

# Earnings Management

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## Introduction

Financial statements provide useful information to a wide range of users. These users include shareholders, owners, investors, suppliers, managers, government and creditors etc. Many users rely on the information from financial statements to make decisions. Therefore, financial statements should be relevant, provide faithful representation, comparability, verifiability, timeliness and understandability. However, there are different evidences of managers manipulating the earnings for various reasons. "Earnings [management](#) is the choice by a manager of accounting policies, or real actions, affecting earnings so as to achieve some specific reported earnings objective" (Scott, 2012, p. 423). Managers play an important role in the company because they have control over the accounting policies, thus, the managers can manipulate the [income](#). There are different viewpoints about earnings management. Some people think it will protect the company's interests to allow the managers to manage the earnings, and others oppose it. There is a good side and bad side of earnings management, and each side of earnings management will lead to different outcome. This paper is going to present some of the motives why managers use various method to manage the income, explain the benefits and costs of allowing managers to manage earnings for the companies.

## Motives of Earnings Management

There are reasons and motives for managers engage in earnings managements. Many studies presented that mangers would manage earnings for personal interests, companies' interests or both interests. Scott (2012) summarized the earnings management methods as taking a bath, income minimization, income maximization and income smoothing. Managers u...

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