

Table 1
Studies of Financial Statement Fraud, Misstatements, and Restatements

	SEC AAERs and Enforcement Investigations			Restatements of Financial Statements		
	Weirich [2000]	Beasley et al. [1999]	SEC [2003]	FEI [2000]	Palmrose & Scholz [2002]	GAO [2002]
Data studied	Big Five CPA firms	all AAERs	involving fraud, etc.	various data bases		Lexis-Nexis
Period of data	7/97 - 12/99	1987 - 97	1997-02	1977 - 00	1995-99	1/97 - 6/02
Number of observations	96 involving 38 matters	204 randomly selected	227 involv. 380 practices	224	492	845
Problems (not mutually exclusive)						
improper revenue recognition and overstatement of accounts receivable	68%	50%	33%	38%	37%	38%
overstated assets	26%	50%				
understated expenses and liabilities or improper expense recognition	58%	18%	27%	28%		16%
misappropriated assets		12%				9%
inadequate disclosures in MD&A			11%			
improper accounting for business combinations			6%		10%	5%
failure to disclose related party trans.			5%			3%
loan loss				9%		
in-process research and development (IPR&D)				6%	19%	4%
Parties charged or implicated:						
CEO		78%				
CFO		43%				
senior management			69%		8%	
external auditor		27%	25%		7%	
external auditor at major CPA firm		5%				

Weirich, Thomas, 2000, "Analysis of SEC Accounting and Auditing Enforcement Releases," Appendix F in Panel on Audit Effectiveness: Report and Recommendations, pp. 223 – 228.

Beasley, Mark S., Joseph V. Carcello, and Dana R. Hermanson, 1999, Fraudulent Financial Reporting: 1987-1997: An Analysis of U.S. Public Companies, Research Commissioned by the Committee of Sponsoring Organizations of the Treadway Commission, Jersey City, NJ: AICPA (American Institute of Certified Public Accountants).

SEC (Securities and Exchange Commission), Report Pursuant to Section 704 of the Sarbanes-Oxley Act of 2002, Washington, DC: January 2003. Financial Executives International, 2001, Quantitative Measures of the Quality of Financial Reporting, FEI Research Foundation, powerpoint presentation, <http://www.fei.org>

Palmrose, Zoe-Vonna and Susan Scholz, 2002, "The Circumstances and Legal Consequences of Non-GAAP Reporting: Evidence from Restatements," *Contemporary Accounting Research* Conference.

GAO (General Accounting Office), 2002, Financial Statement Restatements: Trends, Market Impacts, Regulatory Responses, and Remaining Challenges, GAO-03-138, October.