5 Financial Statement Fraud Red Flags To Spot Post-Sripetch

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On June 4, 2026, the Supreme Court held in Sripetch v. SEC that the SEC need not prove investors suffered pecuniary loss to obtain disgorgement. In many fraud cases, that moves the central forensic question from what the victims lost to what the wrongdoer gained. The article describes five patterns in a company's financial statements that signal possible manipulation and, for each one, the documents litigators should request and preserve early in a case.

THE FIVE RED FLAGS

1. **Earnings Growth That Outpaces Cash Flow**
   Rising earnings with flat or declining operating cash flow often signals aggressive revenue recognition or channel stuffing.
2. **Related-Party Transactions & Undisclosed Conflicts**
   Insider-controlled deals, unusually favorable terms, or fees never reviewed by an independent board committee.
3. **Journal Entry Anomalies Near Period-End**
   A surge of manual, round-dollar entries booked late in the period is a classic sign of control override.
4. **Revenue Recognition Timing Games**
   Bill-and-hold deals, side letters and unrecognized contingencies ahead of financing rounds or covenant tests.
5. **Inventory & Asset Valuation That Doesn't Match Operations**
   Asset values rising while sales, production or utilization data decline, or impairments delayed despite the data.

READ THE FULL ARTICLE

The full analysis is available from Law360: https://www.law360.com/articles/2507834

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