

Earnings Management and Accounting Standards of Listed Companies

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Abstract: Under the just enacted timing of the new accounting standards in China, combined with the new trend of domestic and foreign research, this paper turns attention to one of the restricting factors of earnings management - accounting standards. On the base of constructing the basic theoretical framework of earnings management, the paper studies the relationship between earnings management and accounting standards. On the one hand, accounting standards strongly restrict the occurrence of corporate earnings management behavior by formulating the accounting treatment rules of enterprise economic business. On the other hand, due to various reasons, accounting standards can not completely eliminate earnings management, and may even lead to excessive earnings management behavior. On the other hand, the earnings management behavior induces market accounting information crisis in turn, which provides a basis for the development of accounting standards. However, due to the existence of the economic consequences of accounting standards, relevant interest groups, out of their own interests, pose pressure through political means generally expressed as a lobbying pressure on stipulating accounting standards, making the accounting standards cannot be completely neutral.

1. Introduction

The intensified earnings management of listed companies has aroused widespread public concern at home and abroad, and many questions have been raised. Some regulations and regulators ineffective, and some related to specific accounting methods, such as revenue recognition, the use of fair value. More problems are involved in the development of accounting standards, such as the accounting standards reform lagging behind, the specific criteria from the basic accounting standards, including too many exceptions and so on. The status quo of earnings management of domestic and foreign listed companies urge us to think about the following questions Accounting rules exactly what role played in the earnings management of listed companies Whether the earnings management behavior of listed companies will affect the accounting standards development Why accounting standards continue to improve, earnings management has always been unable Elimination of China's newly promulgated 2006 accounting standards in turn will have any effect on earnings management of listed companies Accounting standards and what should be done to improve the thinking of these issues become the motivation for this article [1].

2. Earnings management and accounting standards interaction

In the case of the separation of ownership and management of modern corporate ownership, managers must submit their financial reports to reflect the financial status and operating performance of the enterprise so that they can communicate with stakeholders such as shareholders and creditors. To control the adverse selection and moral hazard issues that managers may have, as a generally accepted accounting standard, it can provide a cost-effective and relatively credible instrument for effective communication between the two parties. The ideal situation is that accounting standards make the difference between well-performing companies and those with poor business performance, so as to promote the effective decision-making of investors and the efficient allocation of resources. For a well-run business, managers have the incentive to disclose accounting information in order to differentiate themselves from businesses that are not doing well. However, in the absence of financial reporting controls, even poorly performing businesses disclose

accounting information and claim they are doing well. As a result, the stock market is in a state of "mixed equilibrium." It is impossible for outside investors and creditors to differentiate between the advantages and disadvantages of enterprises or to choose to leave their capital markets by "voting with their feet" or treat all enterprises as worse than disclosing information. The result will inevitably lead to the decline in stock prices and market interest rates, thereby increasing the cost of financing enterprises. At the beginning of this century, the United States rapidly developed its joint-stock enterprises. Owing to the information asymmetry between managers and owners and the lack of norms for externally disclosing financial reports, the operators decided the accounting procedures and the contents of their reports entirely according to their own wishes. The owners were in grave information Disadvantages, resulting in damage to the interests of external shareholders continue to occur. It is hard to imagine that investors bought stocks but no one provided regular reports, never seen the balance sheet, fabricated earnings reports were thrown impunity, many companies do not even disclose the earnings situation [2].

3. Change of accounting choice and earnings management of listed companies

Changes in accounting options, according to the reasons for its generation is divided into mandatory changes in accounting choices and changes in spontaneous accounting options. Mandatory accounting options change is due to a higher level of accounting system mandatory business make the appropriate changes in accounting choices, such as laws, regulations and government administrative agencies and other voluntary administrative accounting directive changes are entirely due to business management responds to changes in accounting options based on its business objectives and environmental change requirements, taking into account its impact on capital markets and the ability of the firm's future capital to operate. It is noteworthy that, due to the special nature of accounting estimates, it is difficult to make a clear policy on the policy, and therefore changes in accounting estimates are generally spontaneous. The starting point for the change of accounting choice is to ensure the usefulness and reliability of accounting information in enterprises and to avoid the uselessness and misleadingness of accounting information caused by single or static accounting choices. However, in fact, the change of spontaneous accounting choices has become one of the most important means of earnings management for many listed companies. Management is motivated by its own interests, through legitimate and unreasonable changes in the spontaneous accounting options for smooth returns, huge write-offs and even policy incentives such as the direct use of voluntary accounting changes in the selection of means to achieve no loss or meet the rights issue, additional purposes. The compulsory accounting changes in the listed company outside the control of the regulatory authorities, listed companies can only follow the implementation of earnings management can not be achieved through its purpose. Therefore, this section only deals with changes in spontaneous accounting choices [3].

Defining assets as "expected future economic benefits" summarizes the nature of the assets and also the purpose of holding the assets of the business. Professor Ge Jiapeng also pointed out that "from a going concern, the purpose of holding assets is to obtain future economic benefits." From a theoretical point of view, if assets are defined as the expected future economic benefits, Then when an asset has been completely scrapped or destroyed and no longer has future economic benefits or has future economic benefits but falls below its carrying value and fails to retain the originally expected economic benefits, The nature of assets, assets should be adjusted to the carrying amount. Various uncertainties such as the impact of domestic and international economic environment, technological progress, changes in the securities market, etc. all increase the market risk. In such circumstances, the expected future economic benefits of the asset may be lower than its carrying amount, the difference between them is the asset impairment, accounting for the impairment of assets to confirm, measurement, record and disclosure is the asset impairment accounting. Although the intention of the impairment policy is to reflect the financial status and operating results of the enterprise more truthfully, it is often used as a tool for the earnings management of listed companies because of the large choice and judgment space in the accounting treatment of assets impairment. Including large write-offs, excessive retrospective adjustments, shortfalls in provision for

impairment and provision for changes in impairment allowances. The following is verified by a typical case.

4. Accounting Standards on the Earnings Management of Listed Companies

The scope of the consolidated financial statements was enlarged to eliminate the listed companies' efforts to reduce the proportion of shareholdings, separate several subsidiaries and eliminate the non-performing ones from the scope of consolidation, so as to embellish the overall performance of the enterprise groups. The new standard for the measurement of subsidiaries is based on the control, not the proportion of equity. All subsidiaries controlled by the parent company should be included in the scope of consolidation, including small-scale subsidiaries, subsidiaries with special business nature and subsidiaries with negative net assets [4]. The consolidated statements prepared in accordance with this provision will truly reflect the operating results and financial position of the entire enterprise group, reflecting the shift from focusing on the parent company theory to focusing on the substantive theory. The back-in-first-out method of eliminating the valuation of inventories has been canceled so that the stock circulation of listed companies can be truly reflected. According to the original principle, when the inventory price is in the period of rising, if adopt the first-in, first-out, the inventor will record the highest cost into the current cost and reduce the profit of the current period. If the first-in-first-out method is adopted, the inventory will be charged at the lowest cost, Increase the profit of the current period When the stock price is in decline period, the opposite is true. The new accounting rules have eliminated the first-in-first-out method. All of the company's current inventory costs have been reflected in objective historical costs, which has strengthened the comparability of accounting information. The ways in which listed companies managed their earnings by using the inventory valuation method were completely blocked. Impairment provision of some assets may not be reversed upon provision. This regulation can effectively reduce the use of asset impairment provisions made by listed companies and the transfer of profits in different accounting periods. The receivables are treated as financial assets under certain conditions and require that there is "objective evidence that an impairment has been made to make a full provision for bad and doubtful debts. The evidence includes serious debtor financial difficulties, the possibility of bankruptcy or other debt restructuring. In the past, the practice of "withdrawing full payment this year and withdrawing it in full force next year" will no longer be applicable. However, the provision that the provision for impairment can not be reversed can only be reversed if the provision for impairment of some assets, inventories, consumable biological assets and deferred tax assets are still eligible.

5. Suggestions to Improve Accounting Standards

The efficiency of China's accounting standards-setting agencies need to be improved. Efficient and independent norm-setting institutions can ensure the quality and continuity of accounting standards, track down the problems found in the implementation of the new guidelines and correct them promptly. At present, China's financial department is responsible for formulating and supervising the implementation of accounting standards. Due to the limitation of the administrative departments' cognition to the accounting practice, they have to rely too much on the scholars' opinions in the process of making accounting standards, ignoring or failing to get the advice of the enterprises, resulting in the inefficiency of the norm-setting and the ineffective implementation. Therefore, I believe that we can consider the establishment of an independent accounting standards-setting body to gather information and advantages of academia and business, to develop a higher recognition of accounting standards. At the same time, the financial sector can also focus on the supervision and implementation of accounting standards [5].

Second, we need to strengthen audit supervision. Auditing is effective control over accounting. Therefore, high-quality auditing standards and CPA's independent practice are effective guarantees for the implementation of accounting standards. China's newly issued audit standards and related audit regulations, the basic form a complete system, but for the CPA's independent practice is still

lack of practicing pledges. To strengthen the independence of certified public accountants and to strengthen the supervision over the quality of certified public accountants is the most practical and effective way to reduce the earnings management of listed companies. Finally, the passive situation of China's accounting standards regulation needs to be changed. The remedy of oversight has seriously damaged the credibility of accounting standards and caused enormous economic problems. Proactive regulation requires forward thinking of accounting standards setting bodies and requires full coordination of the relevant departments. More importantly, China's post-disciplinary punishment of accounting irregularities is not severe enough, and the cost of illegal operation of listed companies is too low, so it is difficult for accounting standards to form the due force. The author believes that our country can draw lessons from the U.S. "Sarbanes-Oxley Act" and introduce special laws to increase the penalties for accounting irregularities such as excessive earnings management.

6. Conclusions

Among the many controls on earnings management, accounting standards play a crucial role. Because of the technical characteristics of accounting standards, it not only limits the freedom of management accounting choice, improves the disclosure quality of accounting information, but also becomes the important basis of audit practice and securities supervision. However, due to the remaining options and technical limitations of accounting standards, it can not completely eliminate earnings management and may even lead to earnings management behavior of listed companies. From another point of view, the earnings management behavior of an enterprise will also have an adverse effect on the formulation of accounting standards. On the one hand, accounting standards have economic consequences. Such economic consequences appear to affect the distribution of profits among different subjects. As a result, interest groups use political means Put pressure on the norm-setting body, making the accounting standards can not completely maintain neutrality, this kind of political means also belongs to the earnings management behavior in a broad sense. On the other hand, the excessive market-based accounting information crisis caused by the earnings management behavior is in turn the accounting standard Provide a basis for the formulation, so as to promote the further improvement of accounting standards.

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