

Management of Earnings in Corporate Office

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Abstract: In view of the rising concern over the quality of financial reporting by the Indian commercial especially after a series of commercial scams in the recent times, this study is motivated in the hunt of various earnings management practices of the listed Indian enterprises that have an important bearing on the quality of financial reporting by the Indian commercial. Presumably similar earnings management practices have also some part in recent commercial scams. Although it cannot be denied that earnings management has an important part to play on the quality of financial reporting of Indian enterprises and on public perception about enterprises, yet there are no substantial empirical studies in India on the issue. Either, there's a severe dearth of the theoretical and empirical literature on the issue in developing nations. The present study intends to contribute towards the literature on the earnings management especially the real earnings management in the Indian listed enterprises. In terms of the impact of macroeconomic terrain, the study examines whether there has been a change in the earnings management behaviour of the Indian listed enterprises during the Global Financial Crisis of 2008 vis- à-vis the non-crisis period. By examining the relationship between the earnings management in enterprises and its future performance, the study intends to understand whether earnings management signals future prospects of the establishment to outlanders or help directors to make private earnings by rehearsing opportunistic earnings management. Fastening on the real earnings management- considered to be more value mischievous for the establishment than accrual management- the study explores the part of directorial capability towards confining REM in enterprises. The findings of the study might give significant information to investors, controllers, board of directors and other stakeholders for effective decision- making in commercial.

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Introduction It is not easy to find a single and completely accurate definition of earnings management. Different experts have various opinions on the definition of the issue, which is why several definitions have been created over time. However, they all agree that when using earnings management, companies achieve specific goals by being able to adjust and, to some extent, manipulate their financial results. In history, a large number of examples of different adjustments to financial results in companies can be found. In most cases, the adjustments were made because of financial problems that engulfed the entire company. If the company wanted to continue operating and did not want to lose its reputation, it was necessary to adjust its financial statements. Managers are aware that, by using earnings management models and tactics, they have to accept a certain loss of future cash flow in order to achieve the desired values of short-term indicators and maintain appropriate corporate performance (Guluma 2021).

The models, which are commonly used to detect earnings management practices, use the calculation of accruals, which was proven to be a successful measure of earnings manipulation (Beslic

et al. 2015). The method of detecting possible manipulation of accounting statements via accruals was created by Jones (1991). A nondiscretionary accrual is a compulsory expense that has not yet been realized but is already recorded in the accounting book. A discretionary accrual is an optional expense that has not yet been realized but is already recorded in the accounting book. Using these mandatory and optional expenses not yet realized, the management of the company can manipulate statements for the purpose of the already mentioned income smoothing (Mantone 2013). Jones (1991) claimed that, as nondiscretionary accruals increase, discretionary accruals decrease, and vice versa. The value of nondiscretionary accruals can be compared with the total value of assets, and, if this comparison shows a lower value of nondiscretionary accruals in some periods compared to other periods, this indicates an increase in discretionary accruals compared to other periods and, therefore, possible manipulation of financial statements. Many other models and methods dealing with the issues of creative accounting, earnings management, and financial statement manipulation are based on the explanatory power of accruals, in addition to the Jones model of nondiscretionary accruals. Sloan (1996), Teoh et

al. (1998), Jeter and Shivakumar (1999), Kasznik (1999), Key (1999), D echow and Dichev (2002), and their modifications of the original model can be included among the most important. Siekelova et al. (2021) investigated the detection power of the modified Jones model, industry model, and the Kothari model in the conditions of the Visegrad countries. Analyzing the enterprises in the context of the country and firm size, they proved that the modified Jones model or its modifications achieve the best results in this environment.

Thus, the primary aim of this article was to identify the association between firm-specific features and earnings management behavior (neutral, aggressive, or conservative earnings management practices) measured by discretionary accruals using a sample of 15,716 Slovak businesses with total assets of at least 300,000 EUR during a 3 year period (2017–2019). The COVID-19 pandemic-affected years were not included in the analysis because they would have potentially skewed the findings. To make sure that the selection of businesses was not just dependent on the size or volume of turnover, purposeful sampling was used; thus, a limitation on total assets was set. By adopting the Kasznik model (1999), discretionary accruals were used to gauge the level of earnings management. In numerous investigations, the Kasznik model's use was successful (e.g., Veronica and Bachtiar 2005; Merdani et al. 2020; Parwar et al. 2021). Beslic et al. (2015) applied models for earnings management detection in the Serbian economic context, stating that this model had the best industrial sector explanatory power. The Kasznik model was utilized by Nazir and Afza (2018) to analyze the relationship among reported earnings manipulation, corporate governance, and business value. Analysis of the situation in Slovakia was undertaken as a result of prior studies mapping the relationship between firm-specific features and earnings management techniques (e.g., Bassiouny et al. 2016; Alareeni 2018; Das et al. 2018; Saona et al. 2020; Valaskova et al. 2021).

Thus, the originality of the study can be perceived on two levels: (i) the study maps the situation in Slovak conditions where the earnings management phenomenon has not been sufficiently explored yet and the results may be useful for all parties concerned; (ii) the robust sample of enterprises with different firm-specific characteristics enables thorough investigation of earnings management practices. The study also presents the results of the practical application of the Kasznik

model and the use of a multivariate statistical technique in the process of earnings management detection, which is its main contribution to the field. The paper's practical contribution is the evidence of the substantial disparities in earnings management practice, which are associated with specific firm features. However, a review of previously published research papers revealed that earlier research mostly concentrated on certain factors that affect earnings management behavior in various national contexts. The investigation in the central European area is underdeveloped (e.g., Durana et al. 2022a; Kliestik et al. 2021); therefore, this paper aimed to fill this knowledge gap by demonstrating associations between earnings management practices and firm-specific features in the Slovak environment.

The Need of Financial Performance

A financial statement is a high medium through which meaningful and pivotal financial information about a business reality is communicated to its stakeholders. The creditors, investors and various other stakeholders calculate on the information supplied through financial statements report to make informed opinions about their investment portfolio. Still, the legality of similar opinions would depend upon the delicacy and fairness with which similar information is prepared by companies. Considering the series of commercial scams across the world, the straits and worries of stakeholders and their queries about the credibility of reported financial numbers cannot be ignored. The enterprises of various authors over the reported earnings numbers of commercial from the arising husbandry is justified when that's considered against the background of a limited number of studies on earnings management from the commercial sector of developing countries and the frequency of wide commercial scams across the world similar as the Enron and WorldCom scams in developed countries similar as the US, and Satyam Computers fiddle of 2009 in developing countries similar as India. Public companies face immense pressure to meet or beat specific earnings targets that are represented either by the once time's earnings figure or the standard earnings set by the market analysts. However, its character in the market is jeopardized, causing its stock price to fall, if an establishment fails to meet these marks. The falling stock prices, in turn, affects the credibility of its directors and their compensation is affected negatively. The directors, thus, are more likely to use their discretion in counting choices or in operating opinions to meet similar marks in order to report economic earnings for the establishment. The account figures are thus subject to directorial manipulations

for favourable perk impulses to its directors and/ or to avoid debt covenant violations to meet and/ or to beat earnings thresholds etc. The frequency of weak commercial governance system increases the chance of similar malpractices being espoused by the commercial in developing nations. Developing countries therefore need to be more conservative of similar account abuses by discretion of the big commercial house management.

Earning the Basic Financial Feature of Corporates

Earning is the nethermost line income is the most important item in a financial statement of a company. It symbolizes the underpinning profitable performance of an establishment. In fact, the valuation models in finance consider the present values of future earnings of a company to be the value of its stocks or equities. The value of stocks or equities determines the market value of the establishment. Increased earnings signify an increase in a establishment's value and vice-versa. The investors and other stakeholders relate to the reported earnings figure, along with other pointers of a establishment's performance, for their investment opinions. It, thus, becomes important for the management to report favourable earnings in the financial statements. Therefore, directorial part on how favourably the earnings numbers are to be reported in the financial statement of a establishment becomes all the more important. In other words, reported earnings are generally managed in a financial report of a establishment. Before moving on to earnings management, it's important to understand why earnings are so important to be susceptible to directorial manipulations. In the general perception of the users of financial statements, earnings are regarded to be the ultimate performance measure of a establishment. still, there are other important factors of a financial statement of a establishment similar as earnings, capital expenditures, cash overflows from managements, means, debts etc. that may turn out to be more applicable performance measures for certain enterprises in certain diligence. Various authors has identify several other performance pointers pertaining to the standard and poor's Assiduity checks besides earnings. Despite the actuality of various indispensable index of establishment's performance, earnings of an establishment are the simplest measure of a establishment's performance in the market place. For different stakeholders of a establishment, earnings as a establishment's performance are the most popular measure. The following section discusses the applicability of earnings as an

establishment's performance measure to different stakeholders of the establishment.

Impact of Global Financial Crises on Earning Management

The results show that enterprises managed supplements both in the pre-GFC and during the GFC period. Still, there was a significant decline in accrual management during the GFC period. The results are robust for both income- adding accrual management and income- dwindling accrual management. Further, the results of difference- in- difference(DID) analysis indicate that the intensity of upward earnings management is further than downcast earnings management among listed non-financial Indian enterprises. These results indicate that earnings management is a pervasive miracle that compromising the quality of financial reports of the Indian commercial. The financial reports are more likely to display rosy earning numbers for enterprises, and therefore stakeholders need to be conservative of similar enterprises while investing in them. Further, the financial reports of enterprises are more likely to depict their real profitable worth during the period of profitable extremity than during the normal ages. It was set up that optional supplements have a negative impact on the two accountgrounded performance measures (ROA and ROE) of establishment conceivably because of the fact that supplements tend to reverse in posterior ages. Therefore, enterprises with high optional accrual in current period tend to perform inadequately in the future. Still, these optional supplements were set up to have a positive impact on future performance of establishment when market-grounded performance measure(PE rate) is taken. These results are harmonious for the three estimators(OLS, FE and GMM) establishing a robust relationship between accrual management and establishment performance. It can be concluded that enterprises that engage in supplements management tend to show poor account performance but have better market performance in posterior ages. The below finding can be attributed to the fact that accrual reverses in posterior ages affecting the account measures of performances negatively. Still, market price is determined by several other factors including shareholders perception. The positive relationship between accrual management and market performance is harmonious with the signaling thesis, which states that directors use optional supplements to gesture private information about the establishment to shareholders. The results also indicate that large enterprises and enterprises that are

financially well- out show better market performance in posterior ages.

The Best Theory of Earning Management

Agency theory provides a suitable explanation for earnings management in enterprises. It explains why agency problem arises out of the separation of power and management in a business. A situation of asymmetric information arises in business where director/ agent is more informed than its shareholders top causing conflict of interest between the two parties, directors might indulge in opportunistic earnings management practices to fulfil their tone-interest. Nonetheless, the literature on the issue suggests several approaches to alleviate the agency problem and align the interest of directors with that of the possessors. In view of the rising concern over the quality of financial reporting by Indian commercial, especially after a series of commercial scams in recent times, this study is motivated in the hunt of various earnings management rehearsed in the listed Indian enterprises that have an important bearing on the quality of financial reporting by the Indian commercial. Similar earnings management practices might have some bearing in recent commercial scams. Although it cannot be denied that earnings management has an important part to play on the quality of financial reporting of Indian enterprises and on public perception about enterprises, there are no substantial empirical studies in India on the issue. Either, there's a severe dearth of theoretical and empirical literature on the subject in developing nations similar as India. The study intends to add to the limited empirical literature on earnings management being in India by bringing into focus the various determinants of earnings management practices in India and its impact on firm performance. The extant literature on management style has examined the part of individual director's capability on firm performance to find a positive association between the two. The present study relates directorial capability with earnings management in enterprises. The conclusive findings for each of the four objects of the study are presented in the following four sub-sections.

Part of Director 'S Individual Capability in Limiting Real Earnings Management

The results indicate that REM in enterprises drop with the increase in directorial capability. The study didn't find statistical substantiation of any association between directorial capability and REM by cutting down optional expenditure. It can therefore be concluded that the drop in REM, as a result of

increased directorial capability, is on account of containing REM in overproduction by high capability directors. A complete director is likely to put further trouble into carrying out normal managements of the establishment efficiently than to engage with REM. likewise, high capability directors understand the negative consequences of REM that might hinder establishment's long – run performance and their (director's) character in labour market. Accordingly, they refrain from REM. The results indicate that large enterprises and enterprises whose accounts are checked by BIG 4 adjudicators engage further in REM. The reasons for it could be twofold. First, large enterprises have further compass of cutting down on optional expenditures as compared to small enterprises because the former would have larger sum apportioned for R&D conditioning, SG&A expenditures, and advertising charges. While the small enterprises may not have compass to cut down on the optional expenditures because the quantum apportioned for similar charges may be the minimal quantum needed. Secondly, large enterprises are more likely to mileage the services of BIG- 4 auditing enterprises as compared to the small enterprises. The engagement of reputed auditing enterprises (BIG- 4) is likely to constrain directors from engaging in accrual- grounded earnings management, who in- turn may be shifting to real earnings management.

Conclusion

In the wake of recent frequentness of commercial scams in India, there's a need for developing a proper medium to keep a check on earnings management by Indian commercial. Although earnings management within thevittles of GAAP isn't illegal, there exists a thin dividing line between legal earnings and illegal earnings management (fraud). The study covers earnings management that's legal and not a fraud. still, it's also inarguable that commercial in an attempt to maintain earnings at par with those achieved through earnings management might indulge in fraud as was in the case of Satyam Computers. These findings have recrimination for investors as they can make further informed investment opinions understanding the fact that the financial reports are prone to directorial manipulations on firm performance. It's also worthwhile for investors to take note of the fact that quality of financial reporting improves during the phase of profitable retardation, and consequently, indicate the real profitable worth of shares in their portfolio. The study is also significant for policymakers while preparing recovery plans for the frugality in extremity. The finding that enterprises

engage more in income adding accrual management has recrimination for controllers. Controllers should be cautious of enterprises that report small positive earnings constantly or report exceptionally high earnings. The conditionings of similar enterprises need to be covered veritably nearly. Regular monitoring of establishment conditioning and ensuring compliance of legal and commercial governance morals of enterprises would discourage earnings management by enterprises. These findings have counteraccusations for long- term investors who are interested in the long term performance of enterprises since the impact of earnings management is felt on the long term performance of the establishment.

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