

# AGENDA

## How Risky Is Aggressive Accounting?

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Aggressive accounting is often considered risky for investors because it could mask financial problems, and risky for managers and boards because it could result in lawsuits or regulatory actions. Yet aggressive accounting sometimes is a strategic act.

Two cases in point are **Dell** and **Apollo Group**. Although both companies have been battered by one agency that rates accounting risks, their stock prices are headed in different directions. In addition, different analysts interpret their prospects differently.

**Audit Integrity**, a forensics accounting firm that rates companies, has been tracking risks that currently beset those two Fortune 1000 companies. Audit Integrity compares the severity of certain risks at companies against peers to indicate when they're abnormal.

Currently, Apollo Group ranks high in aggressive accounting in areas such as revenue recognition for both operating revenues and unearned revenues, and for the astounding change in its valuation of intangible assets over the past year, 402%.

"In my opinion, the Apollo Group may well be a house of cards," says the chairman of Audit Integrity, **James Kaplan**.

Kaplan also points out that Dell seems to be taking on one other huge risk.

Dell recently bought several non-manufacturing companies; its recent purchase of Pro Services is one example. **Parveen Gupta**, the chairman of the accounting department at **Lehigh University**, says that seems to indicate Dell is shifting to a service business model from its original model, which was selling personal computer hardware.

"That may be a very smart thing," says Kaplan. "But I would argue that companies that change their direction don't always succeed. When a business model is broken it's very difficult to reestablish success."

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