Analysis of motives behind the usage of earnings management in practice under the conditions of global economy

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Contents

The aim of the paper

- The aim of this paper is to compare the motives that lead to the application of results management practices globally in a global environment.

- Analysis of possible impacts on the economic result and the quality of financial statements.

Introduction

- The use of different accounting policies and the systematic selection of accounting methods and principles influences and creates different types of the strategic management approach, which are reflected in the nature of accounting: Conservative accounting, Neutral accounting, Liberal accounting, Aggressive accounting.
- Motivation of the company's management and accountants for the use of creative accounting through the application of well-thought-out procedures, methods and forms of balancing in accounting companies can stem from specific or corporate motives or a combination of them.
- The issue of influencing the global economic result concerns the intentional management of the company's results and performance in the area of revenues, costs, assets and liabilities.
- The most frequent reason for using creative accounting in a company is to maximize earnings and present a more positive financial situation of the company.

Methods

In table 1 shows the types of motivations for creative accounting and possible impacts on the global economic result.

Motivations	**Analysis of possible impacts on the global economic result and the quality of financial statements**	**Reason**
The desire of management to get a bonus	-increased revenues, - costs and expenses not listed in full, -overvalued assets	The bonus depends on the amount of earnings. The higher the earnings, the higher the bonus. Alternatively, the bonus is paid out only if a certain amount of earnings is achieved.
Management is trying to pay lower taxes	-undervalued revenues, - costs and expenses are overestimated, - overstated liabilities, -assets may be undervalued	The earnings of the accounting unit is adjusted by addable and deductible items represents the tax base, which is taxed by corporate income tax. The lower the tax base, the lower the tax.
The company needs a loan or wants to obtain a loan with a preferential interest rate	-minimize uncollectible receivables, -overvalued assets, - undervalued liabilities, -overvalued revenues	The lower the risk for the lender, the lower the interest rate he is willing to demand for the loan.
Increase of the initial share price upon admission to the stock exchange, or correction of the fall in stock prices in case of failure to achieve the planned results	-increased revenues, - costs and expenses not listed in full	Management may be motivated to manipulate the company's results in the periods immediately preceding the IPO. The higher the demand for potential investors, the more capital the IPO will bring to the company.
The company tries to avoid possible obligations arising from various legislative regulations	-undervalued revenues, -undervalued assets	The occurrence of the obligation to prepare financial statements in accordance with IFRS standards, or the emergence of the obligation to verify the financial statements by a financial auditor.

Results and Discussion

Comparison of basic global motives leading to the application of earnings management practices:

- *Efforts to improve financial indicators for obtaining a loan or for compliance with the contractual conditions set by the loan agreement:* If a company seeks funding through a loan, the company's management, assisted by earnings management methods, may increase its chances of the bank approving the loan. An improved image of the company's results may affect the future lender when assessing the credit applicant's credit risk.

- *Increase in the initial share price at the entrance to the stock exchange, if correcting the fall in the share price in case of failure to achieve the intended results:* Where a company decides to raise capital to finance its business activities from investors, it shall do so by issuing its own shares and subsequently offering its shares to potential investors on the stock exchange. The process of issuing shares is Initial public offering (IPO).

Results and Discussion

Comparison of basic global motives leading to the application of earnings management practices:

- *Modification of results due to tax optimisation and avoidance of possible obligations arising from different legislative regulations:* The management of a company operating in a country with a tax system based on progressive taxation may be motivated to optimise taxation by also using management manipulation to achieve results at lower tax rates. In addition, there are various limits imposed by legislation, after which the company is obliged, for example, to be subject to stricter or more frequent supervision.

The reason why companies use these types of motivations is to meet the objectives set out in the published financial plans for the next period. Positive results and the fulfilment of the plan will support the demand for shares of the company, and this will bring about an increase in their value. The company's management is expected to do its best to meet the goals, putting the company under pressure from investors, markets, the media and others affected by the company's results.

Results and Discussion

In table lists the countries that were among the largest manipulators of the global economic result from 2009 to 2018.

Country	Years
China	2009, 2010, 2012
Korea	2009, 2010, 2012
Malaysia	2009, 2010, 2012, 2017, 2018
Philippines	2009, 2010, 2011, 2012
Russia	2009, 2010, 2011, 2012
Thailand	2009, 2010, 2011, 2016, 2017
Hungary	2013

Conclusion

- Despite general awareness of the issue of management of earnings or loss, the application of creative accounting practices in practice cannot be completely eliminated. Even if preventive systems are used which lead to the detection of manipulation in the company's accounts, the complete elimination of misrepresentation cannot be guaranteed. The main obstacle to eliminating management of the global economic outcome is the human factor. It can always find new ways to use the flexibility of accounting standards to manipulate earnings or loss.

Thank you for your attention