What is accounting fraud?

Accounting fraud is a deliberate and improper manipulation of the recording of sales revenue and/or expenses in order to make a company's profit performance appear better than it actually is. Some things that companies do that can constitute fraud are:

- --Not listing prepaid expenses or other incidental assets
- --Not showing certain classifications of current assets and/or liabilities
- --Collapsing short- and long-term debt into one amount.

Over-recording sales revenue is the most common technique of accounting fraud. A business may ship products to customers that they haven't ordered, knowing that those customers will return the products after the end of the year. Until the returns are made, the business records the shipments as if they were actual sales. Or a business may engage in channel stuffing. It delivers products to dealers or final customers that they really don't want, but business makes deals on the side that provide incentives and special privileges if the dealers or customers don't object to taking premature delivery of the products. A business may also delay recording products that have been returned by customers to avoid recognizing these offsets against sales revenue in the current year

The other way a business commits accounting fraud is by under-recording expenses, such as not recording depreciation expense. Or a business may choose not to record all of its cost of goods sold expense fore the sales made during a period. This would make the gross margin higher, but the business's inventory asset would include products that actually are not in inventory because they've been delivered to customers.

A business might also choose not to record asset losses that should be recognized, such as uncollectible accounts receivable, or it might not write down inventory under the lower of cost or market rule. A business might also not record the full amount of the liability for an expense, making that liability understated in the company's balance sheet. Its profit, therefore, would be overstated.