

Case Study: The Use of Restructuring Reserves to Manipulate Reported Income at Sunbeam Corporation

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INTRODUCTION

The main focus of this case is on the inflation of a restructuring reserve at Sunbeam Corporation in late 1996. This was actually just one of the many aspects of the massive financial reporting abuses that took place while Sunbeam was being run by controversial CEO “Chainsaw” Al Dunlap. The students need to read a speech by Walter Schuetze that makes clear the need for reform of the EITF rule governing restructuring accruals. The case also deals with Sunbeam’s unnecessary accrual of a contingent liability. Finally, the students are asked to discuss the role played by Sunbeam’s external auditors. This case has been used by the author in three courses: in Intermediate Accounting I as a research assignment and a way of emphasizing the importance of restructuring reserves, in Intermediate Accounting II as part of a review of material covered in the first half of Intermediate, and in an MBA class dealing with financial reporting issues.