


Detection of earnings management by different models

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The main goal of the article is to describe the possibilities and methods of detection of earnings management in companies in aspects of globalization.



Introduction

Earnings management means the usage of gaps in the legislative frameworks of individual countries and their accounting systems in the global world. Businesses thus adjust profits and revenues to the form that is desirable and desired for them. However, there is a very thin line between fraud and earnings management. By adjusting their financial statements, companies seek to impress potential investors and influence their own market position.



Methodology

Methods of detection of earnings management:

- „Red Flags“
- The Healy model
- The DeAngelo model
- The Beneish model
- The CFEBT model
- The Q-DMFC model

Results

Financial Statement Inputs	Company XYZ, s.r.o.		
	2018	2019	Acceptable Input
Acc. Receivable Net	616 671	714 046	>0
Current Assets	718 784	860 742	>0
Current Liabilities	562 682	636 532	>0
Total Assets	1 809 154	1 984 926	>0
PPE Net	1 084 707	1 120 716	>0
Long Term Debt	315 117	292 940	>=0
Sales (Net)	1 717 084	1 847 912	>0
Depreciation Expense	218 669	234 644	>0
Cost of Goods Sold	1 403 972	1 329 988	>0
SGA Expense	759 508	979 596	>0
Net Income	357 750	104 908	Any number

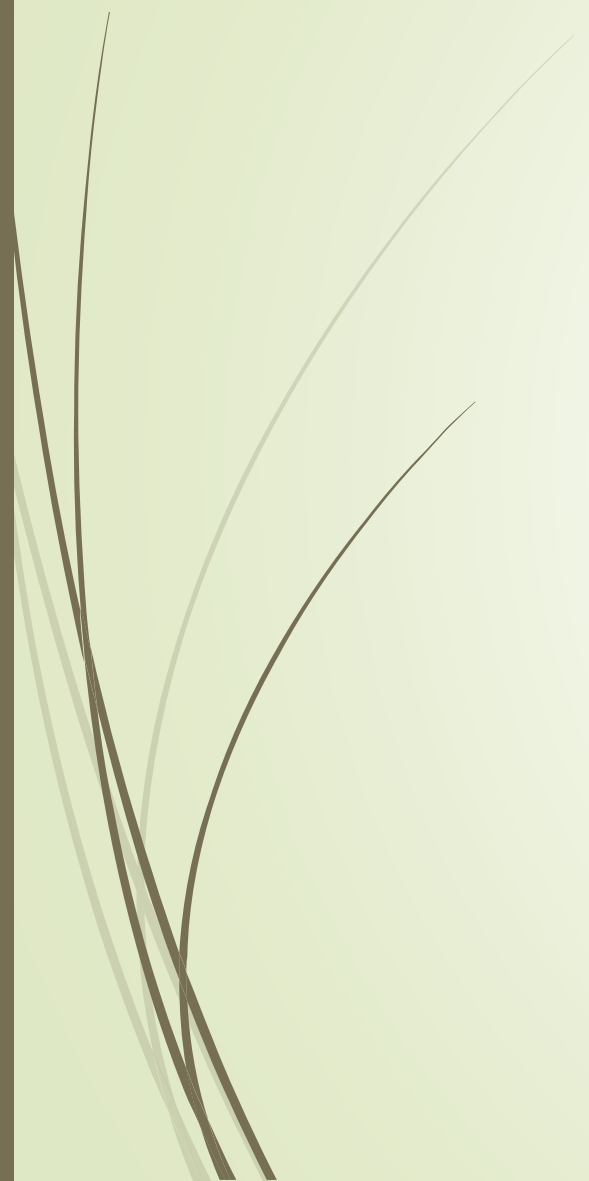
Results

Analysis	Variable	Assessment
Day Sales in Receivable Index	1.076	Assess revenue recognition
Gross Margin Index	0.651	Neutral
Asset Quality Index	0.558	Neutral
Sales Growth Index	1.076	Neutral
Depreciation Index	0.969	Neutral
SG&A Index	1.198	Increasing expenses
Accruals to Total Assets	0.053	Assess changes in working capital
Leverage Index	0.965	Neutral
M-Score	-2,484	No manipulation



Conclusion

The output of the article is the application of the Beneish model in the detection of earnings management in a selected company. In the calculation process, pre-established theoretical knowledge on the issue and the numerical characteristics of the selected company were used. Finally, the application of earnings management in the company can be ruled out.



Thank you for your attention.