

DISCRETIONARY ACCRUALS CASES

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Pawsome Electronics Case

- **Pawsome Electronics manufactures consumer products for dogs**
 - Microchip-enabled food bowls, electric toothbrushes, soothing-sound machines, electric blankets, aromatherapy vaporizers
- **Pawsome was struggling in 2012-3**
 - Hired a new CEO who was a turnaround expert
- **Changes in 2013-4**
 - Increased marketing budget and reduced product line to focus on “winners”
 - Closed 18 of 26 factories and cut workforce from 12,000 to 7,500 employees
 - Implemented new “just-in-time” automatic retail delivery arrangements
- **Pawsome’s CEO engaged in a channel-stuffing scheme in 2014**
 - Manipulated automatic “just-in-time” system to deliver extra goods to retailers just before quarter end
 - Increased revenue, but all noncash
 - Retailers returned excess inventory to Pawsome in the next quarter

Cat Pharm Inc. Case

- **Cat Pharm is a leading manufacturer of pharmaceuticals for cats**
 - Breakthrough drug, Catacnex, was a cure for severe feline chin acne
- **Company allegedly used monopoly position in this drug to coerce health insurance plans and pharmacies to also carry other over-priced medicines produced by the company**
 - In 1996, Company was accused by U.S. Justice Department of monopolistic practices and violation of the RICO Act
 - Company reached settlement with modest fine in 1997
- **In 1998, Company announced it was going to merge with Animaux Méd, a large French pet pharmaceutical company**
 - U.S. Attorney General and European Commissioner for Competition both announced they would seek to block merger to prevent a worldwide monopoly
 - Company claimed that there is no evidence that it is able to earn monopoly profits in its business

Pup Phone Case

- **Pup Phone is a leading manufacturer of phone receivers for dogs**
 - Owners want to telephone their dogs during the workday, but dogs can't pick up phones (lack of opposable thumbs is a big issue)
 - Developed a technology where dog could press snout against a sensor pad to answer phone when a light flashes to indicate an incoming call
- **Company had stagnant growth and lower profits in 2010 and 2011**
 - Competitors also struggling due to market saturation
 - Company Board gives management a “vote of confidence” at annual shareholder meeting
- **In 2012, Pup Phone and competitors roll out new technology products**
 - New “barktooth” technology allows dog to simply bark at the flashing light to answer phone
 - Huge increase in revenues and net income

