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The impact of yield management

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DESCRIPTION

Earnings management is the practice followed by company management to influence the earnings reported in the financial statements. It is carried out to achieve a specific goal and is different from managing the underlying business of the company. Revenue management strategies use accounting techniques to convey an overly positive view of the company's financial health and inflate revenue.

Yield management is used by companies to smooth fluctuations in consistent earnings and current earnings on a quarterly or yearly basis. Fluctuations in earnings are common in the operation of large companies. However, they have raised questions among investors as they prefer to invest in stocks of companies that demonstrate growth and stability.

A company's stock price typically rises or falls when an announcement is made, determined by whether the company achieves or fails to meet its earnings projections. Management attempts to influence accounting practices to meet earnings estimates and keep stock prices high.

Yield management involves manipulating a company's profits toward predetermined goals. This goal may be motivated by a desire for more stable income, in which case the manager will perform income smoothing. Opportunistic income smoothing is associated with lower risk and increase the market value of the enterprise. Other possible motives for revenue management include the need to maintain a certain level of accounting treatment due to liabilities, and the need to maintain and increase revenues. It includes pressure to exceed analyst targets.

Revenue management may include taking the opportunity to make accounting decisions that change the amount of revenue reported in the financial statements. Accounting decisions can affect the timing of transactions and estimates used in financial reporting, which can affect earnings. For example, a relatively small change in bad debt estimates can have a large impact on net income, and companies that apply the last in, first out method to their inventory may invest in purchases to reduce their net income during periods of rising prices. You can increase your profit.

Revenue management can be difficult for individual investors to discern due to the complexity of accounting rules, but accounting researchers have suggested several methods. For example, research shows that firms with higher reserves and weaker governance structures are more likely to be involved in revenue management. Recent research suggests that linguistics based methods it has been suggested that financial manipulation can be discovered in for example, a 2012 study found that it was related to the linguistics used by executives in payroll meetings.

Window dressing refers to a company's decision to enhance its financial statements for potential investors and creditors. The goal here is to attract new followers by producing financial statements that make the company look like it's doing well. The company must appear to have been profitable in the past, even if it means reducing profits in one accounting period and increasing profits in another. This may look like a scam, but it's not. Overall, the company still reports the same profit, but the amount is spread evenly over time.

Internal goals are another reason companies choose to use yield management techniques. Companies often set their own internal goals, such as: You want to budget your department and make sure these goals are met. No department wants to beat the proposed budget, so they use yield management techniques to make up for it.

Income smoothing is important here, as potential investors usually prefer to invest in companies that show consistent growth patterns. Smoothing out revenue generated when it can spike at one time and decline at another makes it appear that the company has this steady growth pattern.

External expectations come into play when the company has already made earnings projections and investors expect earnings to be exactly above or above. Management may feel the need to shift revenue from one accounting period to another in order to meet forecasted targets. Revenue management simply utilizes the various methods by which accounting principles and techniques can be applied to financial reporting.