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OWNERSHIP CHARACTERISTICS AND EARNINGS MANAGEMENT

Dr. Riya Khandelwal*

Abstract

Earning management is concerned with the efficient acquisition and the allocation of fund. In operation terms it is concerned with the management of flow of funds and involves decision relating to procurement of funds, investment of funds in long-term and short-term assets and distribution of earnings to the owners. Shareholders are the owner's of the firm therefore the fulfill shareholder's expectation through optimum utilization of resources is the main aim of earning management in Automobile company. In the present article an attempt has been made to examine whether owners have been getting a fair return on their investment in automobile companies in India.

Keywords: *Earning Management, Flow of Funds, Profitability, Retained Earnings, Net Worth.*

Introduction

Shareholder's generally expects to earn satisfactory returns on their investments as they require increasing the value of their investments as much as possible. . The managers of the company act on behalf of the investors, such as operating day to day activities and making decisions within the business. In another way they do have the control of the business entity. However, firms may have other objectives to achieve such as maximizing of profits, growth and increasing its' markets share. When achieving these objectives of a firm, conflicts may arise as a result of ownership and control. Managers may make their decisions on their own interests rather than achieving investors' wealth. It is needless to points out that payment of interest is obligatory on a company irrespective of the state of is profitability. Moreover, creditors have also a prior claim on equity if the company fails to honour commitments relating to the payment of interest and the repayment of the original debt capital as and when due. In a period of good profitability, borrowed capital serves as a source of strength and a mean of higher profitability to the owner's (reducing Tax obligation and Maximizing a return on equity capital). But in the period of low profitability or non-profitability, Debt capital provides a burden which may gradually eat up the entire owned capital if things do not improve. In this way profitability of the owner's capital becomes a basic concept which exercises a far reaching impact on sustained growth of the industry as a whole.

The owner's equity represents share capital (paid up) plus reserves and surplus i.e. investing capital forming the owner's equity. Short term taxation reserve and dividend reserve are excluded to the extent of amount earmarked for payment during the year. A state of profitability adds gradually to the net worth of a concern as part of surplus (the residue, which remains after fulfilling the expectation of the owner's with regard to payment of cash dividend out of the net surplus) is normally retained in the business from year to year. The greater the profitability, more likely is management to retain a substantial percentage of earning in the interest of repaid expansion. The financial manager operates to maximize the assets position of equity shareholders. "The fundamental promise on which this theory Rests is that over longer periods stock prices reflect the present values of expected dividend and retained earning influence stock prices principally through their effect upon future dividend".[1] Occasionally, net worth also increases with new doses of capital brought in by shareholders (through right issues or otherwise). On the other hand, in a losing concern the size of net worth on equity declines, as the

* Lecturer, Department of ABST, Shri Khandelwal Girls PG College, Jaipur, Rajasthan.