

Restating Earnings: September and October 2001

... Causey argued against Duncan's desire to restate Enron's earnings by \$1.2 billion. A restatement would mean Enron continually made huge accounting mistakes. Already scared investors, expecting the worst, would quickly dump Enron stock at a time the firm could not afford it; the SEC would investigate, and shareholders would sue. Andersen didn't want an SEC investigation either. Rather than restate its previously certified earnings, Enron could declare "nonrecurring" write-offs totaling \$1.01 billion, consisting of \$544 million for the Raptor transactions, \$287 million for overvaluing Azurix assets, and \$180 million for restructuring the broadband division.¹ Duncan argued that the write-offs should be classified as "recurring" losses, rather than onetime nonrecurring losses, and forwarded information to Andersen's legal department for their review.

DECISION CHOICE. *If you were David Duncan, the lead auditor for a company working under a cease and desist order from the SEC, would you:*

(1) ignore Enron's objections and restate previous earnings by \$1.2 billion, which would likely result in a formal SEC investigation,

(2) develop a compromise with Enron and declare recurring losses totaling \$1.01 million, or

(3) accept Enron's desire to declare nonrecurring losses totaling \$1.01 million, which is the least likely to result in a formal SEC investigation. Why?

¹ McLean and Elkind, *The Smartest Guys in the Room*, 367-368.