing of depreciable assets were to further ensure the reduction of the waste company's capitalizing costs. In achieving this, the waste company increased the depreciation time length of company property, plant and equipment on its balance sheets (Sinthu, 2012).

There can be a number of reasons as to why Waste Management Inc embarked on misstating and misrepresenting the values of its assets, liabilities, expenses and income figures in its financial and accounting reports. Due to the slower growth of the Waste Management Inc level of profits and revenues, its management involved itself in the mismanaging of different financial and accounting documents. The adjustment of these essential financial indicator figures was to allow the company to be able to achieve its intended financial profits, revenue targets and objectives. When the waste company's slower growth set in and posed a hindrance to the attainment of company financial goals and objectives, its management resorted to financial and accounting restatements and misstatements of its expenses, revenues, liabilities and assets among others to achieve its ends (AICPA, 2005).

In the course of conducting the financial and accounting restatements and misstatements, Mr. Andersen identified and brought to the attention of the top management of Waste Management Inc's improper accounting and recording techniques that were in use by the accountants in reconciling existing accounting misstatements and errors. Armed with this critical financial knowledge, Mr. Andersen put forth to the company's top management some measures to curb the accounting errors, known as the Proposed Adjusting Journal Entries (PAJEs). However, despite these noble efforts by the auditor, the top management was more concerned with achieving their preset financial target figures and revenues (Sinthu, 2012).

As a result, the top management made a deal with Mr. Andersen in order to write-off the numerous accounting errors accumulated since the commencement of the financial and accounting restatements and fraudulent misstatements. The other reason as to why the top management of Waste Management Inc involved itself in the financial and accounting restatements and misstatements was to outshine other companies in the economy and entrench itself as a successful company. This comes on the back of the company entering into public trading, with a substantial number of company shareholders. The major financial numbers that were affected in the financial and accounting misstatements and restatements sanctioned by Waste Management Inc's top management include; the revenue earnings over a period of five years (1992-1998), the profitability ratios of the company over that similar period and also, the valuation of the different assets that it owned, especially the fixed assets of company property, compacting plants and equipment (AICPA, 2005).

Furthermore, different operating expenses figures were adjusted by the top management over the five year period after the financial and accounting fraud was perpetrated. The top management of the firm announced misstated revenue earning of over $3.5 billion in terms of pretax profits in the financial year of1998. This was way over objective projected revenue earnings during that year accumulating from the beginning of the accounting scandal. The shareholders of the Waste Management Inc eventually lost over $6 billion in terms of their investment's market value.

References

AICPA (2005). Fraud at Waste Management. *The American Institute of Certified Public Accountants Inc*. Retrieved on April 14, 2014 fromhttp://www.aicpa.org/InterestAreas/AccountingEducation/Resources/DownloadableDocuments/wastemanage.ppt

Perumalsamy, S. (2012). The accounting scandal of Waste Management Inc. Prezi.Com. Retrieved on April 14, 2014 from http://prezi.com/jv950jedowqf/the-accounting-scandal-of-waste-management-inc/