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Effect of earning management on stock performance for companies

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DESCRIPTION

The development of the capital market has been able to contribute significantly to the development of the national economy. These developments show that publicly traded companies can increase their capital by issuing valuable securities to the public. Through capital markets, available funds can interact with those who use these resources most productively. To achieve optimal allocation of resources in capital markets, companies need to provide transparent information to the public to support economic decision-making (Balogun et al. 2021).

A financial report provides financial information about a company that helps many users of the report to make financial decisions. The main focus of users of financial statements is information about company performance as measured by profit and its components. Investors and creditors are users of financial statements use past earnings information to help assess the company`s prospects. Although investment and credit decisions reflect the expectations of investors and creditors about the company's performance in the future, these expectations are usually based at least in part on evaluating the company's financial performance in the past.

They indicated that the company's reported earnings include observable accounting benefits that are uncertain or unprecedented, as well as unobservable economic benefits referred to earnings uncertainty. The companies reported profit may become unclear due to complex interactions between, at least three factors, namely managerial motivation, accounting standards, and the implementation of accounting standards. Managers are encouraged to maintain company earnings reports using the accrual basis policy permitted by accounting standards, with the aim of covering the company's actual performance. To report higher benefits and hide the realization of adverse benefits that may cause interference by other parties (Bellass et al. 2021). Before defining earnings management, you should consider the role of accrual accounting. Certain forms of revenue management can be difficult to distinguish from proper accrual accounting options. The following outlines are the relationship between the objectives of financial reporting and the definition of accrual accounting established by the Financial Accounting Standards Board (FASB) in various Statements of Financial Accounting Concepts (SFAC) (Braun et al. 2006). The primary focus of financial reporting is financial information about a company's performance, provided by measuring results and their components. Accrual accounting attempts to capture the financial impact of transactions and other events circumstances affecting cash on an entity, not only during the period in which the entity receives cash, but also during the period in which the transactions, events, and circumstances occur (Hamm et al. 2017).

The company's earnings are showing a long-term downtrend. Yield management has a negative impact on a company's market performance, but the impact is very small. The negative impact of revenue management on equity returns indicates that the market recognizes the opportunistic motives of firm’s revenue management practices (Holt et al. 2015). As a result, more revenue management leads to lower equity returns (stock returns). Accounting reports are not the only source of information used in making economic decisions. However, large companies do affect company performance (Mulligan et al. 2018). The Rupiah's exchange rate weakness has made it difficult for companies to generate expected profits and cash inflows, making it difficult for investors to profit from their shares. In the context of business ethics, the company's financial Revenue management is unethical if it is a fictitious transaction that intentionally misleads users of the statement (Roberts et al. 2017).

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