

# The Ethics of Earnings Management: 'Moral Intensity' and Decision Making

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## Introduction

The research project reported in this paper is a study of ethical decision-making by senior financial managers and the effect of moral intensity<sup>1</sup> on their earnings management decisions. A sample of 300 senior financial managers of hotels in Australia was approached using established survey methodology and a self-administered questionnaire.

Financial managers in business make critical decisions for a firm's financial well-being every day. Aggressive accounting choices and creative accounting may be used to manipulate financial results beyond those achievable by generally accepted and conservative accounting policy. Mostly this occurs to the significant financial benefit of firm owners. However, most financial managers would agree that the need to depict firm performance positively can take the decision-maker to a problematic ethical position. This will generally occur on more than just a few occasions during a financial manager's working life.

When faced with the decision of either entering current financial data or manipulating cash entries through the use of accruals accounting,<sup>2</sup> a manager's decision is impacted by a number of situational factors. If the accounting entry is *bona fide* – that is, no perceived ethical problem exists – then financial managers generally apply established accounting doctrines such as the matching-concept where expenses are matched with related revenues when reporting on the profitability of a business for a particular accounting period. The question to consider is therefore: 'Is this what really happens in businesses during the financial reporting or management reporting process?'

## Moral intensity

Moral intensity, as a concept, was developed by Jones (1991), who believed existing ethical decision-making studies were limited because they did not consider the situational context of the decider (Dubinsky & Loken, 1989; Ferrell & Gresham, 1985; Hunt & Vitell, 1986; Rest, 1986; and Trevino, 1986). In other words, early studies did not consider the characteristics of the moral dilemma itself. Rest's (1986) four-component model of ethical reasoning was the basis upon which Jones (1991) developed an issue-contingent ethical decision-making model that considered the *characteristics* of the moral dilemma by looking at different variables which might explain the environment within which the person was operating. The contribution of Jones (1991) was a model that considered six variables: 1) magnitude of consequences; 2) social consensus; 3) probability of effect; 4) proximity; 5) temporal immediacy; and, 6) concentration of effect. Analyses of the factor structure of Jones' (1991) moral intensity construct by McMahon and Harvey (2006), and subsequent work by Ng *et al.* (2009), have validated the use of scenario-based questionnaires that portray high and low moral intensity conditions to test decision-making responses. In this study, the high and low moral intensity conditions were written to reflect the high and low conditions of the different variables making up moral intensity. For example, a low Proximity scenario could be one

where the effect of a manager's decision to delay expense recognition was removed from the manager themselves. Conversely, a high Proximity scenario may explain that the manager's performance bonus will directly benefit from the decision.

A recent review paper by Tsalikis *et al.* (2008) explored the development of moral intensity research from 1992 to 2003. They discovered that the majority of moral intensity studies had found 'social consensus' and 'magnitude of consequences' to be the most important dimensions. High moral intensity for a financial manager can be conceptualized as the combination of social and organizational factors which are impacting his/her decision-making. For the current study, Jones and Ryan (1998) found that individuals tend toward behaving in an unethical fashion when faced with social pressure from a superior. This confirms the importance of the social consensus dimension of moral intensity, a significant finding in this study.

Different fields of endeavor have articulated the above concepts. For example, in a legal context, and particularly in relation to financial decision-making and mismanagement, Hon. Justice Owen made the following statement in the abstract of the HIH Royal Commission report to the Governor General of the Commonwealth of Australia. On 4th April 2003, he said:

... Right and wrong are moral concepts, and morality does not exist in a vacuum. I think all those who participate in the direction and management of public companies, as well as their professional advisers, need to identify and examine what they regard as the basic moral underpinning of their system of values. They must then apply those tenets in the decision-making process. The education system – particularly at tertiary level – should take seriously the responsibility it has to inculcate in students a sense of ethical method.

In an ideal world the protagonists would begin the process by asking: is this right? That would be the first question, rather than: how far can the prescriptive dictates be stretched? The end of the process must, of course, be in accord with the prescriptive dictates, but it will have been informed by a consideration of whether it is morally right. In corporate decision making, as elsewhere, we should at least aim for an ideal world.

As I have said, 'corporate governance' is becoming something of a mantra. Unless care is taken, the word 'ethics' will follow suit ... (Owen, 2003, lxiii)

An extension of Owen's ideal and morally right corporate citizen is that organizations should try to attract and employ ethical executives and general employees, i.e. employees with moral character (Trevino & Youngblood, 1990). Therefore, exploring the moral issues that influence earnings management decision-making helps our understanding of ways to improve such behavior in organizations (Leitsch, 2004). A proven and validated instrument that measures critical earnings management scenarios is an important tool that can be adapted for future research.

Externalities and their severity are said to impact on every stage of the decision-making process (Carlson *et al.*, 2002), and in the next section we present the hypotheses for this study in the context of Jones' model (Jones, 1991) for the dimensions of moral intensity.

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## Hypotheses development from the literature

### *Magnitude of consequence*

Prior moral intensity studies have consistently found that the sum of the harm or benefits that victims or beneficiaries experience from the decision-making process (magnitude of consequences) has a significant effect on the decision-making process (Weber, 1990; Singer *et al.*, 1998; Jones & Ryan, 2001). Robertson *et al.* (2010) recently used magnitude of consequences to measure the perceptions of outsourcing and offshoring. Exploration of the moral worth of particular decision-making is another way of thinking about magnitude of consequences (Ferrell & Gresham, 1985). Would a manager's duty of care have been different if confronted with the magnitude of the consequences of their decisions? Premeaux's (2004) study found that, on occasions, individuals are faced with a threat to their continued employment (high magnitude of consequences) if they choose to act in an ethical manner (e.g. for a whistle-blower, corporate harassment and victimization for ethical behavior is a common experience). As such, it is reasonable to assume that if financial accountants perceived that continued employment would be at risk if their performance targets were not met, there would be an increased propensity for them to manage earnings. The first hypothesis of this study therefore explores a relationship between a financial accountants' propensity to manage earnings and the magnitude of negative consequences to self.

*H1: The greater the magnitude of negative consequences to self, the greater the propensity of financial accountants to manage earnings.*

### *Temporal immediacy*

This refers to the length of time between the present and the time the consequences of the moral act in question actually occur (a shorter length of time indicates greater immediacy) (Jones, 1991) as there exists a relationship between time and decision making. Construal level theory, a theory of temporal distance, proposes that time changes an individual's responses to what will happen in the future (Trope & Liberman, 2010). In other words, the amount of time between when a decision is made and when the decision's results take place impacts on how an individual thinks about a decision and what is identified as important (Liberman & Trope, 1998; McGrath & Tschann, 2004). For example, Enron is remembered as a particularly tragic corporate collapse promulgated by dubious accounting practices. These accounting practices were able to affect the accrual of billions of US dollars in earnings which were dependent on future events. The spurious valuation of energy trading contracts was allowed from unrealized gains using a process called mark-to-market accounting.<sup>3</sup> Ultimately, the Enron case was an example of corporate greed propagated by remuneration and reward schemes tied to the outcomes of the financial reporting process. This encouraged senior management to engage in unethical earnings management behaviour. We therefore propose a negative relationship between temporal immediacy and earnings management behavior.

*H2: The greater the temporal immediacy of a negative effect occurring, the lower the propensity of financial accountants to manage earnings.*

### *Social consensus*

The relative importance of the social consensus component of moral intensity has been explored in 16 research papers between 1992 and 2003 (Tsalikis *et al.*, 2008). The

review by Tsalikis *et al.* (2008) found the importance of this moral intensity dimension next only to magnitude of consequences. Social consensus is defined as the extent of social agreement that a proposed act is good or evil in nature (Jones, 1991); social consensus is therefore an awareness of the acceptability or unacceptability of a particular act (Jones, 1991). A high degree of social consensus decreases the level of ambiguity of a situation when the individual is unsure of what good ethics means (Jones, 1991). In other words, faced with an ethical dilemma, will a financial accountant be creative or be influenced by his peers, mentors and other outsiders to do right? A morally intense scenario for social consensus in financial accounting would be one where there is less support from others for the decision being made.

Jones and Ryan's (1998) work noted that individuals, when faced with pressures from a superior, tend toward behaving in an unethical fashion. For example, if there was the feeling that managing earnings was warranted and perceived as innovative by top management, then financial accountants will have an increased propensity towards managing earnings. This would suggest that:

*H3: The greater the social consensus that managing earnings is not acceptable, the lower the propensity of financial accountants to manage earnings.*

### ***Probability of effect***

Probability of effect can alternatively be called likelihood of effect. With foundations in the theory of deterrence, that crime prevention and punishment has the ability to deter or prevent prohibited behavior (Stevens & Payne, 1999), probability of effect is a joint function of the probability that the act will occur and that the act will actually cause the harm (benefit) predicted (Jones, 1991). For example, a financial accountant uses mark-to-market accounting to book a future revenue-stream without approval, although it is unearned. Stakeholders, particularly investors, buy shares or lend money to the company based on the higher income and equity figures, respectively. This situation has high moral intensity when there is a strong likelihood of harm occurring as a result of the action taken.

If the financial accountant had a propensity to manage earnings, but was wary of the penalty of being caught, then it would decrease his propensity to do so. This suggests that:

*H4: The greater the probability of a negative effect to self, the lower the propensity of financial accountants to manage earnings.*

### ***Proximity***

Proximity refers to the feeling of nearness (social, cultural, psychological, or physical) that the manager feels for the victims (beneficiaries) of the evil (beneficial) act in question (Jones, 1991). This refers to the physical, psychological, or social distance between the decision maker and those who are likely to be impacted by the decision taken (Frey, 2000). The concept of proximity stems from the degree of empathy for a 'victim', where such behavior is predictable from empathy, which is essentially determined by the proximity to potential victims of wrongdoing (Singer *et al.*, 1998). Individuals intuitively have a tendency to be more concerned about moral issues which impact on those who are close to them than those they have little contact with (Jones, 1991).

In the context of the hotel industry, if a hotel was owned by a group of hotels (for example, Starwood or Intercontinental), then the hotel would be termed as an 'owned' hotel and the financial accountant would report directly to the owners. Reporting directly to the owners indicates that there is a shorter distance between the parties in question, i.e. a greater proximity. As a result of the direct relationship with the owners, the financial accountants' propensity to manage earnings will thus be lower. However, there also exists an alternative ownership/management structure. For some hotels, one party owns the physical assets of the hotel (owner), and an independent second party manages the hotel (operator) (Guilding, 2003). From the viewpoint of the operator, the hotel is termed a 'managed' hotel by the hotel group. All hotel staff are employed by the owners with the exception of the financial accountant and the general manager (Guilding, 2003). As the financial accountant reports via the hotel group to the owners, it infers a greater distance between the parties involved, i.e. a lower proximity exists between the hotel owner and the financial accountant. This indicates an indirect relationship between the hotel owners and financial accountants, and, thus, the propensity to manage earnings will be higher.

*H5: The greater the proximity to the individuals impacted when earnings are managed, the lower the propensity of financial accountants to manage earnings.*

### ***Concentration of effect***

Concentration of effect is where the perceived ethicality of a situation is determined by whether the action taken impacts on an individual or a group (Jones, 1991). In other words, it refers to the number of people affected by an action taken. The concept of concentration of effect is consistent with the philosophy of ethical utilitarianism. The philosophy holds that 'an act is right only if it produces for all people a greater balance of good consequences than other available alternatives' (Singhapakdi *et al.*, 1996, p. 248). For example, the concentration of effect is greater if an individual was cheated out of a sum of money in comparison to cheating a large organization out of the same sum of money (Carlson *et al.*, 2002). The moral intensity component 'concentration of effect' was excluded from this study as the concept could not be appropriately applied in the context of accountants in the hospitality industry dealing with propensity to manage earnings. An earlier study by Singer & Singer (1997) also omitted concentration of effect whilst other studies have included it but found concentration of effect to have little or no impact on the ethical decision making model (Carlson *et al.*, 2002; Chia & Mee, 2000; M. Singer & Singer, 1997).

## **Methodology**

### ***Sample***

Seven hundred hotels in Australia were identified from the 2005/2006 RAC Star Rated Accommodation Guide; however, based on a random sample, only 300 received the questionnaires. The sample size of 300 was chosen for proposed exploratory factor analysis. The 300 self-administered questionnaires were mailed to, and completed by, financial accountants or financial controllers of these hotels using established survey methodology (Dillman, 2006). They were the individuals who have the authority to manipulate earnings, and who are also accountable to the owners or managing agent of the hotels.

Of the 300 questionnaires sent, 171 responses were received, including those received after follow up letters were sent, resulting in an overall response rate of 57%. Before the

data were processed, the completed responses were inspected, to ensure that each of the questions was adequately completed, and to determine and identify questionnaires which were unusable or inadequately completed for the purpose of data analysis. Of the 171 responses received, 164 were accepted as adequate for processing, giving rise to a final response rate of 55%.

### ***Instrument***

The instrument used in this study to measure high and low moral intensity earnings management decisions of accounting managers was developed and pilot-tested by Ng *et al.* (2009). The analysis of responses by factor analysis helped elucidate how each earnings management scenario contributed to moral intensity dimensions, and through measured eigenvalues validated the loading of managers' responses. T-tests in that study indicated that the high and low moral intensity conditions did successfully manipulate the moral intensity of the ethical dilemma of each scenario.

Table 1 shows the demographic profile of the respondents. There were 97 male (59%) and 67 female (41%) financial controller respondents. Of the total respondents, 73% of them were between 25 and 44 years of age, few were under 25 (3%), and 40 were above 45 (24%). Seventy-seven per cent of the respondents had been with the hotel between zero and five years. Of the hotels sampled, 34% of the hotels were owned by a hotel group whilst 45% of the hotels were managed by a hotel group. Nine percent of the hotels sampled were either franchised or a part of a joint venture.

	<b>Number</b>	<b>%</b>
<b>Gender</b>		
Male	97	59%
Female	67	41%
<b>Total</b>	164	100%
<b>Age Group</b>		
Under 25	5	3%
25 – 44	119	73%
Above 45	40	24%
<b>Total</b>	164	100%
<b>Years with Hotel</b>		
Less than 1 year	28	17%
1 – 5 years	98	60%
More than 6 years	38	23%
<b>Total</b>	164	100%
<b>Hotel structure</b>		
Owned	56	34%
Managed/Franchised/JV	88	54%
Others	20	12%
<b>Total</b>	164	100%

**Table 1 – Demographics of respondents**

### **Results and discussion**

Confirmatory factor analysis was used to clearly demonstrate that social consensus (SC), probability of effect (PE), magnitude of consequences (MC), proximity (Px) and Temporal Immediacy (TI) were measured by the relevant groups of questions in the survey instrument. In other words, the results in Table 2 show the consistency with which

the managers interpreted the different ethical scenarios presented to them in the survey (high Eigenvalues and cumulative explained variance approaching 80%).

Component	Eigenvalue	% Explained Variance	Cumulative
SC	1.899	18.995	18.995
PE	1.669	16.690	35.684
MC	1.350	13.496	49.180
Px	1.243	12.434	61.614
TI	1.146	11.459	73.073

MC, Magnitude of Consequences; TI, Temporal Immediacy;  
SC, Social Consensus; PE, Probability of Effect; Px, Proximity

**Table 2 – Reliability of Factor Loading Data: Eigenvalues, percentage explained variance and cumulative variance supporting measurement of moral intensity dimensions**

Table 3 presents the results of exploratory factor analysis and showed that the high and low moral intensity conditions of each moral intensity dimension were interpreted reliably by the senior managers comprehending the ethical scenarios presented to them.

	Component				
	1	2	3	4	5
SC:L	<b>.913</b>	-.003	.019	.019	.074
SC:H	<b>.908</b>	.117	.002	.009	.063
PE:L	-.018	<b>.891</b>	.164	-.059	.085
PE:H	.139	<b>.736</b>	-.125	.124	-.131
MC:L	.061	-.220	<b>.852</b>	.065	-.068
MC:H	-.049	.400	<b>.787</b>	-.111	.029
Px:H	.066	-.094	-.091	<b>.861</b>	-.106
Px:L	-.039	.155	.073	<b>.723</b>	.220
TI:L	.199	-.043	-.001	-.035	<b>.767</b>
TI:H	-.053	.000	-.038	.115	<b>.761</b>

MC, Magnitude of consequences; TI, Temporal immediacy;  
SC, Social consensus; PE, Probability of effect; Px, Proximity;  
H, High moral intensity; L, Low moral intensity.  
*Extraction method:* Principal component analysis.  
*Rotation method:* Varimax with Kaiser normalization

**Table 3 – Rotated factor loadings of moral intensity dimensions**

The results presented in Table 4 demonstrate statistically significant differences in the mean measured responses between high and low moral intensity conditions. These results can be interpreted as supporting the hypotheses in this study about the involvement of moral intensity in financial accountants' earnings management decisions. The results in Table 4 clearly allow us to explore the central research question in this study as stated in the opening paragraph of the Introduction, '... ethical decision-making by senior financial managers and the effect of moral intensity on their earnings management decisions'.



	N	Range	Min.	Max.	Mean	Std. Dev.	Variance	t-test
MC:H	164	4	1	5	3.540	1.322	1.747	t= 14.1
MC:L	164	4	1	5	2.050	1.075	1.156	p<0.005
TI:H	164	4	1	5	1.680	0.997	0.993	t= -10.7
TI:L	164	4	1	5	3.060	1.600	2.561	p<0.005
SC:H	164	4	1	5	3.280	1.425	2.031	t= 1.6
SC:L	164	4	1	5	3.140	1.456	2.121	p=0.107
PE:H	164	4	1	5	1.460	0.713	0.508	t= -10.8
PE:L	164	4	1	5	2.630	1.543	2.381	p<0.005
Px:H	164	4	1	5	2.160	1.184	1.402	T= -13.1
Px:L	164	4	1	5	3.680	1.306	1.705	P<0.005

**Table 4 – Descriptive statistics for moral intensity dimensions: High and low conditions**

### *Hypothesis One – Magnitude of consequences*

In the hypothesis development section, a positive relationship between magnitude of consequences and propensity to manage earnings was hypothesized. That is, when the impact of consequences to self is higher, there exists a greater need by the accountant to manage earnings to their personal benefit. Conversely, when the impact of consequences is assessed as low by an individual, there is a significantly smaller need to manage earnings for their own purpose. The difference between the means for the low moral intensity decision (2.050) and high moral intensity decision (3.540) indicates a positive relationship ( $t=14.106$ ) between magnitude of consequences to self and the financial managers' propensity to manage earnings. Tested with a paired-sample t-test, this relationship was found to be highly significant ( $p<0.005$ ). This result thus indicates that Hypothesis One can be accepted and senior financial managers surveyed in this study were affected by the magnitude of consequences in their ethical decision making about earnings.

### *Hypothesis Two – Temporal immediacy*

Hypothesis Two posited that when there is a greater length of time before the onset of consequences to self, there exists a greater desire by the accountant to manage earnings to their personal benefit. Conversely, when there is a shorter time period before the impact of consequences, there is significantly less desire to manage earnings for their own purpose. The high and low conditions are found to be significantly different in a paired sample t-test ( $t = -10.659$ ,  $p < 0.005$ ). The negative relationship between temporal immediacy and the propensity to manage earnings is shown in the difference of means of -1.384 (shown in Table 4). This is supportive of the negative relationship between temporal immediacy of a negative consequence occurring and the propensity to manage earnings, therefore Hypothesis Two is supported. When an individual was in a high condition scenario where there was a shorter time period to the onset of the consequence, there was a lower tendency for the senior financial managers to manage earnings for their own benefit.

### *Hypothesis Three – Social consensus*

The mean difference between high (3.280) and low (3.140) moral intensity decisions was small ( $t=1.622$ ) and, when compared using a paired-sample t-test, did not prove significant. This indicates that the propensity to manage earnings was not affected by a

high or low social consensus. Therefore, Hypothesis 3 Three is rejected – which leads to some interesting considerations.

For example, if the high and low conditions of the scenario are not affecting the financial managers' decisions, does this indicate some sort of social detachment or ambivalence toward the ethicality of earnings management in this context? On the other hand, is this observation merely a reflection of how an individual will feel making decisions about a highly-regulated subject? In this case, the scenario presented a decision for or against recognition of an advertising expense in the correct accounting period which would result in the hotel either achieving or not achieving its target budget.<sup>4</sup> Social consensus conditions were: low (decide after a period of self-reflection), and high (decide after negative feedback from five financial manager peers). Accountants are guided by the accounting standards and professional codes of ethics and, as such, it is likely that irrespective of the approval or disapproval of others, the propensity to manage earnings still exists. Therefore, where an individual was in a high condition scenario and the majority of others disagree to manage earnings, the individual would be less inclined to manage earnings. This, however, did not work in the reverse. Where an individual was in a low condition scenario, and there was mixed advice on managing earnings, the individual somehow was still less inclined to manage earnings; therefore, Hypothesis Three was not supported. The results indicate that financial accountants did not change their decision-making regardless of whether that decision was supported or not supported by their peers.

#### ***Hypothesis Four – Probability of effect***

The probability of getting caught, as illustrated in the scenario for Hypothesis Four, played a part in an accountant's decision to manage earnings. The mean difference between high (1.460) and low (2.630) moral intensity decisions was large and negative ( $t=-10.781$ ) indicating that the greater the chance of being 'found-out', the less likely the senior financial manager would decide to manage earnings. The significant difference between the high and low conditions, when the paired sample t-test was run ( $t = -10.781$ ,  $p < 0.005$ ), supports the hypothesis that the greater the probability of a negative effect occurring, the lower the propensity to manage earnings. Thus, Hypothesis Four is accepted. This finding is consistent with prior studies that found that if a decision resulted in a negative effect, there would be a resulting impact on the decision made (Jones and Huber cited in Frey, 2000).

#### ***Hypothesis Five – Proximity***

It was hypothesized that the closer the accountant was to the party impacted by their decision, the less likely he/she would manage earnings. However, if the accountant was fairly distanced from the impacted party, then he/she would appear to have a greater propensity to manage earnings to his/her personal benefit. This is in-line with individuals' general intuition to be more concerned about moral issues which impact on those who are closer to them than those they have little or no contact with (Jones, 1991). The results for proximity show a negative ( $t= -13.086$ ) mean difference between high (2.160) and low (3.680) moral intensity decisions. A significant difference between the high and low proximity conditions was found in the paired sample t-test ( $t = -13.086$ ,  $p < 0.005$ ). A difference of means of -1.512 (illustrated in Table 4) indicates a negative relationship between proximity to individual/s impacted by managed earnings and the intention to manage earnings. Hypothesis Five is thus supported.

## Conclusions and limitations

This study is novel in that it studies the moral intensity context of ethical decision making by senior financial accountants: a very important group to study, given their role in financial stewardship. The sample was a large sample of senior financial managers in the hotel industry. Individualized and careful follow-up after the original survey mail-out resulted in a high 57% response rate and, therefore, reliable statistically significant findings.

The factor analysis of managers' responses demonstrated that high and low scenarios were consistently interpreted in a reproducible way by the majority of respondents. A simple paired-sample t-test was used to measure the difference in mean response between high and low moral intensity earnings management scenarios. The interesting and significant result of this study is that, contrary to the findings of previous researchers (see Tsalikis *et al.*, (2008) for a review), the high and low 'social consensus' conditions had no effect on the managers' decision to engage in earnings management. In other words, social detachment may be occurring, where the financial officers do not consider the agreement of their peers and other stakeholders as important when making an earnings management decision. Alternatively, financial officers may be so strongly guided in their professional duties by a code of conduct and ethical principles that they are inclined to ignore the opinion of others. Future research could look to determine if moral intensity components affect the actual act of managing earnings in the same manner that it does the individual's intention to do so.

A limitation of this study is the lack of any manipulated interaction between the moral intensity components. This limits the understanding of interrelationships and might be an interesting avenue for future research work. In addition, the order of the conditions of the moral intensity components was not randomized between respondents. This is a limitation because all scenarios follow a pattern of control, high condition and low condition and raises the risk of subjects 'learning' the pattern and responding accordingly. This limitation and concern was reduced somewhat given that the probability of effect scenario scores had to be reversed.

An important question arises from research into ethical decision-making. In this case, looking at impact of the moral intensity: what do we do with this knowledge gained from the study? The results of this study could assist academics who are in the process of incorporating ethical components in their curriculum. Academics may do so by providing students with examples of different types of ethical situations they may encounter, and assisting students in identifying the moral intensity components contained within each situation, particularly in situations dealing with earnings management.

*\*The questionnaire to which this paper refers has not been included here for reasons of space. A copy of the questionnaire can be obtained by contacting the lead author (see Notes on Contributors).*

## Notes

- <sup>1</sup> Moral intensity is measured with variables such as 'Magnitude of Consequences' or 'Proximity of Effect' using high or low scenario conditions to measure the situational context within which an ethical decision is made.
- <sup>2</sup> The process of using non-cash accounting entries to change the original cash accounting records. Most typically this will involve accounting entries which delay expenditure or bring forward revenue to make profit and therefore performance of the firm look better.
- <sup>3</sup> An accounting practice which allowed unrealised value to be raised in the balance sheet as an asset while the corresponding credit or revenue side of the accounting equation increased earnings in the income statement. In its valid form, a similar practice is used to present value-relevant information to financial information users, for example, to superannuation fund members in Australia.
- <sup>4</sup> Budgets are a form of management control over costs that is often linked to performance bonuses and rewards.

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