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| **AC313 Chapter 14 Glossary**

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| **Accounting and Auditing Enforcement Release (AAERs)**  | SEC reports of alleged violations of the provisions of the Securities and the Securities Exchange Acts and its enforcement actions on its Web site. |
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| **accounting's fundamental law of conservation**  | Law that within the context of accrual accounting and GAAP, accounting manipulations neither create nor destroy earnings; they merely shift them from one period to another. |
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| **aggressive accounting techniques**  | Accounting practices that are questionable but perhaps not fraudulent. |
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| **big bath**  | Large one-time write-off of expenses. |
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| **channel stuffing**  | Vendor practice of shipping customers an excess amount of goods near the end of its accounting period, boosting the vendor's revenues in the current accounting period, although these revenues are likely to be reversed in the following accounting period when customers return the excess goods. |
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| **cookie jar accounting**  | Pattern of accounting practices that treats the balance sheet as a cookie jar so that in good years, cookies (reserves) are stored in it (the balance sheet) so that they can be taken from it and eaten (placed on the income statement) when management is hungry (in need of extra income to look good). |
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| **corporate governance and organizational oversight**  | Best general way to prevent financial statement fraud; achieved by the monitoring from six groups: management, board of directors, audit committee, internal auditors, external auditors, and public oversight groups. |
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| **earnings management**  | Practice of routine use of nonfraudulent accounting and economic discretion to smooth earnings. |
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| **earnings manipulation**  | Use or abuse of accrual accounting methods to either increase or decrease accounting income; may be legitimate, marginally ethical, unethical, or illegal, depending on the circumstances. |
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| **earnings smoothing**  | The use of accounting manipulations to increase earnings in financially weak years and decrease earnings in strong years. |
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| **financial statement fraud (FSF)**  | Any undisclosed intentional or grossly negligent violation of generally accepted accounting principles (GAAP) that materially affects the information in any financial statement. |
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| **fraud-created insider information period (FCIIP)**  | Time period in which unaware buyers and sellers trade their shares at prices that would be different in the absence of some financial reporting fraud. |
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| **insider trading**  | Illegal trading of stock based on information known only to employees of a corporation. |
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| **legitimate accounting choices**  | Management choices of accounting methods within GAAP that affect earnings. |
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| **legitimate economic choices**  | Management's financial choices that affect earnings without accounting manipulation. For example, managers may defer research expenses until the next year in order to boost the current year's earnings. |

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