Analysis of Earnings Management and Accounting Standards in Listed Company

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Abstract: Due to the imperfect governance structure of listed companies, it provides an opportunity for earnings management, which directly leads to the development of accounting standards. However, the development of accounting standards plays an important role in China's listed companies. If earnings management leads to a series of loopholes in accounting information theory, this will directly affect the operation and development of listed companies. If not resolved properly, it will not only lead to a loss of the company, but also lead to the economic recession of our country. This paper discusses the concept of earnings management of listed companies, analyzes the motivation of earnings management of listed companies in China, and discusses the relationship between earnings management and accounting standards of listed companies in China, so as to lay a foundation for balancing the relationship between earnings management and accounting standards of listed companies.

1. Introduction

With the increasingly fierce competition in domestic and foreign markets, the earnings management practices of listed companies have become more and more common. And the influence of the corporate governance structure of listed companies has become a major focus of the modern accounting theorists. The existing problems in the accounting standards and earnings management of listed companies have also seriously affected the current development of capital. The relationship between earnings management of listed companies and accounting standards has also become an influence. Important factors for the development of listed companies. Although the listed companies in our country are constantly developing and progressing, the impact of the accounting standards of listed companies on earnings management has become a major challenge for the development of the times.

2. Conceptual Discussion of Earnings Management of Listed Companies

For the definition of earnings management, different scholars have different opinions. Some scholars believe that earnings management is a form of deception. We believe that earnings management is a control method that is used to maximize the company's profits. Of course, there is also a view that earnings management is not a deception method. It is believed that earnings management is the act of the enterprise to pull surplus funds to another type of investment within the allowable range of accounting standards so as to achieve the expected value. Firms generate earnings management behavior for the choice of accounting policies. It is because in the choice of accounting policies, the choice of space is very free. This will enable the company's managers to use different accounting policies for the benefit of the company. Of course, the business managers can use the accounting policies that are favorable to them to make the statements. The earnings information reaches its own expectations [1]. The flexibility of listed company transactions and the flexibility of internal policies are also one of the reasons for earnings management. The reasons for earnings management are also the decision-making authority for major economic matters. Because the business management authorities are very clear about the series of transactions conducted by the company, then the business managers will use the surplus management for the interests of the company, in order to maximize the interests of the company.

3. Analysis of the Relationship between Accounting Standards and Earnings Management

As a technical specification of accounting, the new accounting standards have been greatly improved in various aspects and can largely inhibit earnings management from the source. However, any accounting standards will have certain limitations. Accounting standards also provide opportunities for earnings management. , leaving room for malicious misuse of accounting standards [2]. Accounting Standards Constraining Earnings Management Accounting standards have a significant effect on the suppression of earnings management: (1) Accounting standards are the basis for the generation and disclosure of accounting information. The accounting information disclosed by the listed company arises from the company's daily accounting practice, and the accounting practice must be conducted in accordance with the norms of the accounting standards. The technical characteristics of the accounting standards determine that the accounting standards will inevitably limit the freedom of the company's management accounting policy choice. (2) Accounting standards are the guarantee of high-quality accounting information. Accounting standards put forward comprehensive requirements for the quality of accounting information and stipulated that financial reports of listed companies must pass the audit of the audit department. Therefore, accounting standards are important reference standards for auditing services. (3) Accounting standards are an important basis for the supervision of audit practice and supervision of the securities regulatory authority. Accounting standards provide some limitations for the accounting rules provided by earnings management. These limitations provide opportunities for companies to perform earnings management. Mainly reflected in: (1) the limitations of accounting assumptions. Accounting assumptions may not always be consistent with objective facts. For example, the accounting staged hypothesis, the accounting staged hypothesis, and the accrual accounting system allow companies to report their operating results in stages, but the resulting “accruals” and “deferred” "Distribution" and "amortization" also provide possibilities for earnings management. (2) Limitations of accounting principles. Accrual accounting needs to follow the principles of revenue and expense recognition and proportioning to handle accounting transactions. However, the causal ratio and time ratio of the matching principle cannot be separated from the manager’s professional judgment. This is the choice for managers. Accounting methods that are beneficial to one’s own interests but cannot accurately reflect the company’s real economic situation provide possibilities. (3) Uncertainty in accounting measurement. The accounting process is inseparable from the measurement activities. Due to the uncertainty of the accounting object itself, accounting measurement often requires assumptions, estimates and judgments on the future development of economic issues. Accounting standards cannot replace professional judgments of management and accountants in financial reports. As long as professional judgments exist, earnings management may occur [3].

4. General Measures for Earnings Management with Accounting Standards

Although enterprise accounting standards are not the root cause of earnings management, due to the flexibility of the design of accounting standards and accounting systems, any company can select from the available accounting policies for the same matters and transactions. A favorable accounting treatment. The use of accounting standards for earnings management is a commonly used method for listed companies. 1. Changing accounting policies and accounting estimates Because accounting for the same transaction or event makes it difficult to determine which accounting policy more accurately and fairly reflects the financial status, operating results, and cash flow of the company, some companies use accounting policies. This feature of change arbitrarily changes the accounting policy. From the actual situation, the use of changes in accounting policies to carry out accounting earnings management methods mainly include the following aspects [4]: (1) changes in the depreciation policy. Fixed assets account for a very large proportion of the total assets of enterprises, and the use of fixed assets has a long-term nature. Therefore, the determination of fixed assets depreciation policies and the impact on corporate profits are significant, and the adjustment of depreciation costs can often play a decisive role in profit. influences. On the other hand, because there are many factors that affect the depreciation of fixed assets, it is easy for listed companies to find reasons to support the depreciation policy for fixed assets. (2) Change the accounting method for bad debt losses. The method of accounting for bad debt losses includes direct write-off method and bad debt allowance method. Under the direct write-off method, only when the bad debt losses occur, the management fees are not included, and whether the accounts receivable are recognized as bad debts still needs artificial estimation. Under the allowance method, provision for bad debts needs to be made on schedule and included in management fees. As a result, companies often hide the real situation, do not confirm the bad debt losses and choose the direct reselling method or change the allowance method to the direct resale method, so as to achieve the purpose of increasing profits. (3) Changes in the merger policy. The group company shall prepare the consolidated accounting statements, and the financial status and operating results of the subsidiaries included in the preparation scope of the consolidated accounting statements will directly affect the results of the consolidated accounting statements. Therefore, which subsidiaries will be merged and which subsidiaries are not merged will become an important issue in the consolidated accounting statements. Due to the direct impact of the change in the scope of consolidation on the consolidated accounting statements, the company can adjust the company's profit by changing the scope of consolidation. (4) Change of inventory valuation method. Inventories usually occupy a large proportion of the company's current assets and even all assets. Therefore, the measurement of its quantity and value directly affects the objectivity of corporate assets and financial results. From the effect of earnings management, the change in inventory valuation method is consistent with the depreciation method, which affects the company's profits through different arrangements for certain time and cost costs. 2. The use of impairment provisions to prepare assets for impairment provision is a category of accounting estimates. The method and proportion of accruals are determined by the listed companies to a certain extent. They are highly subjective and become the secret of many listed companies' earnings management. arms. There are generally the following situations: (1) The proportion of accruals is improper. The withdrawal rate of bad debt preparation is generally determined by the company itself. The listed company makes a reasonable estimate based on past experience, the actual financial status and cash flow of the debt unit, and other relevant information. In this way, some listed companies use the right to choose, and adjust and adjust the proportion of bad debts to increase or reduce accounting profits. This may be used by some companies for earnings management. (2) Withdrawal ratio. In the year when the asset depreciation and provision for bad debt provisions are commenced, which belongs to the accounting policy, retroactive adjustments shall be made to the impairment provision. Although these accounting policies will generally affect the current earnings, but at the same time adjust the beginning of retained earnings, generally speaking, will not have much impact on the current performance. However, when the accrual ratio takes place in the following years, it can only be used as accounting estimates, the reasons for disclosure, and the number of impacts on the current period. When all the adjustments for the current year's proportions are included in the current year's profit and loss, it is possible to use this for earnings management. (3) Redeem back for the previous year. Due to the subjective nature of asset depreciation reserves, accountants can make depreciation reserves more than the year of retroactive adjustment or subsequent years, thereby reducing current profits. When disposing of the assets in the subsequent years, the assets of the corresponding year will be increased by reversing the provision for impairment of assets. (4) Manipulate adjustments and accruals. The first provision for impairment of assets should adopt the method of retrospective adjustment in accounting, not including the annual profit, and only reduce the retained earnings at the beginning of the year and the related amount of assets. This will directly reduce the amount of net assets in the year and will result in When the current period net profit drops, when the decline rate of net assets is greater than the decrease rate of net profit, the return rate of net assets can be increased, so as to achieve the effect of adjusting the financial index. 3. The use of debt restructuring debt restructuring refers to creditors' agreement with the debtor or the court's decision to agree to the debtor's debt modification. It plays an important role in reducing corporate burdens, optimizing corporate capital structure, rejuvenating corporate vigor, and resolving debt. At the same time, debt restructuring will bring benefits to debt companies. The specific methods include: paying off debts with cash, inventory, short-term investments, fixed assets, long-term investments, intangible assets, etc.; converting debts into capital; modifying debt conditions, such as reducing debt principals. Since certain debt proceeds will be generated during the process of debt restructuring, some listed companies with poor performance try to manage accounting earnings through debt restructuring income. However, if companies do not use this as an opportunity to improve their operations and management, revitalize their funds, improve the effectiveness of their funds, and out of financial difficulties, they will still be trapped in financial difficulties even if they can receive one-off debt restructuring gains [5].

5. Conclusion

Earnings management is the result of the game between various interest groups. The market is gradually becoming mature in the continuous game. At the same time, earnings management is also an extension of the sophisticated accounting mechanism, which leads to the continuous emergence of various financial innovation tools. This is also the constant accounting. The driving force for development. However, improper earnings management suffers from drawbacks. Of course, solving the problem of earnings management requires a multi-pronged approach. However, by improving the quality of accounting standards to plug loopholes from the source, it should capture the essence and key points of the problem. Therefore, as the standard setter, the quality of the guidelines should be improved as much as possible, and the formulation and execution of the guidelines should be emphasized so as to guard against improper earnings management behavior to guide and optimize the allocation of resources.

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