

Analysis of the Impact of Internal Control Information Disclosure on Real Earnings Management

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Abstract

Real earnings management will damage the long-term interests of enterprises. For the long-term development of enterprises, we need to take some measures to curb the real earnings management behavior. The research shows that the disclosure of internal control information has inhibitory effect on the real earnings management, but because of the imperfect policy of internal control information disclosure in our country, the quality of internal control information disclosure of enterprises is not perfect, and the inhibition of real earnings management of enterprises with higher quality of internal control information disclosure will be more obvious. This paper analyzes the present situation of internal control information disclosure and real earnings management in China, then analyzes the influence of internal control information disclosure on real earnings management, and finally puts forward some suggestions on improving the quality of internal control information disclosure in China.

Keywords

Internal control information disclosure; Real earnings management; Internal control; Earnings management.

1. Introduction

With the rapid development of the economy, the number of enterprises in our country has increased every year. In order to attract investors, occupy a place in the market competition, and because of the principal-agent mechanism, the management of the enterprise often carries out earnings management in order to achieve its short-term business objectives, but this will damage the long-term interests of enterprises. And with the increase of accounting supervision, the behavior of the enterprise accrual Management is limited, at this time, the management of the enterprise often chooses the way of the less risk through the sales manipulation and other behavior of real earnings management. For the long-term development of the enterprise, we need to take some measures to restrain the real earnings management behavior. The research shows that internal control information disclosure has inhibitory effect on real earnings management, but because of the imperfect policy of internal control information disclosure in our country, the quality of internal control information disclosure is mixed, and the enterprise with high quality of internal control information disclosure can effectively reduce the probability of real earnings management behavior. Therefore, it is necessary to have a strong internal control information disclosure system to reduce the real earnings management behavior of enterprises.

2. The quality of internal control information disclosure and the current situation of real earnings management in China

2.1 Information disclosure quality of internal control in China

In order to help investors and other stakeholders to understand the relevant situation of enterprises, so that they better make decisions, the need for the enterprise's internal control

information to make disclosure. There are two main types of internal control information disclosure in China: Internal control audit report and internal control evaluation report. ^[1]

For the Internal Control evaluation report, according to the "Chinese listed companies 2017 internal Control White paper" (hereinafter referred to as "2017 white Paper"), 91.88% of China's listed companies disclosed the internal Control evaluation report in 2016. There has been a big increase in quantity, but there are still big problems in terms of quality, the information disclosed in the report is of low quality, with very little information available, most of which are official language descriptions, with little substantive content, few useful information for decision making and decision making by policy makers, and for internal control audit reports, According to the "2017 white paper", the 2016 annual accounting firm issued 2,253 internal Control audit report only 0.71% of the report for internal control negative opinion, internal control negative opinion proportion is very low, which means that the accounting firm's internal control audit policy is not perfect, This aspect needs to be improved in order to improve the quality of internal control audit reports.

2.2 Current situation of China's real earnings management

2.2.1 The means of real earnings management

(1) Sales manipulation. Based on sales, the increase in earnings is the increase of sales income. The formula for confirming sales revenue is as follows:

Sales revenue = sales Unit Price * Sales volume

By This formula, we know that increase sales revenue can be achieved in the following two ways: first, increase sales. There are two ways to improve sales, the first way is to improve directly, that is to attract more customers to buy products in order to increase sales, but the customer in a time period of the level of purchase is certain, in general, enterprises will choose a more relaxed credit policy to achieve the purpose of attracting consumers The second method is indirect improvement, that is, by reducing the sales unit price to achieve, in order to give customers a way to discount prices. Second, increase the sales price, but because of the substitution effect, when the sales price of the product increases, consumers will be more inclined to buy the same utility but lower prices of alternative goods, which may lead to a decline in sales, but also lead to a decline in profits, so the company's management of the surplus is generally not used in the second way. Quantitative change will produce qualitative changes, which requires us to grasp the principle of moderation, appropriate relaxation of credit policies and appropriate price discounts will promote the development of enterprises, but the excessive words will become a sales control behavior, which for the good operation and development of enterprises is unfavorable.

(2) Production control.

Based on the production point of view, increasing the surplus is to reduce unit production costs.

Unit production cost = unit fixed cost + unit variable cost

Generally speaking, the unit variable cost is certain, but the unit fixed cost can be reduced by the way of increasing the output, from the above formula can be learned: under other conditions unchanged, production increases, unit production cost decreases. Therefore, enterprises will choose the way to expand production to reduce production costs, to increase the current surplus.

(3) Discretionary cost control.

Discretionary cost is the cost of maintaining the normal operation of the company, including advertising costs, research and development expenditure, these costs are usually paid in the current period, but the benefits are generally not reflected in the current period, so enterprises can reduce the occurrence of discretionary costs to increase the current period of surplus.^[2]

2.2.2 The economic consequences of real earnings management

The real earnings management is a series of manipulation behaviors of the management in order to realize the maximum surplus in the current period. Although it will make the company's earnings in the short term, but for the long-term development of the enterprise is a very bad behavior, its economic consequences can be used by the means to analyze separately.

First, sales manipulation. Its direct approach to boosting sales is achieved by implementing loose credit policies, but This behavior will only lead to a temporary increase in sales, once this policy is not implemented, sales will immediately fall back to the original level or even lower, and the relaxation of credit policy allows enterprises to increase the amount of accounts receivable, which may lead to more bad debts, and enterprises operating cash flow will be reduced, funds are occupied, investment opportunities are reduced, This is very unfavorable to the development of enterprise; The indirect method of increasing sales volume is achieved by reducing the unit price of sales, which is carried out in a way that gives the customer a discount, but this method, like the direct method, is also temporary, and once there is no price discount, the consumer psychology will inevitably lead to the decline of sales. This is also not conducive to long-term development of enterprises.

Second, the cost of production control. In order to reduce the cost of unit production, enterprise management without considering the actual situation of the enterprise blindly expand production, this behavior will inevitably result in the backlog of inventory, and the backlog of inventory needs to place, which will lead to increase in storage costs, and if the backlog of inventory for a long time can not sell out of the words will occur impairment, Even corruption becomes nothing, and when inventories are corrupted, it is a big expense for companies to clean up the inventory. Inventory is illiquid. liquidity is very poor, enterprises spend a lot of liquidity in the inventory will inevitably lead to the reduction of liquidity, not conducive to the future investment activities of enterprises, this opportunity cost for the long-term development of enterprises outweigh the gains.

Finally, discretionary cost control. The appropriate cost of the enterprise's current period is not cut down by the enterprise management, although it will lead to the increase of the surplus in the short term, but it is at the expense of the enterprise's future interests. In today's increasingly competitive market situation, an enterprise to be in many enterprises to stand out, its core competitiveness is the key, and improve the core competitiveness of enterprises can not be separated from the enterprise's own research and development, and the manipulation of discretionary costs will form a key factor in the core competitiveness of enterprises killed in the cradle, In the future market competition in the market share of enterprises will be reduced, the future development of enterprises is very unfavorable.

3. Impact of internal control information disclosure quality on real earnings management

3.1 Impact of internal control on real earnings management

3.1.1 The influence of internal environment on real earnings management

Internal environment is the basis of internal control, so the study of the influence of internal control on real earnings management should start from the internal environment. As we all know, there are motives for doing business, so the management of the enterprise has its own motivation, the most important one is the salary motivation, because money is the most intuitive embodiment of income, and the better the business performance, managers will receive more wages, Therefore, managers in order to improve the profit level of enterprises will use a variety of means, including some normal means, but there are some will damage the long-term interests of enterprises of the abnormal means, such as real earnings management and other means, it has a negative impact on enterprises far more than the positive impact. But the internal environment is good enterprise, its compensation mechanism is also reasonable, it pays more attention to the management when the appraisal is its decision-making to the enterprise long-term development influence, but is not merely the profit index, therefore this effectively suppresses the real earnings management behavior the occurrence. In addition, in this kind of environment, the Enterprise Manager and each department staff's goal is consistent, all pursues is does not harm the enterprise future benefit the premise to increase the enterprise's profit, thus has curbed the real earnings management well. Therefore, to prevent the source of real earnings management, to maintain a good internal environment is the key.

3.1.2 The influence of risk assessment on real earnings management

Risk is everywhere, and may occur at any time, it is not conducive to the survival and development of enterprises, so for the good operation of enterprises need to manage risk. In simple terms, risk is divided into two kinds: the risk that the enterprise accepts actively and the risk that the enterprise passively accepts. For the risk that the enterprise passively accepts, the enterprise needs to establish the perfect risk assessment mechanism to manage the risk, thus evade the risk, for the enterprise to accept the risk, the main face is the punishment risk from the outside, and the real earnings management is facing the risk is this kind of risk. [3]Once an investor or a third party auditor is aware of its behavior, it is bound to face the risk of litigation, and this behavior also requires the enterprise to bear the risk of future income damage. To establish a sound risk assessment mechanism, effectively identify and evaluate the risks of real earnings management, and take corresponding measures, can reduce the behavior of real earnings.

3.1.3 The influence of control activities on real earnings management

From management, production to sales, these processes are likely to occur in all aspects of the real earnings management behavior, and control activities throughout the enterprise's production and management process, including the above three processes. In the management process, the effective control activities can reduce the probability that the management of the Enterprise manages the real earnings by reducing the discretionary cost, and it requires the enterprise to take the long-term interest as the primary consideration when making the daily related cost arrangement. Effective control activities can reduce the probability of the real earnings management behavior of the enterprise management in order to reduce the production cost and blindly enlarge the production, it requires the enterprise to take the actual demand as the standard and set the input-output plan strictly; During the sales process. The effective control activity can reduce the probability that the management of the enterprise to increase the sales

income to relax the credit policy and the real earnings management behavior such as price discount, it requires the enterprise to set up the credit quota reasonably, and to carry out the incompatible duty phase separation system, so as to effectively evade the occurrence of the risk.

3.1.4 The influence of information communication on real earnings management

The obstruction of information communication channel is one of the reasons for the real earnings management. For internal information communication, its communication channel is not smooth will lead to superior managers and enterprises in the management of various departments cannot carry out effective information exchange, which leads to the requirements of superiors cannot be effectively conveyed to subordinates, and some of the recommendations of the lower level cannot be effectively communicated to the superior, but also not conducive to mutual supervision, This may happen to the two sides of the earnings management behavior of each other cannot find the situation; For external information communication, the poor communication channel makes the information used by the external investors is the information that the management wants him to see rather than the reliable information, which is unfavorable for the investors to make the decision. And only two-way and internal and external communication systems do not hinder the exchange of information is called a perfect information communication system, through this system, the superior's command can be effectively transferred to the subordinate departments, so that all departments can clear their responsibilities, subordinate suggestions can be effective feedback to the superior, the two sides can conduct mutual supervision, In this way, the behavior of earnings management can be effectively contained in the bud. And for the external information communication, the perfect information communication system can effectively reduce the information asymmetry, and facilitate the investors to make the right decision, while strengthening the external supervision of the enterprise. The combination of internal and external supervision can effectively reduce the probability of the real earnings management behavior happening.

3.1.5 The influence of internal supervision on real earnings management

The internal audit institution and the supervisory Board of the Enterprise are the two main body of internal supervision, they play different roles in the internal control respectively. For internal audit institutions, its supervision scope is the enterprise each department personnel's various activities, and carries on the guard to each link, thus effectively guards against the real earnings management behavior occurrence risk; for the Board of Supervisors, it is responsible for supervising the senior management, play a role in balancing the interests between the client and the agent.^[4] And then effectively prevent the occurrence of real earnings management. According to the internal supervision process, internal supervision can be divided into two kinds: daily supervision and special supervision. The daily supervision coverage is more comprehensive, but the professional supervision is more specialized, they are different to the main body, play the role is not the same, but the same is that they can play an effective role in preventing the real earnings management. For the existing internal control major deficiencies, the need to timely internal supervision of the two major bodies and the Board of Directors report, and to identify and analysis.

3.2 Impact of internal control information disclosure quality on real earnings management

Generally speaking, the quality of internal control information disclosure of enterprises, they often have a relatively sound internal control, and a sound internal control of the five elements will inhibit the real earnings management behavior, so you can draw the following conclusions: the quality of internal control information disclosure and the real earnings management degree is inversely proportional, The level of real earnings management of companies with higher quality of internal control information disclosure is often lower.

4. Suggestions on improving the quality of internal control information disclosure in China

4.1 Standardizing the disclosure of internal control information of listed companies

The precondition of realizing high quality internal control information disclosure is to construct and perfect the internal control information disclosure rules of enterprises, 2010 by the Ministry of Finance issued by the "Enterprise internal Control guidelines"^[5] for the enterprise to standardize the internal control of information disclosure of the direction, provided the minimum standards, enterprises should strictly follow the guidelines of the relevant provisions, based on this , we should also improve and refine the internal control information disclosure methods, improve the quality of internal control information disclosure, the disclosure of information and the business situation more relevant to the investors to make decisions more useful, but also to achieve the internal control between different enterprises disclosed information is comparable, Investors can see the advantages of different companies by looking at internal control reports, and then invest according to their investment preferences. In addition, it is also needed to establish the rewards and punishments mechanism of internal control information disclosure, for the internal control information disclosure of sound enterprises to encourage, and the internal control information disclosure is not sound enterprises to be punished, there are incentives to punish, and then will improve the quality of internal control information disclosure, so as to better suppress the real earnings management behavior.

4.2 Improve the practice level of CPA firms

The internal Control audit report is issued by the accounting firm, so to improve the quality of internal control audit report, it is necessary to improve the practice level of CPA firms, and the practice level of accounting firms is closely related to the professional level of accountants, so accounting firms should establish a strict admittance mechanism for people. The person responsible for issuing the report should have sufficient professional knowledge and extensive audit experience. At the same time, we should set up a strict quality control system and supervision system, China's current office for internal control of the many for the unqualified opinion of the audit report, and very few negative opinion of the audit report, this phenomenon is extremely abnormal. Therefore, it is necessary to take

these measures to gradually improve the internal control of the external audit mechanism, and thus improve the quality of internal control information disclosure, so as to more effectively suppress the real earnings management behavior of negative impact.

4.3 Establish and improve the internal control of enterprises

Whether the internal control of an enterprise determines the quality of its internal control information disclosure, and the effectiveness of internal control is closely related to the soundness of the internal control system, so it is necessary to establish a sound enterprise internal control system, so it needs to be managed from five elements of internal control. First, because the internal environment is the basis of internal control, and playing a good foundation is particularly important, so it is necessary to gradually improve the internal environment, the company's managers and staff of various departments of the remuneration of reasonable arrangements, and to ensure that all departments of enterprises in the conduct of business decision-making, the long-term interests of the enterprise as the primary consideration; second, To perfect the risk assessment mechanism, the risk assessment includes four aspects, which should be managed according to the actual situation of the enterprise. Thirdly, to carry out effective control activities and to check the production, management and sales process, so that managers cannot carry out real earnings management; Four, Establish good information communication system, so that the information between the upper management and subordinate departments can be effectively transferred, play a role of mutual supervision, so as to effectively suppress the real earnings management; Finally, improve the internal supervision mechanism of enterprises, increase supervision, the implementation of real earnings management control.

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