**ONE YEAR OLD -- AND NO LESS GRUMPY**

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***Grumpy Old Accountants, April 2012***

Today the blog celebrates its first birthday! During the past year we have penned 73 essays, and included two guest columns, to which our readers have provided approximately 200 comments and countless tweets. We greatly appreciate our reader feedback which has sometimes been favorable and other times critical, but which always has added a different perspective. This is exactly what we hoped that our blog would do: *promote a more public debate of important accounting and reporting issues*.

We could not have asked for a better 12 months to launch our blog. This has been a busy period, with fascinating events occurring around the globe. During the first 3 months of our blog, Cory Johnson at Bloomberg West sparked our interest in Groupon’s IPO, which generated six postings about the Company’s financial reporting, and ultimately resulted in our filing two whistleblower complaints to the SEC. The first whistleblower complaint focused on the revenue recognition policy, and we would like to think that we played at least a small role in [Groupon’s pre-IPO revenue restatement](http://blogs.smeal.psu.edu/grumpyoldaccountants/archives/327). We filed the second complaint a few weeks ago and criticized the firm’s overstatement of goodwill and its mistreatment of merchant payables in the cash flow statement.

Our most read essays were those on Groupon. Apparently readers enjoyed reading these columns as much as we enjoyed writing them. Groupon has left us thoroughly entertained. And they probably will continue to provide us with fodder, until they go bankrupt or completely restructure with a new management team.

During the year, we also criticized accounting and financial reporting issues at Green Mountain, Zynga, Miller Energy, Rite Aid, Overstock, Fuqi International, MF Global, Citicorp, Visa, Ford, JCOM, CVS Caremark, and Chesapeake Energy. The topics that kept us the busiest were revenue recognition, repo accounting, lease accounting, goodwill and goodwill impairment issues, fair value measurements, and cash flow statements. Despite Sarbanes-Oxley and recent reactions to the financial crisis of 2008, many managers continue to manipulate income statements by inflating revenues and shrinking expenses. They also still distort their balance sheets by reporting questionable assets and hiding liabilities. And a relatively recent development finds financial managers classifying any positive cash flows as operating items, while classifying outflows as investing or financing activities to inflate operating cash flow metrics.

Despite our predisposition to grumpiness, we did say nice things about [Facebook’s accounting](http://blogs.smeal.psu.edu/grumpyoldaccountants/archives/519). We hope Facebook can keep its good housekeeping seal at least a few more years. These days it is pleasant to enjoy a good accounting story for a change. We wish we could report on more of them, but frankly (and unfortunately), there seems to be more bad apples than good apples. So, if we have missed some examples of good financial reporting that are generalizable and potential “game changers,” let us know: we invite nominations for more good financial reporting practices.

During the past year, we also occasionally ranted against the FASB, the SEC, and the PCAOB. COSO and the credit rating agencies also got our attention. We just wish there were better rules, streamlined procedures for getting things done, and some real *enforcement* of the rules. After all, at the end of the day, it really is all about incentives, isn’t it?

Not surprisingly, auditors also came under our microscope this past year. We still don’t understand how market regulators have allowed the accounting profession to become (and remain) so aligned with managers. Despite repeated denials by the Big 4, *independent auditors are supposed to serve as gatekeepers* to evaluate management assertions about financial reporting. Why are we surprised that independent auditors are not enthusiastic “fraud detectives,” when the auditors consider their clients to be the companies that pay them, and not the shareholders and creditors of the business enterprise.

As senior citizens, we have seen this all before. So, in a five-part series in the last quarter of 2011, we “celebrated” the 10th anniversary of Enron’s demise by reviewing the company’s miscues and chicanery… *lest we forget*. (We almost called Enron’s misdeeds ethical lapses, except that they were deliberate fabrications.)

Tony’s favorite column of the past year is “[Big 4 Audits: A Thing of the Past?](http://blogs.smeal.psu.edu/grumpyoldaccountants/archives/342)” The PCAOB with its limited resources continues to struggle with how to improve audit quality, as the number of shoddy audit performances by both large and small accounting firms continues to soar. This essay encouraged auditor “whistleblowing,” the use of “joint audits” (where two firms audit a company), and complete disclosure of PCAOB inspection findings. Our most controversial proposal was the creation of “auditor malpractice” listing (from regulatory enforcement releases) similar to a sex offender list which would warn the public of auditors that cannot audit. We know of at least one person who agrees with us on this, [Francine McKenna](http://retheauditors.com/2011/07/14/going-in-circles-a-few-remarks-on-audit-reform/)!

Will this ever come to fruition? Not directly, because the Big 4 even now are lobbying strongly against auditors’ signing their names to audit reports for fear that their individual reputations, livelihoods, and families would be ruined if an audit failed. Duh…remember what we said about incentives?

Ed’s favorite column is “[IFRS is for Criminals](http://blogs.smeal.psu.edu/grumpyoldaccountants/archives/171).” The push to have IFRS even when countries impose carve-outs, time-freezes, and idiosyncratic exceptions can be understood only by managerial desires to stretch the truth with impunity. They don’t want the Department of Justice or plaintiffs’ attorneys interfering, and the easiest way of accomplishing these things is by asserting firm-specific, complex “principles-based” accounting principles. Auditors, of course, jumped on board because they feel this path is the best way of reducing their litigation risk, not to mention the huge consulting fees they pocket assisting in the IFRS conversion. The investment community will rue the day if this system for unaccountable exaggeration and lack of transparency is ever adopted.

We aren’t sure how long this column will continue. After all, we are old and could retire any day. Additionally, the parties whom we regularly criticize are increasingly pressuring our respective academic institutions to silence us. To date, and to their credit, our institutions have held firm and upheld the tradition of “academic freedom.” Nevertheless, we shall have fun as long as we write, for corporate accounting and auditing indiscretions have proved so titillating, and we still believe we can make a difference.

One last thing. We wish to thank Sam Antar, Herb Greenberg, Cory Johnson, Francine McKenna, and Jon Weil for their encouragement, interest, and support of our blog this first year. We also are grateful to those of our academic colleagues who regularly include our blog posts in their classrooms…this is terrific, and truly an unintended benefit.

*This essay reflects the opinion of the authors and not necessarily the opinions of The Pennsylvania State University, The American College, or Villanova University.*