Title page

Abuse of special purpose

Enron Corporation was involved in financial fraud. The investigations conducted by SEC revealed that the company had been involved in a complex web transaction that resulted in the development of Special Purpose of Entities (SEP). The investigations also confirmed off-balance sheet financing. It also uncovered that a large group was involved in financial fraud including creditors, auditors and accounting regulators. Manipulations were made in financial reporting, corporate governance and auditing. The factors that motivated the leaders of Enron included collective greed and corporate arrogance. The inquiries further depicted the imploration of stock price and debt rating. This resulted in a loss of investors and creditors trust. Lack of transparency in reporting financial issues remained one of the prominent flaws. The financial dealings were also erroneous that caused Enron to lose its reputation and credibility in the industry.

SPE developed accounting rules after the financial fraud of Enron. The rules on asset scrutinization emphasized on publishing an accurate financial statement. Financial Accounting Standard 140 stated that sales and transfer of assets must be recorded, it must be transferred as secured financing and recording asset transaction as a secured financing. The financial statement disclosed by the firm lacked authenticity because it disclosed billions of dollars excluding liabilities and losses (Newman, 2007). The central aim of the leaders was to offer value to investors. In order to satisfy the conditions of credit rating agencies including Moody's and Standard & Poor's Enron manipulated the company's leverage ratios within acceptable ranges. The manipulations were visible in the tactics used by the company that included displaying high Return on Assets (ROA) and reduced debt-to-total-assets ratio. These tactics allowed Enron to make the firm more attractive for credit rating agencies and investors. Special Purpose Entities (SPE) were also used by the company for accessing capital and hedging risk.

References

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