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Corporate Revenue Miscalculations & The Impact On Stakeholders

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ABSTRACT

Corporate earnings restatements are regarded as one of the most significant issues in accounting today. While there are various factors that can influence corporate earnings, revenue is the key contributor to a business' net income. During the 2000s, a multitude of domestic and multinational corporations faced significant issues with their revenue recognition practices. Although the investing public might regard any revenue restatement as laden with possible fraud, this is not always the case. Multinational firms face dual accounting systems, such as U.S. Generally Accepted Accounting Principles (GAAP) and International Financial Reporting Standards (IFRS). Consequently, similarities and differences among accounting systems, with regard to revenue recognition, exist. Throughout this paper, examples of revenue "miscalculations" by corporations will be presented as well the penalties assessed by the Securities & Exchange Commission and/or the Department of Justice. Accordingly, the impact that revenue blunders have on various stakeholders will be examined. In addition, a comparison of industry based domestic and international revenue recognition standards will be evaluated to determine the plausible impact each accounting system has on profitability. Finally, the authors will present recommendations for mitigating revenue "errors" in the future.