

ACCOUNTING IN CRISIS

КРИЗИС БУХГАЛТЕРСКОГО УЧЕТА

The 1990s were the boom years for the U.S. economy. American market was viewed as a role model; the rest of the world tried to apply American business principles, including their GAAP. But the collapse of Enron followed by other corporate scandals in which large high-flying companies were involved came as a sobering lesson.

Nowadays there is a growing concern about ethical standards in business practices. Such values, as integrity and fairness don't seem to be much valued in today's business world. Is it greed or unsatisfactory accounting system that kills the best incentives? Accounting is often referred to as the language of business. The U.S. thought their accounting standards (GAAP) to be the international language because they were used almost all over the world. But they turned out to be far from being perfect, bringing about the crisis in the world accounting.

The Enron case is a vivid example. In the 1990s Enron used to be a huge and fastest growing energy company in the U.S., but in 2001 the energy giant collapsed. It was revealed that the management had been hiding the real financial position of the company from company's shareholders and rating agencies. That happened because nobody thought of the long-term development of the company, about company's social responsibilities, and its workers. The managers were hired people. Their wages were dependent on the price of the company's shares. The price of shares grew when the company showed big profits in a short-term perspective. So, to generate those profits managers hired accounting firms and the best mathematical minds tried to meet Wall Street's expectations.

Accountants were making more money on consulting than on auditing. They helped firms change profits into losses, to find tax shelters and not to pay taxes. They also showed huge revenues in financial statements to potential investors.

In the case with Enron it was done through the use of limited partnerships, created in Caribbean nations by Enron's managers. They deliberately engaged in transactions with those companies that had no business purpose. Thus Enron could hide its billions of dollars losses. That happened because the U.S. is a country of lawyers and its business practices are based on very detailed law-oriented accounting standards. They encourage companies to concentrate on complying with the letter of the law rather than the spirit of a business transaction.

Arthur Andersen one of the biggest auditing companies in the world was Enron's auditor for 10 years. Enron hired consultants from Andersen who were cooking Enron's books and then auditors from the same company

(Andersen) came to check these books. And of course they "didn't see" any frauds.

Enron was also successfully lobbying its interests in the Senate. The whole American law system worked for it. The *Wall Street Journal* stated that about 57 % of the U.S. companies created false financial statements. These are Microsoft, Xerox, United American Airlines and many others.

Real reforms are needed to restore investors' confidence. The reform leads away from the U.S. GAAP towards the International Accounting Standards. G. Bush outlined the plan that is supposed to improve corporate responsibility and help protect America's shareholders. The plan includes the following core principles:

1. Providing better information to investors in "plain English".
2. Making corporate officers more accountable. Reforms should make boards of directors act only in the interest of shareholders.
3. Developing a stronger, more independent audit system. Audit companies don't have the right to provide non-audit services to their clients. They only can audit the books of a particular client for a fixed period of time, e.g. three to five years.

In today's complex business environment accounting is viewed not as a supplement to business, but rather as an essential engine. Engines aren't the same, but the same is the rule that a business run with character and integrity will receive rewards from the market.

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THE PROBLEM OF HEALTHY WEIGHT

НОРМАЛЬНЫЙ ВЕС — ПРОБЛЕМА

Is our willpower powerful enough to overcome all the tempting food available to us, from Big Macs to giant Snickers bars to all-you-can-eat buffets? Several national diet researchers who are studying the issue say our willpower doesn't stand a chance unless the nation's food-laden environment changes first. It's very hard, says Marion Nestle, professor and chair of the department of nutrition and food studies at New York University. "We are so programmed to eat everything in front of us. Eating is fun, and not eating is not fun." Food is available almost everywhere and affordable to most people. Food companies compete fiercely for consumer dollars, spending \$30 billion annually on marketing and advertising campaigns trying to convince people to eat more of their