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# Worries Growing About Accounting

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SAN FRANCISCO (AP) — The spotlight is spreading over the gray areas that allow companies to keep debt off their books and dress up their earnings for the stock market.

The intensifying scrutiny has reached a growing list of corporations, and the accounting firms that check their books, and seems likely to pressure yet more companies to explain often-befuddling information that has been buried in the footnotes of financial statements.

While the most jarring revelations of accounting mirages have been made by Enron Corp. and other energy traders engaged in Byzantine transactions, companies in more conservative industries may even find their accounting practices under fire, experts said.

That's partly because credit rating agencies caught off guard by the Enron debacle are asking tougher questions throughout corporate America, forcing executives to own up to questionable accounting practices, said Matt Johnson, an economist with Thom Weisel Partners in San Francisco.

The anticipated trouble ahead also reflects a deepening belief that a large number of companies have been pushing their accounting practices to the legal limit to boost their stock prices.

``A big part of the problem is that the diversity and complexity of financial transactions in today's business world is outpacing the ability of the accounting standard bearers to come up with new rules,'' said Reuven Lehavy, an accounting professor with the University of California's Haas School of Business in Berkeley.

Arthur Andersen, Enron's auditor, is facing accusations of looking the other way while the energy trader fabricated earnings.

KPMG LLP missed an accounting mistake that prompted Anadarko Petroleum Corp. to own up to a $1.08 billion swing in its third-quarter fortunes.

Ernst & Young is the auditor for Williams Co., which has delayed its fourth-quarter earnings announcement to re-evaluate $2 billion in potential debt and other lease obligations.

``It looks like we are just seeing the tip of the iceberg so far,'' Lehavy said. ``It seems like a major overhaul is due. Hopefully, this crisis will end up giving investors the information they need to determine which companies are applying the accounting rules aggressively and which ones are using them conservatively.''

The gray areas aren't limited to derivatives, the financial instruments widely used among energy traders — an industry regarded as a mine field of potential accounting bombshells.

Even more mundane industries such as retailing polish their balance sheets with the way that they account for their leases, said Brett Trueman, another University of California accounting professor.

Retailers frequently account for the rent at stores as operating leases — a legal technique that lets them keep the obligations off their balance sheets, Trueman said. If they were forced to account for those obligations as capital leases, retailers would have to recognize the future payments as debt on their balance sheets.

In many cases, the definition of what qualifies as an operating lease and a capital lease is a fine line, but the distinction can make a balance sheet look healthier than it actually is, Trueman said.

In banking, the way loans are classified also can make earnings look better than they really are, said Michael Stead, portfolio manager of the Sife Trust Fund, a Walnut Creek mutual fund specializing in financial services stock.

A loan ``held for sale'' must be carried on the books at its current market value — a standard that can result in write-offs that reduce earnings. By classifying a loan as ``held for maturity,'' a bank has more leeway to carry the asset at its original cost even if it has diminished in value.

``All those loans should be accounted for the same way,'' Stead said. ``We need to restore confidence in corporate financial statements.''