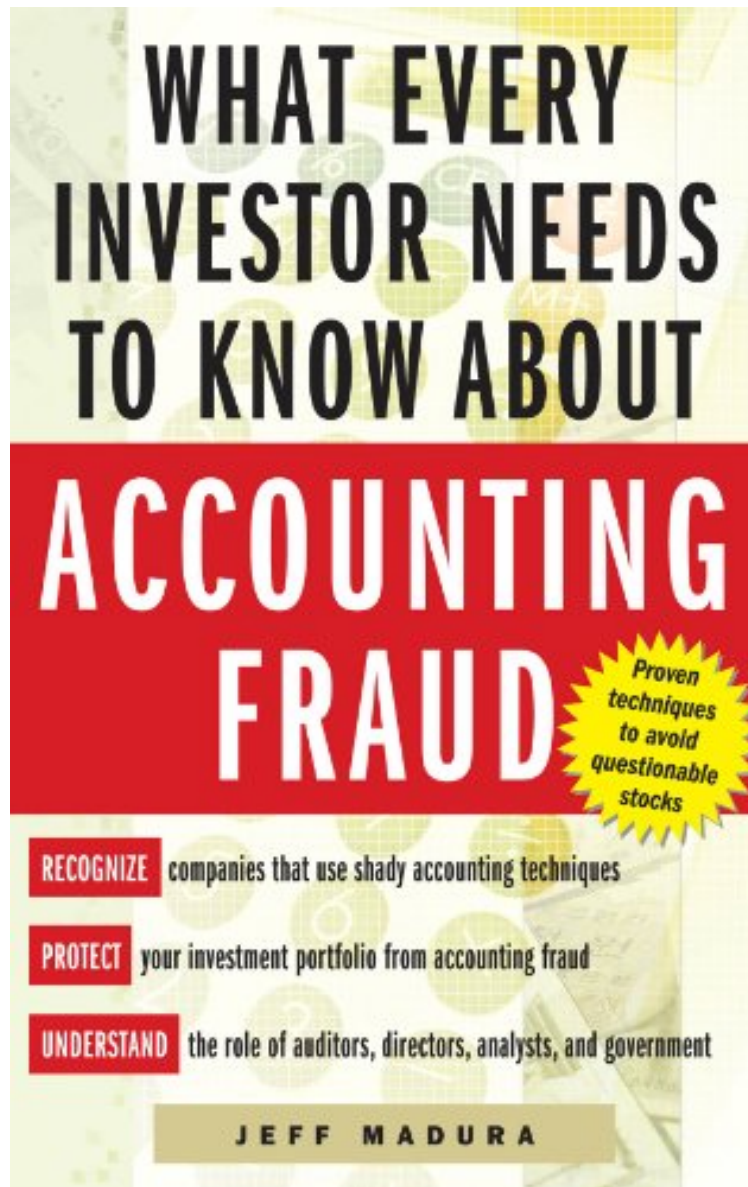


# What Every Investor Needs to Know About Accounting Fraud

*Jeff Madura*

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**Jeff Madura : What Every Investor Needs to Know About Accounting Fraud** before purchasing it in order to gauge whether or not it would be worth my time, and all praised What Every Investor Needs to Know About Accounting Fraud:

0 of 0 people found the following review helpful. There are better choicesBy investingbythebooksReading this book I went from mildly pleased, to incurious and finally downright irritated. The subtitle is 'Proven Techniques to Avoid Questionable Stocks'. In reality Jeff Madura, a finance professor at Florida Atlantic University and an

author of several finance textbooks, provides nothing of the kind in this book written after the Enron and WorldCom scandals burst in the early 2000s. The author has divided the text in 5 different parts and the book starts off by displaying a number of ways that companies historically have used to look more profitable - by increasing sales alternatively decreasing costs - or look more financially stable than they actually were and Madura clarifies with some of the then recent examples from the bust after the TMT-bubble. It is fairly basic but illuminating and written in good spirit. It's an okay introduction to the subject of financial deception. In the next chapter Madura tries to explain why so few have the ability but more importantly the incentive to uncover the shenanigans. The short answer is that they are all on the payroll of the corporations who cheat. Auditors are paid by the companies and apart from doing audits earn money on doing extra corporate consulting. The firms that Wall-Street analysts work for earn the big bucks from corporate finance services for the companies and the analysts are dependent on the goodwill of the companies for their flow of information. Credit rating agencies depend on the audited accounts prepared by the auditors who are on the take. This was prior to the debacles of the rating agencies in the GFC so the fact that companies pay for the rating agencies' ratings as well isn't discussed. Still the bottom line is that no one wants to bite the hand that feeds them. Then follows two sections on how board practices should serve the owners of the companies and governmental regulatory initiatives and bodies related to financial supervision. These sections are fairly basic (SEC should get more resources), they have a kind of academic ivory tower touch to them (FASB should be allowed to write really detailed accounting rules), also they are a bit dull and don't really speak to the investor who wants to understand how to protect himself from investing in the wrong kind of stocks. The last part is called "How Investors Can Cope With Deceptive Accounting" and at last we should presumably in the six chapters that follow learn how to "protect your investing portfolio from accounting fraud". I expected some discussion on how to use financial tools like cash conversion, change in accruals, change in Days Sales Outstanding, Days Sales in Inventory or other less frequently used metrics perhaps in combination with other more subtle signs of ethical collapse in companies. One of the chapters can be summed up with that the reader should "not trust anyone". This is a rather superfluous message since it has to a large extent been the overall message so far. However, Madura now also adds that the reader should "not even trust his own ability to uncover financial tricksters". Consequently the advice in three of the other chapters is "give up"! Invest in mutual funds, ETFs, T-bills and bonds instead of individual stocks. Talk about a let down! Yes, by investing in bonds the investor clearly "avoids questionable stocks" but that was probably not quite the type of advice that people expected to get and what got them interested in purchasing the book. In all honesty there are two other chapters that look into investing in stocks. The author advises the reader to look for corporate management teams that run their companies for the long term and to do detailed fundamental research on all aspects of the company's business operations, sector and management and then make common sense judgments on the corporate quality. This is fair advice, but it's hardly very specific. Buy Howard Schilit's "Financial Shenanigans" or Thornton Orsinger's "Quality of Earnings" instead. This is a review by investingbythebooks.com of 0 people found the following review helpful. Highly Recommended! By Rolf Dobelli Author Jeff Madura provides an excellent short guide through the perilous territory of financial statement analysis. Wasting no words, he presents all the average individual investor absolutely needs to know about corporate financial reports. He tells you why you shouldn't trust them, and then shows you how to apply a skeptic's perspective to figuring out what reported numbers really mean. The market for investment books is a crowded one, but this is a standout: a thoroughgoing and systematic combination of curiosity, knowledge and prudent suspicion. We highly recommend this book to all investors. Before you climb into the investors' ring, carefully consider the advice that referees give boxers before a bout: Protect yourself at all times. 0 of 0 people found the following review helpful. Highly Recommended! By Rolf Dobelli Author Jeff Madura provides an excellent short guide through the perilous territory of financial statement analysis. Wasting no words, he presents all the average individual investor absolutely needs to know about corporate financial reports. He tells you why you shouldn't trust them, and then shows you how to apply a skeptic's perspective to figuring out what reported numbers really mean. The market for investment books is a crowded one, but this is a standout: a thoroughgoing and systematic combination of curiosity, knowledge and prudent suspicion. We highly recommend this book to all investors. Before you climb into the investors' ring, carefully consider the advice that referees give boxers before a bout: Protect yourself at all times.

Everything investors who skipped accounting class need to know to spot--and steer clear of--companies whose numbers don't add up Individual investors today are painfully aware that accounting fraud is more widespread than ever, yet often they aren't sure what this fraud looks like or even where to look. What Every Investor Needs to Know About Accounting Fraud explains common accounting maneuvers, distortions, and outright deceptions that savvy investors must be able to recognize and steer clear of, all in a concise, easy-to-understand format. Professor Jeff Madura has created a book that is both accessible and informative, and doesn't talk down to the reader. Concise yet complete, it provides investors with: Methods for uncovering scams that distort revenues, hide expenses, and more Studies of infamous accounting frauds and how they could have been avoided A zero-tolerance investing code, useful for protecting portfolios

From the Back Cover Where to Look and What to Look For to Keep From Getting Blindsided By Deceptive Accounting and Sham Stocks Questionable corporate accounting practices have cost millions of investors billions of dollars over the past few years. More often than not, these investors didn't know how much trouble their portfolios were in until it was too late. "What Investors Need to Know About Accounting Fraud" provides you with no-nonsense techniques for uncovering and avoiding stocks whose numbers simply don't add up. Written in jargon-free language designed to be both understandable and valuable to any investor, this easy-to-follow portfolio insurance plan will show you how to: Look behind the curtain to identify when accounting tricks have inflated a company's revenue, deflated its expenses, or worse Detect when a company's reported numbers have been "massaged" to hide significant problems Adopt a zero-tolerance attitude and dramatically reduce your risk of falling prey to unethical corporate behavior Despite recent reforms, troubled companies are still out there, propping up their stocks with bogus accounting and putting investors at risk. Let "What Investors Need to Know About Accounting Fraud" help you ensure these ticking time bombs don't end up in your portfolio, and keep you from betting your future on the next Enron or WorldCom. About the Author Jeff Madura, Ph.D. is the SunTrust Bank Professor of Finance at Florida Atlantic University, where he also heads the doctoral program. Professor Madura is the author of a number of leading college textbooks as well as numerous articles for academic publications. He lives in Fort Lauderdale, Florida.