Accounting Misdeeds at General Electric

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Abstract

The case discussed the accounting fraudulent activities at the U.S. - based market leader of electronics industry, General Electric (GE). SEC suspected that between 2002 and 2003, GE bent the accounting rules to either inflate earnings or hit the analysts' consensus earnings expectations. In 2005, SEC initiated an investigation and filed a complaint alleging the conglomerate of using improper hedge accounting and revenue recognition schemes that misled the investors. In August 2009, GE settled the claim, without admitting or denying allegations, by paying the SEC a $50 million penalty in response to this civil suit filed against the company. The case encouraged debate over the intentions of GE, since in the past, similar fraud cases were reported against this electronics giant. Moreover, the ethical implications of such irregular accounting practices were also discussed as GE had hurt and cheated its investors by indulging in such unethical practices.

Keywords: **Accounting fraud, General Electric, commercial paper, hedge accounting, bridge transactions**

JEL Classification: G11, G12, M41

Paper Submission Date : March 2, 2015 ; Paper sent back for Revision : July 6, 2015 ; Paper Acceptance Date : September 21 , 2015

"Every accounting decision at a company should be driven by a desire to get it right, not to achieve a particular business objective. GE misapplied the accounting rules to cast its financial results in a better light" **(as cited in Glader & Scannell, 2009, paragraph 8).**

David P. Bergers, Director, SEC's Boston Regional Office

In 2014, the US-based electronics giant, General Electric Company (GE), made it to the list of Fortune's Most Admired Companies, 2014, while earning huge revenues ("Most Admired 2014," 2015). With its continuous outstanding financial results in the past, the company became an industry leader. However, not all analysts were convinced that the reported revenues were always genuine.

Skepticism over GE's financial results grew after the Securities and Exchange Commission (SEC) filed civil fraud and other charges against the company in 2005. The SEC alleged that GE had been involved in improper hedge accounting and revenue recognition schemes that had misled investors. On August 05, 2009, GE settled the four-year investigation and agreed to pay a $50 million fine to the SEC though, it did not admit that it had been at fault. However, these allegations of unethical accounting practices that ran contrary to the approved governance policies of GE severely tarnished the company's reputation.

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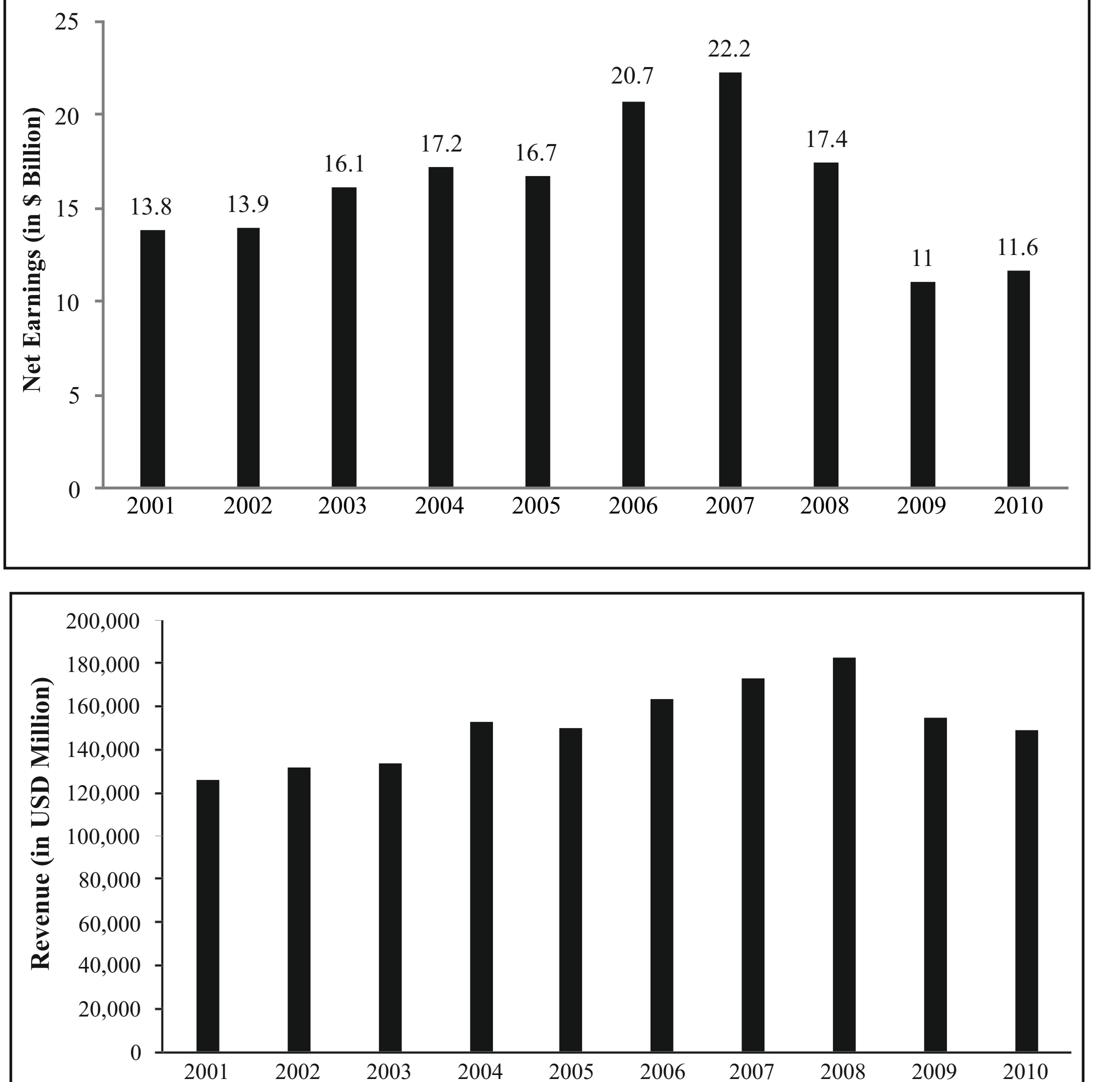
Figure 1 . GE Net Earnings and Revenues



Source: NASDAQ.com (2015)

Background

The origin of GE can be traced back to 1878 when Thomas Edison (Edison) formed the Edison Electric Light Company ("GE History," n.d). In 1882, Edison started the power generation business and formed the Edison Electric Illuminating Company. In the same year, he constructed America's first central power station. In 1892, GE was born through the merger of a dynamos and electric lights manufacturer, Thomson-Houston Company with Edison General Electric Company.

In 1900, GE established a laboratory, the first such in the U.S., dedicated entirely to scientific research. By 1905, the company realized that the business would require capitalization and cash flow. Thus, to provide financing to small utilities, GE started The Electric Bond and Share Co. Simultaneously, the company was expanding and diversifying its business through many innovations. In 1932, when the Great Depression [1] engulfed the U.S. markets, GE created GE Credit Corporation to finance the sale of GE appliances to American families.

Table 1. Maturity Buckets at GE

Bucket/ Groups	Weighted Average
1-7 days	2 days
8-74 days	30 days
75-120 days	93 days
121-174 days	140 days
174+ days	176 days

Source: United States District Court, District of Connecticut (2009)

GE continued to bring modern conveniences to more and more people; it introduced the first custom-matched cooking equipment in 1947. In 1969, Neil Armstrong [2] stepped out on the moon wearing the silicone rubber boots GE had made. In 1978, GE successfully completed 100 years of technological innovation. In 1994, it became the first non-computer company of the Fortune 500 companies to go online when its plastic division launched a website, www.geplastics.com.

Between 2010 and 2012, the company's CEO, Jeffrey Immelt, gave his nod to GE investing about 6% of its industrial revenues in R&D ("General Electric's Lessons in Product Innovation," 2013). Over the year, the conglomerate's financial books presented an attractive picture, with increasing revenues and profits (refer to Figure 1 for details of financials of GE).

The Numbers Game

GE had always maintained healthy financial books and in every quarter from 1995 through 2004, it either met or exceeded analysts' final consensus expectations regarding earnings per share (EPS) (Hogan, 2009a). The company's consistent performance, however, raised suspicions and drew the attention of the SEC (Hogan, 2009b), which in January 2005 initiated a risk-based investigation into the company's accounting practices (Taub, 2008). In August 2005, the SEC launched a formal order of investigation and filed a complaint in the U.S. District Court for the District of Connecticut, alleging that the conglomerate had used improper accounting methods to boost its earnings and to avoid disclosing negative results.

The SEC complaint revealed a number of email discussions among various GE accountants, internal auditors, executives, and the company's external auditor, KPMG (Leone & Reason, 2009). The SEC alleged that its probe had found that the GE audit committee had deliberately improved the company's results. On four separate occasions between 2002 and 2003, the SEC suspected that GE personnel had bent the accounting rules, letting the company either inflate earnings or hit the analysts' consensus earnings expectations. The alleged violations included improper accounting for Commercial Paper (CP) [3] hedging, sales of locomotives and spare parts of aircraft engines, enabling GE to inflate earnings by millions of dollars.

Improper Hedge Accounting

At all relevant times, GE had been issuing CP with a maturity ranging from one to 270 days to meet its funding needs. The company used the proceeds from such issuances to fund many of its financial assets that had long, fixed-term interest rates. According to the financing principle of corporate finance, such a financing policy was not judicious; the principle dictated that a firm should adopt a financial plan that would match the expected life of the assets with that of the source of funds used to finance the assets. However, this aggressive financing policy of GE led to the rolling of CP issuances, which exposed the company to fluctuating interest rates - the interest rate risk. In order to hedge such a risk, GE entered into corresponding interest-rate swaps with third parties, which converted the variable rate CP interest payments into fixed rate interest payments.

The Financial Accounting Standards (FAS) 133, governing the accounting for derivative financial instruments such as interest-rate swaps came into effect on January 01, 2001. However, by then, GE had developed a methodology that could hedge the variable interest rates it paid on the issued CP. Based on the average maturity dates of the issued CP, GE divided the CPs into groups or 'buckets' and entered into interest-rate swaps of the same duration (Refer to Table 1 for maturity buckets of GE). If the size of the interest rate swaps exceeded the amount of the CP issued for a particular bucket of CPs, GE would be overhedged - which meant that certain forecasted transactions would not have occurred.

In late 2002 and early 2003, GE feared that it had issued insufficient CPs in multiple consecutive periods to cover the interest-rate swaps that it was using to hedge two buckets of CPs - U.S. dollar CPs and Australian dollar CPs, both in the 30-day bucket. The shortfall of CP meant that some forecasted transactions had certainly failed to occur in its hedging activity. Therefore, in November 2002, personnel from General Electric Capital Corporation [4] proposed that the company would 'borrow' CP from other buckets described in the documentation, to cover the shortfalls in the deficient buckets. By using CP from other buckets, GE could claim that all forecasted transactions were probable of occurring. However, by December 2002, the auditors group, both internal and external, rejected the borrowing approach as the existing hedge documentation prohibited borrowing among buckets.

GE personnel were continuously seeking solutions to the overhedging problem. By the end of 2002, they learned that as per FAS 133, a forecasted transaction that occurred within a 60-day window was not a failed forecasted transaction. This solved the overhedging problem in the U.S. dollar 30-day program; however, the problem still existed for the 30-day Australian CP. This could lead GE to lose hedge accounting and disclose it in its annual report.

In early January 2003, rather than reporting these fluctuations, GE changed its hedge accounting approach. However, the new approach violated Generally Accepted Accounting Principles (GAAP). Under a new methodology called 'floating bucket' [5] which, when applied retroactively to transactions that had occurred months earlier, GE could obtain the desired accounting results and avoid making the required but unfavorable disclosures. As a result, GE overstated its pre-tax profits in the fourth quarter and the annual report of 2002 by $200 million, thereby meeting the revised consensus EPS estimates. The new methodology also facilitated the overstating of its 2002 fourth quarter's net income by an estimated 5.4% ("SEC sues GE over fraudulent accounting," 2009).

Bridge Financing Transaction

In the fourth quarter of 2002, GE's Transportation Systems unit (GETS) expected to sell a significant number of locomotives to railroad end users, but there was the likelihood that these purchases might be delayed until the first quarter of 2003. In 2002, some personnel from GETS with members of GE's capital markets group proposed a structure similar to the bridge financing arrangement. The new structure suggested transferring these locomotives to financial intermediaries in the last quarter of 2002 and making them resell the locomotives to the railroads in the ensuing quarter. These intermediaries, in turn, would profit from such transactions by charging GE a fee and interest.

On March 07, 2003, GE filed Form 10-K with the SEC wherein, the financial statements included the revenue and operating profit pertaining to the bridge financing transactions. However, under GAAP, revenue generally could not be recognized on a product sale unless delivery of the product had taken place, and delivery could not be considered to have occurred unless the customer had taken the title and assumed the risks and rewards of ownership. In the last quarters of 2002 and 2003, these transactions led GETS to overstate its revenues and profits by 45.1% & 39.6% and 22.6% & 16.7%, respectively (United States District Court, District of Connecticut, 2009). Similarly, GE also improperly recorded revenue of $223 million and $158 million for the last quarter of 2002 and 2003, respectively.

Table 2. Accounting for Derivative Instruments and Hedging Activities, Bridge Financing Transaction, and Sales of Aircraft Engine Spare Parts Error

Derivative Instruments and Hedging Activities	Bridge Financing Transaction	Sales of Aircraft Engine Spare Parts Error
The Financial Accounting Standards (FAS) 133 governs the accounting for financial derivatives, which dictates that derivative instruments such as interest-rate swaps must be recorded at their fair value, and any change in their value should be reported quarterly in the income statement of the company, affecting their quarterly earnings. Thus, the fluctuation in the values of interest rate swaps can lead the company to experience significant earnings volatility. However, to allow companies to address this volatility, FAS 133 permits special hedge accounting limited to few hedge relationships provided specific criteria are met. Cash flow hedge accounting is one of such cases. Cash Flow Hedge Accounting is a method of hedge accounting that permits a CP issuer to keep its earning unaffected from certain changes in the fair value of its derivatives. It allows issuers to instead measure and record the difference between the value of the derivative (i.e., the interest-rate swap) and the value of the underlying hedged risk (i.e., the interest on the floating rate debt), on their balance sheets which is referred as the 'ineffectiveness' of the hedge. An issuer must comply with two important requirements in order to qualify for hedge accounting under FAS 133: (1) a documentation requirement and, (2) a specificity requirement. The documentation requirements mandate an issuer to create hedge documentation at the inception of the hedge. This official written documentation describes the risk being hedged, the date the future transactions to be hedged are expected to occur (known as 'forecasted transactions'), and how the forecasted transactions would be identified. The entity must follow the terms of this documentation consistently throughout the life of the hedge and may not substantially alter it, failing to which, the company would lose the special hedge accounting prowess. The 'specificity' requirement means that the issuer must describe the forecasted transaction in the issuer's documentation with sufficient specificity such that when a transaction occurs, it is clear that the transaction is a hedged transaction. Moreover, to qualify for hedge accounting, the forecasted transactions must be 'probable' of occurring and a 'pattern' of failed forecasted transactions could disqualify the company from using cash flow hedge accounting. In case of GE, the company failed to comply with the specificity requirement. It avoided the disclosure of failed forecasted transactions for the Australian dollar CPs in the 30-day bucket.	The term 'Bridging Finance' is derived from bridging or bridge loan, used to provide short term cash for a real estate transaction until permanent financing is secured. Bridge loans are commonly used to 'bridge the cash gap' when completing the commercial real estate transactions. Managers at GE arranged similar financing transactions under which certain financial intermediaries agreed to purportedly purchase the locomotives while reselling them to GE's customers in the next quarter. In GE, the revenues from the year-end rail transactions had been 'inappropriately accelerated' into the fourth quarters of 2002 and 2003 when they should have been recognized in the first quarters of the following years. The revenue recognition in the fourth quarters was inappropriate because GE transferred locomotive titles but not sufficient substantive risks and rewards of ownership to financial intermediaries, which is an important criterion for revenue recognition under GAAP.	The accounting model, RAM, used by GE was inappropriate under GAAP, which does not permit combining revenues on low margin. The accounting model, RAM, used by GE was inappropriate under GAAP, which does not permit combining revenues on low margin aircraft engines with revenues from expected future sales of high margin spare parts. Both, the accounting period concept and the matching concept are at stake if such accounting practices are employed. As the company was alleged to practice differential internal pricing, when corrected, would lead to overstatement of earnings by \$1billion. GE violated the GAAP by adopting internal price changes that set-off the losses arising due to RAM abolition and resulted in creation of reserve of additional \$156millon (difference of \$1billion and \$844million). GE was also alleged to wrongly use the reserve to smoothen its earnings in future years.

Table 3. GE's Major Approved Governance Principles

Functions of Board	Ensuring processes are in place for maintaining the integrity of the Company - the integrity of the financial statements, the integrity of compliance with law and ethics, the integrity of relationships with customers and suppliers, and the integrity of relationships with other stakeholders.
Qualifications	Directors should possess the highest personal and professional ethics, integrity and values, and be committed to representing the long-term interests of the shareowners.
Ethics and Conflicts of Interest	The board expects GE directors, as well as officers and employees, to act ethically at all times and to acknowledge their adherence to the policies comprising GE's code of conduct.
	The board will not permit any waiver of any ethics policy for any director or executive officer.

Source: General Electric Company (n.d.)

Table 4. Sections and Rules Violated by GE

Sections & Rules violated	Acts
Section 17(a)	Securities Act, 1933 (Securities Act)
Sections 10(b), 13(a), 13(b)(2)(A) and 13(b)(2)(B)	Securities Exchange Act of 1934 (Exchange Act)
Rules 10b-5, 12b-20, 13a-1, 13a-11, and 13a-13	Exchange Act

Source: United States District Court, District of Connecticut (2009)

Sales of Aircraft Engine Spare Parts Error

Since early 1992, for the sales of new commercial aircraft engines, GE had been applying an accounting model known as the revenue accounting model (RAM). Under RAM, the profit margins were determined by combining the low margins from aircraft engine sales with the high margins from the expected future sale of spare parts/spare engines for those aircrafts. To adjust the overstated margin recognized on yet unsold spare parts, GE maintained 'deferred charges' equal to the accelerated income, which was later amortized over time by an amount equal to the profit reduction on those sales. In early 1999, GE realized that RAM might not comply with GAAP under which the projected profit margins were highly questionable. A senior accountant of GE stated the view of external auditors that if GE's practice of recognizing margins on spare parts pursuant to RAM "was observed and challenged [it is]... virtually assured we would lose" (United States District Court, District of Connecticut, 2009, p. 25).

In the meantime, GE received a complaint from one of its business units that it was paying a higher internal price to GE's parts distribution business for engine parts than certain third parties. GE recognized such revenues on a 'cost percentage of completion' [6] basis. The GE accountants estimated that adjusting for the differential pricing would cause an immediate acceleration in revenue and profit, which could offset the losses arising due to RAM. Thus, GE abolished RAM in 2002, shrinking the earnings by $844 million. However, the internal price change method increased the earnings by $1 billion, which offset the losses ($844 million), and led to the creation of a reserve of $156 million. Such a reserve did not comply with GAAP, as accounting principles had to be applied consistently for all periods presented in comparative financial statements and any change in the accounting principles, such as the internal price change, had to be applied retrospectively.

GE further violated GAAP by releasing the reserve funds to smoothen the weaker earnings of future periods. Moreover, in its 2002 SEC filings, GE did not disclose either the RAM change or the effect of the internal pricing change (refer to Table 2 for accounting for derivative instruments and hedging activities, bridge financing transaction, and sales of aircraft engine spare parts error).

Ethical Implications

Over the years, GE had been appreciated for the efficiency, discipline, and innovation of its corporate finance department (refer to Table 3 for GE's major approved governance principles). However, by 2002, investors had begun to worry about the large size of GE and the complexities of its financials due to which the blue-chip giant came under pressure (Schulte, 2002). Some analysts believed that through smart efforts, the company was trying to keep its earnings steady.

In March 2003, in its Form 10-K filed with the SEC, GE did not disclose some important facts and reported false statements like there were no forecasted transactions that failed to occur. There was public dissemination of false and misleading financial information in SEC filings and other communications. Through such misrepresentation of facts, GE cheated the investors. By February 2008, while trying to clean up its accounting books, GE said, "We have concluded that it is in the best interests of GE and its shareholders to resolve this matter... The errors at issue fell short of our standards, and we have implemented numerous remedial actions and internal control enhancements to prevent such errors from recurring" (Goldfrab, 2009, paragraph 5). It further claimed to have produced 2.9 million pages of e-mails and other documents for the SEC and spent $200 million to hire outside legal and accounting teams to resolve the issues.

Reacting to the alleged fraud at GE, Paul Miller, an accounting professor at the University of Colorado said, "They were trying to manage earnings, and it involved bending the rules and breaking them...shame on them" (Henry, 2009, paragraph 3). Moreover, in March 2009, the rating agency, Standard and Poor, lowered GE's credit rating from AAA to AA+ (Goldman, 2009). In August 2009, although GE agreed to pay the fine, it did not accept that it had been at fault. Analysts were upset that only the stockholders of GE would be paying the fine, not the personnel who had allegedly perpetuated these frauds or those who had favored such malpractices.

The Road Ahead

During the period from 1990-2002, GE paid $982.9 million as settlement, penalty, and fine for 63 cases of fraud and misconduct ("Tell me, Mr. President: What is it that is so special to you about GE?" 2011). Such huge penalties raised doubts whether the company was actually following ethical practices. During the 2008 financial crisis, GE was alleged to have misled investors by inflating the assets' value at its GE Capital unit, overstating the quality of its holdings in sub prime and other risky loans and by maintaining inadequate reserves ("GE to pay $40M to settle suit accusing it of misleading investors in 2008," 2013). Moreover, in 2009, it dodged payment of income tax on its $10.8 billion profit. Since the SEC complaint suggested that GE had violated various acts which governed business, it was debatable whether the electronics industry giant could really be considered an ethical and healthy company (see Table 4). Robert Khuzami, Director, SEC's enforcement division, said, "G.E. bent the accounting rules beyond the breaking point" (Guerrera & Chung, 2009, paragraph 8). Moreover, the analysts felt that the company needed to work hard to regain the confidence of its investors.

Questions for Discussion

(1) How did GE bend the accounting rules related to CP hedging?

(2) How did the improper revenue recognition schemes adopted by GE inflate their revenues and earnings materially that misled their investors?

(3) What are the ethical implications of GE's accounting fraud?

(4) Examine the role of the management and the auditors (both internal and external). Discuss and debate whether their honesty and vigilance could have avoided this alleged fraud.

Practical Implications

The case can be used in the corporate world to discuss various aspects of the accounting fraud done by a market leader like GE. Practical implications of the case can be summarized as:

(1) The case of GE's accounting fraud can be set as an example for other companies. The loopholes in the system of GE can be discussed to explain violation of various acts and sections.

(2) The case may help to understand the role and importance of the auditors - internal and external in any company and the loss caused to the company due to their default.

(3) The impact of the accounting misdeeds on all the stakeholders of the company can be understood from this case.

(4) The loss to the reputation of the company (visible in the revenues and net earnings of GE), both financial loss and disgrace, can be explained through this case.

Teaching Notes

(1) Overview : The case discusses the accounting fraudulent activities at the US-based market leader of electronics industry, General Electric (GE). SEC suspected that between 2002 and 2003, GE bent the accounting rules to either inflate earnings or hit the analysts' consensus earnings expectations.

The case highlights the following issues:

(i) The case begins by discussing the complaint filed against the conglomerate GE for using improper hedge accounting and revenue recognition schemes leading the Securities and Exchange Commission (SEC) to initiate an investigation in 2005.

(ii) The case details the improper hedging accounting practices followed at GE. Furthermore, it explains the violation of Financial Accounting Standards (FAS) 133, which led GE to overstate its pre-tax profits and thereby meeting the revised consensus EPS estimates.

(iii) The case unfolds another accounting misdeed practiced at GE, bridge financing transaction, under which it violated GAAP to overstate its revenues and profits. In addition, the case provides a glimpse into the sales of aircraft engine spare parts error made at the company.

(iv) Finally, the case concludes with the note of the company settling the claim, without admitting or denying allegations, and paying the SEC a $50 million penalty in August 2009.

The case encourages debate over the intentions of GE, since in the past, similar fraud cases were reported against this electronics giant. Moreover, the ethical implications of such irregular accounting practices are also discussed as GE had hurt and cheated its investors by indulging in such unethical practices.

(2) Teaching Objectives and Target Audience : The case can be used in teaching courses such as Accounting for Management and Financial Statement Analysis (FSA) to illustrate the accounting malpractices at General Electric (GE) as alleged by SEC in 2005. The case describes how the company cooked its financial books in 2002 and 2003 thereby, misleading the investors. It explains the loopholes of GE's management system including its internal and external auditors. The case encourages students to think strategically about the accounting principles and standards, and their implications to address the accounting challenges. The students can understand and discuss how GE avoided disclosing unfavorable results. Furthermore, the case discusses about the various accounting rules and principles that the company failed to comply with. The case also works well to teach the module of business ethics and corporate governance as it involves the concept of ethical accounting practices.

The specific teaching objectives of the case are to:

(i) Understand the commercial paper funding program used by GE and learn the related revenue recognition criteria.

(ii) Highlight the importance of accounting principles and standards (GAAP and FAS) in maintaining books of accounts.

(iii) Identify the factors that led GE to the accounting misdeeds.

(iv) Study the ethical standards associated with such giant business units and the effects of their violation.

(3) Immediate Issues : This case can be useful in both classroom programs and the distance learning programs. It can be effectively used to teach accounting frameworks and important concepts related to preparation and presentation of financial statements. The instructor can discuss the fundamental rules governing hedge accounting and take it forward with the following questions:

(i) How did GE bend the accounting rules related to CP hedging?

(ii) How did the improper revenue recognition schemes adopted by GE inflate their revenues and earnings materially that misled their investors?

(iii) What are the ethical implications of GE's accounting fraud?

(iv) Examine the role of the management and the auditors (both internal and external). Discuss and debate whether their honesty and vigilance could have avoided this alleged fraud.

(4) Suggested Session Plan : The instructor/moderator is suggested to distribute the case 2-3 days before the class discussion so that students can read it thoroughly.

(i) Question 1 : The instructor can start the discussion by outlining the basic revenue recognition criteria in general and criteria for hedge accounting in particular. Then the recent accounting frauds like HP & autonomy case, Tesco accounting scandal, or any other case can be exemplified. The discussion can then be carried further by example of GE, where multiple improper accounting methods were used to inflate the financial results, including avoidance of certain disclosures and pre-tax charges, improper hedge accounting, and revenue recognition schemes. The moderator can encourage the students to comprehend the financial terms such as commercial papers, hedging, financial derivatives (interest rate swaps, in particular). The students can then be asked to

Instructor's Questions	Approximate Time for Discussion
Introduction	10 min
Discussion on Question 1	15min
Discussion on Question 2	15min
Discussion on Question 3	10min
Discussion on Question 4	10min
Total Session Time	1 hour

brainstorm what are the implications of FAS 133 (refer to improper hedge accounting in the number game section of the case).

(ii) Question 2 : While discussing Question 1, the instructor introduced the basic criteria related to revenue recognition. Next, the students can be asked to discuss why the reporting of sales of locomotives to intermediaries under resale agreement was an improper accounting practice, and related GAAP can be outlined. Furthermore, the discussion can be linked to the concept of bridge financing and how GE used such transactions to cook healthier revenues and earnings numbers. Later, the moderator can make the students explain the percentage of completion method of revenue recognition while discussing the errors of GE in recognizing the revenues from sales of aircraft engine spare parts (refer to the bridge financing transaction and sales of aircraft engine spare parts error under the numbers game section of the case).

(iii) Question 3 : The instructor may discuss the impact of GE's alleged accounting fraud on investors' sentiments in this question. The fall in reported earnings and revenues, in the year immediately after the penalty was levied on GE, can be used to drive how unethical practices disappoint various stakeholders in the company (refer to the Figure 1 in which the financial performance in 2009 and 2010 was low in comparison to previous years). The statement of Paul Miller, an accounting professor at the University of Colorado (mentioned in the ethical implications section of the case) can be discussed.

(iv) Question 4 : The moderator can conclude the case by asking the students to explain the role of the management and the auditors related to the integrity of the financial statements in any company. Then, the role and functions of internal and external auditors can be explained. Additionally, the duty of the management, to check if the various acts governing the company's business were followed, can be discussed (refer to Table 3). Students can debate if GE's scandal was avoidable if the company management practiced honesty and vigilance.

(5) Suggested Assignment Questions for Students

(i) Discuss the implications of GAAP and FAS 133 in relation to the GE accounting malpractices.

(ii) Examine the loopholes in the GE system that led to the accounting scandal. Discuss the role of GE's executives, internal and external auditors.

(iii) Prepare a note on interest rate swaps.

End Notes

[1] The Great Depression began in 1929, when the U.S. economy suffered economic recession. The market crashed and this was followed by high unemployment, poverty, low profits, deflation, and plunging farm incomes.

[2] Neil Armstrong was the first man to step on the moon.

[3] A CP is an unsecured, unregistered short-term debt instrument issued by a corporation with the commitment to pay the CP purchaser an agreed principal amount at an agreed rate of interest on a given maturity date.

[4] GE wholly owns General Electric Capital Services, Inc., which in turn wholly owns General Electric Capital Corporation.

[5] Under this method, GE would change the bucket parameters until it had enough CP in the group to match the size of the swaps hedging the group. This approach meant that GE would never be overhedged.

[6] Under this method, GE estimated the total costs and profits of each agreement, calculated the percentage of total costs incurred as of a particular date, and recognized revenue proportionate to the costs incurred as of that date.

[7] The 2008 financial crisis threatened the collapse of many large financial institutions, along with the worldwide crash of stock markets.

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