Earnings Management Vs Financial Reporting Fraud Key

FINANCIAL REPORTING, FINANCIAL STATEMENT ANALYSIS, AND VALUATION, 8E is written with the premise that students can learn financial statement analysis most effectively by performing the analysis on real-world companies. Wahlen/Baginski/Bradshaw's textbook will teach students how to integrate the concepts from economics, finance, business strategy, accounting, and other business disciplines through a unique six-step process. New to this edition, chapters now include quick checks after each section so that students can be sure that they have obtained the key insights after reading each section.

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This book provides researchers and scholars with a comprehensive and up-to-date analysis of earnings management theory and literature. While it raises new questions for future research, the book can also be helpful to other parties who rely on financial reporting in making decisions like regulators, policy makers, shareholders, investors, and gatekeepers e.g., auditors and analysts. The book summarizes the existing literature and provides insight into new areas of research such as the differences between earnings management, fraud, earnings quality, impression management, and expectation management; the trade-off between earnings management activities; the special measures of earnings management; and the classification of earnings management motives based on a comprehensive theoretical framework.

Essay from the year 2017 in the subject Business economics - Accounting and Taxes, grade: A, University of Nairobi, language: English, abstract: This paper discusses the motives behind earnings management and explains some of the methods used by firms to manage their earnings. Earnings management has been defined differently by a number of scholars. It is important to note that there is a thin line between fraud and earnings management. Hamid, Hashim and Salleh citing the works of Brown, Perols and Lounge and Erickson, Hanlon and Maydew noted the difference in the definitions that are offered by the scholars. According to Perols and Lounge organizations will engage in fraud due to the constraints on earnings management. The research found out that the firms that had engaged in earnings management will be more likely to be involved in cases of fraud. Brown and Erickson et al noted that the difference between earnings management and fraud is that earnings management is usually within the scope of the generally accepted accounting principles (GAAP) while fraud is outside of the boundaries of GAAP. Earnings management has been defined as the manipulation of the financial statements and reports by the managers so that the firms can earn extra profit. It has also been defined as the action where the management of the organizations apply their own self-assessment in the
communication of the financial information and transactions to modify the financial data for two main reasons: 1) influencing contractual businesses that solely rely on the financial information or 2) providing the stakeholders with a wrong impression about the financial position of the firm. 

Praise for The Financial Numbers Game "So much for the notion 'those who can, do-those who can't, teach.' Mulford and Comiskey function successfully both as college professors and real-world financial mercenaries. These guys know their balance sheets. The Financial Numbers Game should serve as a survival manual for both serious individual investors and industry pros who study and act upon the interpretation of financial statements. This unique blend of battle-earned scholarship and quality writing is a must-read/must-have reference for serious financial statement analysis." --Bob Acker, Editor/Publisher, The Acker Letter

"Wall Street's unforgiving attention to quarterly earnings presents ever increasing pressure on CFOs to manage earnings and expectations. The Financial Numbers Game provides a clear explanation of the ways in which management can stretch, bend, and break accounting rules to reach the desired bottom line. This arms the serious investor or financial analyst with the healthy skepticism required to drive beyond reported results to a clear understanding of a firm's true performance." --Mark Hurley, Managing Director, Training and Development, Global Corporate and Investment Banking, Bank of America

"After reading The Financial Numbers Game, I feel as though I've taken a master's level course in financial statement analysis. Mulford and Comiskey's latest book should be required reading for anyone who is serious about fundamentally analyzing stocks." --Harry Domash, San Francisco Chronicle investing columnist and investment newsletter publisher

Essay from the year 2015 in the subject Art - Arts Management, language: English, abstract: Despite the regulatory reforms targeted at limiting aggressive earnings management and financial reporting continues to be a major concern of the regulators, standards setters and the industry practitioners. To bring the practice to light and offer mitigative solutions, the paper carries out an experiment to investigate the impact of two independent variables on the discretionary CFO's expense control. Incentive conflict, one of the independent variable is manipulated at two different levels (past and present). EM-Ethics (earnings management ethics) is the other CFOs independent variable (low vs. high). And it is measured as the CFOs assessment of the ethicalness of the primary earnings management motivations. We discover that the EM-Ethics and incentive conflict interact to determine the discretionary accruals for the CFOs such that (a) when the incentive conflict is absent, the CFOs with high (low) EM-Ethics do tend to resist (give in) the corporate incentive through booking higher (lower) expense accrual. (b) when the incentive conflict is absent, the CFOs with (high) low EM-Ethics do tend to resist (give into) the incentive through booking (lower) higher expense accruals. The practical and theoretical implications of the research findings are discussed.
This dissertation studies the multiple roles of chief executive officers (CEOs) and financial information, and it consists of four chapters. Chapter 1 reviews selectively the literature on: (i) the determinants and the consequences of CEO turnover; (ii) the relationship between CEO turnover and earnings management; and (iii) the effects of CEO career concerns and overconfidence on financial reporting. The CEO turnover literature finds robust evidence that CEO turnovers are preceded by poor accounting performance or poor stock market performance. There is also extensive evidence for the relationship between CEO turnover and earnings management and for the effects of CEO overconfidence on financial reporting. However, there is inconclusive evidence regarding market reactions to CEO turnover announcements, post-turnover performance improvements, the relationship between earnings quality and CEO turnover, and the effects of career concerns on financial reporting. Chapter 2 addresses the following question. In the wake of recent financial crises and corporate failures, CEOs are often blamed for their overconfidence leading to earnings manipulation and excessive risk. How is it then that these overconfident CEOs obtain job offers in the first place? In an agency model with CEO overconfidence and public regulation, this paper provides conditions under which earnings manipulation and CEO overconfidence can increase the ex ante firm value and the interim market valuation of the firm. Moreover, it is socially optimal for a regulatory body to impose a lenient policy on earnings manipulation rather than a zero-tolerance policy. These results provide an explanation for why earnings manipulation and CEO overconfidence can co-exist even under firm-value-maximizing corporate governance and public regulation. The dark side, however, is that the firm bears greater risk and is more likely to go bankrupt ex post. Chapter 3 examines the effects of market competition on CEO hiring decisions by firms in a Cournot model where the hired CEOs determine the research and development investment and production level for their respective firms. The central result is that CEO overconfidence and the intensity of market competition (measured by the number of firms in the industry) have an inverted U-shaped relationship. This suggests that, in equilibrium, firms in an oligopoly hire CEOs with relatively greater overconfidence than do firms in a duopoly. As the market tends towards being perfectly competitive, strategic concerns vanish and firms hire realistic CEOs. Chapter 4 explains a ‘big bath’, a phenomenon where a CEO manipulates a company’s income statement to make poor results look even worse. In a financial reporting game played by an outgoing CEO, an incoming CEO, and outside investors in the capital market, this study identifies conditions under which a big bath can be sustained as an equilibrium outcome. In particular, when the earnings report issued by the outgoing CEO is sufficiently low, the incoming CEO’s reporting strategy will feature a big bath. The paper also generates several predictions relating the likelihood of a big bath, the sensitivity of a CEO’s reporting strategy to true earnings and a prior earnings report, and the sensitivity of the stock price to earnings reports.

A burgeoning area of research in the field of accounting concerns the impact of social ties on the quality of financial reporting. No research, however, has studied the impact of the link between the quality of financial reporting and social ties involving a Chief Executive Officer (CEO) and a Chief Financial Officer (CFO). Executives—e.g., the CEO and the CFO—members of the board of directors, the audit committee, and external auditors often share many social ties. These social ties include common educational background, shared previous or current
employment experiences, and memberships in religious, charitable, professional, and social organizations. Social ties can improve communications, but at the same time they can reduce the effectiveness of monitoring processes and consequently decrease the quality of financial reporting. This study investigates the impact of CEO-CFO social ties on financial reporting quality as revealed by accruals-based earnings management and financial restatements. This study also examines whether a CFO who has obtained a CPA license is more likely to resist the influence of CEO-CFO social ties on financial reporting quality. Analyzing publicly traded companies in the United States for a period starting in 2001 and ending in 2016, this study finds evidence that CEO-CFO social ties are positively associated with accruals-based earnings management and with the likelihood of financial restatements. This study also finds that holding a CPA license by a CFO moderates the association between CEO-CFO social ties and the likelihood of financial restatements.

This book is a study of earnings management, aimed at scholars and professionals in accounting, finance, economics, and law. The authors address research questions including: Why are earnings so important that firms feel compelled to manipulate them? What set of circumstances will induce earnings management? How will the interaction among management, boards of directors, investors, employees, suppliers, customers and regulators affect earnings management? How to design empirical research addressing earnings management? What are the limitations and strengths of current empirical models? Wahlen/Baginski/Bradshaw is a balanced, flexible, and complete Financial Statement Analysis book that is written with the premise that students learn financial statement analysis most effectively by performing the analysis on actual companies. Students learn to integrate the concepts from economics, finance, business strategy, accounting, and other business disciplines through the integration of a unique six-step process. Important Notice: Media content referenced within the product description or the product text may not be available in the ebook version.

Now readers can learn how to conduct financial statement analysis most effectively by performing analyses on real-world companies. Wahlen/Baginski/Bradshaw's FINANCIAL REPORTING, FINANCIAL STATEMENT ANALYSIS, AND VALUATION, 9E provides a complete, balanced approach as the authors demonstrate how to integrate concepts from economics, finance, business strategy, accounting, and other business disciplines through the book's unique six-step process. Quick checks after each section ensure readers have mastered key insights. In addition, integrative and continuing cases highlight financial reporting in the familiar companies, including Starbucks and PepsiCo. Important Notice: Media content referenced within the product description or the product text may not be available in the ebook version.

This book provides a critical analysis of the current state of knowledge on the relationship between family firms and a wide range of accounting choices, including earnings management, accounting conservatism, and financial and non-financial disclosure. In examining the choices made in family firms, the authors explore and elucidate the relevance of agency, socioemotional wealth, stewardship, and resource-based theories. Readers will also find close consideration of the impacts of a country's culture and societal values on accounting choices. In particular, further evidence is provided on the impact of different cultures on accounting conservatism in family businesses. Finally, avenues for future accounting research on family firms are discussed, highlighting theoretical and empirical challenges. In addition to offering a revealing analysis of the influence of ownership types and cultures on accounting choices within family firms, the book identifies significant practical implications for the management of family firms and policy implications for regulators and standard setters.

The text and images in this book are in grayscale. A hardback color version is available. Search for ISBN 9781680922929. Principles of Accounting is designed to meet the
scope and sequence requirements of a two-semester accounting course that covers the fundamentals of financial and managerial accounting. This book is specifically designed to appeal to both accounting and non-accounting majors, exposing students to the core concepts of accounting in familiar ways to build a strong foundation that can be applied across business fields. Each chapter opens with a relatable real-life scenario for today's college student. Thoughtfully designed examples are presented throughout each chapter, allowing students to build on emerging accounting knowledge. Concepts are further reinforced through applicable connections to more detailed business processes. Students are immersed in the "why" as well as the "how" aspects of accounting in order to reinforce concepts and promote comprehension over rote memorization. This book provides an overview of earnings quality (EQ) in the context of financial reporting and offers suggestions for defining and measuring it. Although EQ has received increasing attention from investors, creditors, regulators, and researchers in different areas, there are various definitions of it and different approaches for its measurement. The book describes the relationship between EQ and earnings management (EM) since they can be considered related challenges, especially in the context of international financial reporting standards (IAS/IFRSs). EM occurs when managers make discretionary accounting choices that are regarded as either an efficient communication of private information to improve the informativeness of a firm’s current and future performance, or a distorting disclosure to mislead the firm’s true performance. The intentional manipulation of earnings by managers, within the limits allowed by the accounting standards, may alter the usefulness of financial reporting and lead to lower quality of earnings. The use of fair value in financial reporting has created a current debate about the impact it might have on EQ. At times, the high subjectivity in estimating fair value can allow opportunities for the exercise of management judgments and intentional bias, which can reduce the quality of financial reporting. Management discretion can result in high EM and hence in a reduction of EQ. Particularly during difficult financial periods, managers engage in EM to mask the negative effects of the turmoil, and in such circumstances accruals and earnings smoothing are attempts to reduce abnormal variations of earnings in such circumstances. This book is a valuable resource for those interested in wider perspectives on EQ and it adds to the research studies on this topic in the context of financial reporting.

Financial Reporting on Earnings Management
The Internet bubble has collapsed and the largest bankruptcy in US history, Enron, has made the call for greater transparency in financial reporting more important than ever. Andrew Higson draws attention to what is a 'true and fair view' in reporting and critically examines accounting theory and modern practice.

Techniques to uncover and avoid accounting frauds and scams Inflated profits . . . Suspicious write-offs . . . Shifted expenses . . . These and other dubious financial maneuvers have taken on a contemporary twist as companies pull out the stops in seeking to satisfy Wall Street. Financial Shenanigans pulls back the curtain on the current climate of accounting fraud. It presents tools that anyone who is potentially affected by misleading business valuations from investors and lenders to managers and auditors can use to research and read financial reports, and to identify early warning signs of a company’s problems. A bestseller in its first edition, Financial Shenanigans
has been thoroughly updated for today's marketplace. New chapters, data, and research reveal contemporary "shenanigans" that have been known to fool even veteran researchers.

Line-Item Analysis of Earnings Quality provides a comprehensive summary and analysis of the specific earnings quality issues pertaining to key line item components of the financial statements. After providing an overview of earnings quality and earnings management, Line-Item Analysis of Earnings Quality analyzes key line items from the financial statements. For each key line item, the authors: review accounting principles, discuss implications for earnings quality, evaluate the susceptibility of the item to manipulation, describe analyses and red flags which may inform on the item's quality.

Accounting and finance are common terms for users of financial information. Nowadays, the reporting of financial as well as non-financial information of an entity, and efficiency in the banking system, are considered to be important issues by creditors, investors, and managers of financial markets. Over four sections this book addresses topics including national accounting standards and financial statement disclosure; foreign direct investment and the roles of accounting valuations and earnings management during the global financial crisis; and bankruptcy risk, banking efficiency, and debt restructuring in the United Nations General Assembly Resolution.

"The selective misrepresentation of financial information due to earnings management" has the primary aim to build an updated framework of the earnings management phenomenon, distinguishing, as the subtitle suggests, its theoretical aspects, the model specifications that scholars used to detect it and, furthermore, providing the empirical evidence about whether and how earnings management changed after the occurrence of certain events, by having as a reference the European countries. In the first chapter of the work, everyone interested in the theoretical aspects of earnings management can deepen its knowledge within the selective misrepresentation of financial information concept. In the second and in the third chapter, the reader can deepen the models which can be used to detect the misrepresentation of financial information due to earnings management. In this regard, we use an evolutionary approach to discuss the strengths and the weaknesses of the different methodologies that, over time, scholars used to detect earnings management. In detail, we discuss the so-called "first-generation" models, the ratio analysis, and the "second-generation" models. In the fourth and in the fifth chapter, we investigate whether earnings management changed after the introduction of the IASB standards in the EU and the burst of the recent financial crisis. Finally, in the conclusions of the book, we discuss the most recent works published by scholars in academic journals, in order to identify the reasons why scholars continue to be interested in earnings management.
Accounting has often been described as the language of business. As the increasing competition of overseas markets begins to affect even the smallest local companies, many more business professionals must become fluent in accounting principles and practice. Standardization of Financial Reporting and Accounting in Latin American Countries highlights the recent move to International Financial Reporting Standards (IFRS) and addresses some of the concerns raised due to cultural differences and the level of enforcement of these standards in separate countries. Describing the evolution of both financial and managerial accounting due to the adoption of IFRS, this book is an essential reference source for both students and seasoned professionals in the fields of accounting, finance, and related management fields, especially those with an international emphasis.

Earnings management is an issue that directly affects the overall integrity and quality of financial reporting and to date, many studies have been conducted in an attempt to gain an understanding of whether firms are engaging in earnings management, why they do so, what are the motives that drive managers' discretionary behaviour, what are the economic consequences and whether investors can see through this behaviour? In this book, Chapter One reviews the developments and the trends in the contemporary earnings management research and discuss several possible avenues for future research. Chapter Two provides an overview of the most recent studies on earnings management in relation to the financial crisis and the institutional environment and firm characteristics. Chapter Three provides a description of the nowadays most commonly used methods for measuring earnings management in accounting and finance literature. Chapter Four examines earnings management and corporate social responsibility as an entrenchment strategy.

Seminar paper from the year 2017 in the subject Business economics - Accounting and Taxes, grade: 1.3, language: English, abstract: This paper studies the relation between audit and earnings quality. It examines whether firms audited by a Big 4 member engage in higher earnings management activities as proxied by the magnitude of discretionary and absolute accruals, as well as an income smoothing measure. The author predicts that large auditors have higher competencies and incentives to deliver a higher quality audit. Therefore, their clients are expected to reveal less sophisticated earnings management and thus higher earnings quality. The results do not support this relation. Since standardsetters have been concerned about managers' use of discretion to manage earnings in their financial reports, an increasing amount of empirical research was conducted to address this issue, additionally to regulation. While independent auditors (aim to) assure that these statements are in accordance with legal compliance, the actual audit quality can be grasped as the contingency that the auditor exposes and discloses an anomaly in their clients' financial reports. Whereas numerous audit scandals threaten the trustworthiness of well-known large auditors, there is various research revealing that Big N audited firms are supposed to disclose financial reports of higher quality. Supplementing misleading accrual accounting practices in this regard, this study also addresses another proxy for earnings management: income smoothing. Burgstahler and Dichev (1997) explain corporate income smoothing with the fact that managers avoid revealing earning decreases and losses to diminish costs arising from transactions with stakeholders. Similarly, Degeorge, Patel and Zeckhauser (1999) show that managers smooth earnings to meet analysts' forecasts. On the other hand there are various contrary studies. DeFond and Jimbalvo (1993) found that auditor-client disagreements resulting from earnings management, are more present in Big 4 audited firms. They explain this with the properties of the “common” Big 4 clients. For the reason of the ambiguous results, it is interesting to study the effects and compare them with prior evidence to answer the question whether Big 4 auditors deliver “higher” quality in terms of a “better” financial reporting. The terms are
Earnings Management, Conservatism, and Earnings Quality reviews and illustrates earnings management, conservatism, and their effects on earnings quality in an economic modeling framework. Both earnings management and conservative accounting introduce biases to financial reports. The fundamental issue addressed is what economic effects these biases have on earnings quality or financial reporting quality. Earnings Management, Conservatism, and Earnings Quality reviews analytical models of earnings management and conservatism and shows that both can have beneficial or detrimental economic effects, so a differentiated view is appropriate. Earnings management can provide additional information via the financial reporting communication channel, but it can also be used to misrepresent the firm's position. What the authors find is that similar to earnings management, conservatism can reduce the information content of financial reports if it suppresses relevant information, but it can be a desirable feature that improves economic efficiency. The approach to study earnings management, conservatism, and earnings quality is based on the information economics literature. A variety of analytical models are reviewed that capture the effects and subtle interactions of managers’ incentives and rational expectations of users. The benefit of analytical models is to make precise these, often highly complex, strategic effects. They offer a rigorous explanation for the phenomena and show that sometimes conventional wisdom does not apply. The monograph is organized around a few basic model settings, which are presented in simple versions first and then in extensions to elicit the main insights most clearly. Section 2 presents the basic rational expectations equilibrium model with earnings management and rational inferences by the capital market. Section 3 is devoted to earnings operationalized using a dis-cretionary accruals and income smoothing measure and analyzed for (non-)Big 4 audited UK-firms in the period 2005-2011.
quality and earnings quality metrics used in many studies. Section 4 studies conservatism in accounting. Finally, the authors examine the interaction between conservatism and earnings management. Each section ends with a section containing a summary of the main findings and conclusions.

The fiscal market is an unpredictable torrent of information that modern organizations strive to understand. Business professionals dedicate themselves to understanding uncertain results around economic performance to improve management, reporting standards, and predict trends in financial statements. International Financial Reporting Standards and New Directions in Earnings Management is an essential reference source that discusses identifying the behavioral patterns of managers and the accounting policies they use in different opportunistic circumstances. Featuring research on topics such as earnings quality, risk reports, and investor protection, this book is ideal for regulatory authorities, accountants, impression managers, auditors, academics, students, and researchers seeking coverage on the theoretical, empirical, and experimental studies that relate to the different themes within earnings management.

The competitive nature of organizations in today’s globalized world has led to the development of various approaches to increasing profitability and maintaining an advantage over rival companies. As technology continues to be integrated into business practices, specifically in the area of accounting and finance, professionals and educators need to be prepared for advancing economic techniques, and they need to maintain a high level of financial literacy. The Handbook of Research on Accounting and Financial Studies is a pivotal reference source that provides vital research on advanced knowledge and emerging business practices and teaching dynamics in the fields of accounting and finance. While highlighting topics such as cost-benefit analysis, risk management, and corporate governance, this publication explores new initiatives in entrepreneurship and performance management. This book is ideally designed for business managers, consultants, entrepreneurs, auditors, tax practitioners, economists, accountants, academicians, researchers, and students seeking current research on modern advancements and recent findings in accounting and financial studies.

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