

Fenco Corporation's stock price recently collapsed on news that its chief financial officer resigned. It seems the company had deliberately failed to follow generally accepted principles in an attempt to support a 30% income growth rate. The company announced that it would be restating the 20X7 results. Information about Fenco's financial condition and stock price follow:

	Reported Annual Net Income	Reported Assets	Reported Liabilities	Reported Stockholders' Equity	Stock Price Per Share
Dec. 31, 20X4	\$ 2,500,000	\$ 7,600,000	\$3,800,000	\$ 3,800,000	\$20.20
Dec. 31, 20X5	3,275,000	9,804,000	2,729,000	7,075,000	35.00
Dec. 31, 20X6	4,323,000	13,627,560	2,229,560	11,398,000	60.75
Dec. 31, 20X7	5,576,670	18,942,308	1,967,638	16,974,670	98.90
Jan. 31, 20X8	n/a	n/a	n/a	n/a	11.50

The following information is necessary to correct 20X7's data.

As of December 31, 20X7, Fenco's CFO withheld adjusting entries for accruals relating to wages, utilities, and similar items. The total of such items amounted to \$855,000.

During the year, Fenco presold certain services to its clients. All such sales were booked as revenues even though \$625,000 had not been "earned" as of the end of 20X7.

Fenco purchased \$3,000,000 of equipment on July 1, 20X7. These assets had a 5-year life and no salvage value. Fenco neglected to depreciate these assets during 20X7.

Fenco began 20X7 with \$50,000 in a Prepaid Rent account. The rent related to 20X7, but no adjusting entry was recorded in this account during 20X7.

Fenco offered customer rebates for services delivered in 20X7. As of the end of 20X7, Fenco owes \$135,000 in rebates. The rebates will not be processed before February, 20X8. The CFO indicated that no entry was necessary before actual payment.

- Determine the correct amounts to report for 20X7 (net income, and assets, liabilities, and equity).
- Is the collapse in stock price justified, and what pressures might a CFO face to participate in a scheme to manipulate income?
- How can business persons prepare themselves to avoid succumbing to pressures to "fudge" on accounting numbers?