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EVALUATION OF THE FLEXIBILITY OF PROFIT MANAGEMENT IN THE COMPANIES LISTED IN THE TEHRAN STOCK EXCHANGE

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ABSTRACT

This research studies theevaluation ofthe flexibility of profit management in the companies listed in the Tehran Stock Exchange. This research adds the analysis of the decisive factors of profit management flexibility to the theoretical literature.This discussion tests the various effects of profit management measures taken in the past on the company's ability to manage the profit and offers a new structure that combines all these factors. We developed six hypotheses to answer the research questions and selected 138 companies among the firms listed in the stock exchange during a six-year period from 2008 to 2013.This research is an applied research with regard to the research objectives, while the nature of the research is descriptive-correlational.We used multivariate regression to test the hypotheses.This study was based on real stock market information and its information was gathered throughyearbooks and the information software released by Tehran Stock Exchange as well as the fundamental financial statements and other reports and notes accompanying the financial statements. With the study of profit management literature, we realized that many researchers of this field have used discretionary accruals as a good replacement forprofit management's dependent variable.

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KEY WORDS

accruals, discretionaryaccruals, profit management, flexibility

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INTRODUCTION

The main objective of financial reporting is the description of economic effects of financial operations and events on the status and performance of the business units in order to help potential and actual users tomakefinancial decisions in connection with the business units. The main tool of information transfer to the aforementioned persons consists ofthe fundamental financial statements including the balance sheet, profit and loss statementand cash flow statement that are the final product of the accounting process and financial reporting. Financial reporting must provide useful and beneficial information for thepotential and actual investors and creditors and other users to enablelogical and investments decisions andaward credit, etc. In a nutshell, the primary purpose of financial reporting is preparation of on the performance of business units through the measurement of profit and its components. Basically, the investors, creditors and other people involved in the net future cash flow of the business unitshow particular interest in these types of information.Their interest in the future cash flow of the firm and its ability to create favorable cash flows primarily leads to concentration on the profit information rather than directly acquiring information about cash flows.Profit management in accounting literature is a topic discussed in the field of accounting profit.This accounting topic developedin the beginning of the 20thcentury based on various researches conducted by the experts in the field of accounting. Each of these researches has investigated the subject from different dimensions and with different lexicon such as profit manipulation, profit normalization, and finally profit management. Due to the notoriety of some companies, profit management has recently becomea subject of public attention and legislation authorities have also taken care of this issue and put in place several legal changes. On the other hand, the profit is calculated and recognized based on the accrual figuresand on the accrual basis, recognition isbased on the realization of the income and expenses, not cash reception and payment. Therefore, the accounting forecasts and allocationsare used in the calculation and identification of profit.Hence, the use of profit as the company's performance indicator is doubtful because of its vulnerability to different methods of estimating and accounting and the effect of theagency theory, while the cash generated by operations, due to lessmanipulation by the management, is a better criterion in the evaluation of the companies' performance.It is difficult to provide a clear definition of profit managementin the accounting literature because the border between the profit management of financial fraud is not specified. Financial fraud is intentional removal or manipulation of accounting data or original facts which besides the existing data may change the judgment or the decision of the data user. Flexibility in accounting allows this profession to do some processing. Deviations like profit management happen when people abuse such flexibility and these deviations are used to cover up actual financial fluctuations. Therefore, the real results of management performance will not be revealed. This research adds the analysis of the decisive factors of profit management flexibility to the theoretical

literature.This discussion tests various effects of the past profit management measures on the company's ability to manage the profit and offers a new structure that combines all these factors and a new flexible profit management structure based on changes (fluctuations) within the range of the applied profit management and flexibility is proposed and tested herein.

Importance and necessity of the research: Gary Giroux[1] argues thatthe profit management covers a wide range starting from conservative accounting to non-biased accounting and then continues with aggressive accounting and finally treacherous accounting.The important point is that there are numerous methods of profit management and the manager enjoys a great amount of freedom to managethe reported net profit in the framework of accounting standards.Also, for many of the accruals, disclosing the applied management of profit by the auditors will be difficult or if the auditorsalready know about it, sometimes they can't protest because most of the profit management techniques are within the scope of accounting standards. However, evaluation of profit management flexibility in a specific range is very important.

MATERIALS AND METHODS

Methodology of the research in terms of the objective: it is a type of applied research. Methodology of research in terms of the type of data: it is descriptive and describes the relationship between the existing variables using correlation coefficient and regression test. Methodology of research in terms of execution method: this study includes all the companies listed in the Tehran Stock Exchange. Regression analysis is used to test for the existence of a relationship between the independent variable and the dependent variable, as well as the significance of the models provided by regression analysis.

Research literature

Profit management definition:Profit management in accounting literature is a topic raised in the field of profit accounting.This accounting topic was raised in the beginning of the 20thcentury via various researches conducted by the experts in the field of accounting. Each of these researches investigated the subject from different dimensions and with different lexicon such as profit manipulation, profit normalization, and finally profit management. Due to the notoriety of some companies, the profit management has recently become a subject of public attention and legislation authorities have also taken care of this issue and put in place several legal changes. According to the declarationno. 1 of the accounting concepts of the council for financial accounting standards, profit applications are as follows:
-A criterion for evaluating the performance of management
-Using it topredict the future profit
-Evaluation of the company's profitability during the long-term future
-Estimation of the hazard of investment and credit allocation
On the other hand, the profit is calculated and recognized based on the accrual figures and in the accrual basis, recognition will be based on the realization of the income and expenses, not cash reception and payment. Therefore, the accounting forecasts and allocationsare used in the calculation and identification of profit.Hence, the use of profit as the company performance criterion is suspicious because of its vulnerability to different methods of estimating and accounting and the effect of agency theory, while the cash generated by operations, due to less manipulation by the management, is a better evaluation criterion of the companies' performance.There are various definitions of profit management in the accounting literature that are presented here:

Dividsondefines profit management as a process of taking intentional steps in the context of accepted accounting principles which enable managers to raise the reported profit to their desired levels.
Healy & Wahlen define the profit management as such: "profit management occurs when the administrators use their personal judgment in financial reporting and as a result, changes occur in the financial structure. These changes in financial reporting mislead the stakeholders with respect to the performance of the enterprise or affect the consequences arising from business unit contracts that depend on the reported accounting figures.Schipper [2]defines profit management as adeliberate intervention in financial reporting process in order to obtain personal benefit for shareholders and managers. When the profit management signals confidential information to the shareholders or when it is used to avoid renewed and costly borrowing contracts and thus, reduced political cost, the shareholders will benefit.Administrators can also use profit management to take advantage of shareholders like increase in remuneration and reducing the possibility of dismissal due to the poor performance of the manager.
Kaplan [3]argues that the manipulation of accounts is about the relative ability to reduce or increase profits reported by the managers. Titles such as maximizers, minimizers or normalizers implicitly refer to people who manipulate accounts and of course, manipulation of accounts covers a wider scope than what Kaplan had in mind. Like the method of classifying accruals in the profit and loss statement that has been raised frequently in accounting literature or cases related to the balance sheet which of course are less discussed.In fact, the importance of the manipulation of accounts is more than what Kaplan has mentioned. On the other hand, the subject of motivation of manipulation of accounts needs more attention. Sometimes managers use accounts as a means of falsely showing the unrealistic achievement of company's long-term goals or artificial reduction of potential risk.

Stolowy & Bertonpresented a framework for classifying various types of manipulation of accounts. This framework is based on the fundamental principle that the financial information has a major impact on reducingthe company's financial costs.This reduction shall be subject to investors 'perception of the risks of the company. In terms of computing, such risk is also estimated through the "Beta" coefficient which is a function of the relative profit diversion.

Degeorge et al. [4]define the profit management as a kind of artificial manipulation of profit by the management to achieve the expected level of profit for some specific decisions (including analysts' forecast or estimation of the previous profittrend to predict future profit). He argues that in factthe main motive of profit management is the management of investors' perception about the business unit.
Scott [5]defines profit management as the company's choice to select accounting policies that achieve certain specific objectives of the director.

Fern et al. [6]define the profit management as profit manipulation by the management in order to achieve a portion of the projected estimation related to the "expected profit" (such as analysts' forecast, previous estimates of management, or reduced dispersion of interests).

In a fully theoretical article discussed the topics related to the interests. It seems that the profit management is normally a result of director's use of informational asymmetry advantages of shareholders.This issue is the center point of the definition provided by Scott. Dye has raised at least two important issues in the aforementioned discussion. First, profits may be manipulated to increase the managers' rewards supplied by the investors. Secondly, the actual investors seek a better impression at the market about the company value.Therefore, a transfer of potential wealth from the new investors to old investors, which creates a domestic demand for profit management, may occur.

Hope &Hope believe when the companies go under increasing pressure in adverse economic situations, their managers ask the accounting department to raise the bar on the last row of financial statement (i.e. profit) and thus, change its information content. Accounting, despite all the flexibility, does not seem to be able to provide useful data for management in such conditions. The data needed for decision making is a very complex category because of the diverse range of its users such as the investors (since they need to know the rate of company profitability and stability before investing in it), managers (they need to know the financial status of the company), banks and financial suppliers (the need to know the company's ability to repay the loan)who require various information.
The profit management philosophy isthe exploiting of the flexibility of standard and accepted methods and accounting principles. Of course, various interpretations of execution methods of an accounting standard are another reason for profit management.This flexibility is the main reason of the variety found in accounting methods. When the standard interpretation is very flexible, there will be less integration of financial data. Conformity and conservatism principles can also be a cause of profit management. According to Getschow [7], the company must increase the profits of its 1st quarter of the fiscal year without adding to the cash inventory and only using the depreciation accounting accrual methods, investment tax exemption and placement of the interest in assets account.Company managers have been emphasizing that this process was aimed to present more realistic financial statements and making company's financial statements comparable to other companies in the similar industries.Financial analysts and auditors call this phenomenon an accounting trick.However, all of these measures have been practiced within the framework of accepted accounting principles.Yoon &Miller believe that managers of companies intentionally manipulate the reported profit with the use of specific accounting policies inclined to change the accounting estimations and accruals to achieve their goals. Collingwoodstated that financial analysts expect the companiesto meet theforecasts and do not encounter conflict; this is true for the companies that are more reliable.
Financial analysts and investors get very discontented by deviation between the predicted and actual values, these discrepancies are more used in profit management.In the case of negative discrepancies, the profit owners see the profit management a fraudulent act while in the case of positive discrepancies,they see it a righteous process according to the discretion of management.Argue that: "Unlike most people who perceive normalization an abuse of the flexibility in reporting, in our opinion wise managers that aim to increase the value of their companies raise the value of their company in the framework of legal and accounting requirements." On the contrary, if the data recorded in the financial statements change in a way to create loss for the profit owners, it is regarded the management fraud to seek his/her personal goals.

Research background

Zang [8] proved that if a company makes use of more accruals management in the past relative to other companies in the industry,it would enjoyless accounting flexibility in order to manage accruals during the current year.As a result, it tends to manipulate the profit via company activities.

Gunny[9]investigated the real profit management results using the four tools of reduced research &development expenses; lower administration, general and sales costs; increased non-operational profits resulting from the sale of long-term assets; and excessive production. He reviewed the active companies in the New York Stock Exchange during the years 1988 to 2000 and obtainedthe following two results:
1-Actual profit management leads to profit reporting and loweroperational cash flow.
2-Investors recognize the results of the actual profit management. In other words, if a company makes use of actual profit management in the current year, it will record low returns for the next year.

Roychowdhury'sresearch [10] showed that the companies, to avoid reporting of the annual losses, temporarily reduce the price of products in order to increase the amount of sale,increase the amount of production to reduce the cost price of the sold products, and reduce the optional expanses to improve the profit margin.

Chen et al.[11] studied the owner's interest the market granted to companies that used the accounting profit management or actual profit management to converge the result of their operations to the forecast of analysts.They studied8977 firms in the New York Stock Exchange during 1987-2006. The results showed that the market value is available to all the companies that use profit management to converge the result of their operations to the forecast of analysts but the reward dropped to one-third for the companies that use the actual profit management.

Kochki[12] examined the timing of asset sales and thus, the resulting profit, as one of the profit normalization tools to clarify whether the managers normalize the profit by using such tools? The statistical population of the research

consisted of the companies listed in the Tehran Stock Exchange during 1984 to 1993.The results indicated that the profit resulting from the sale of assets had not smoothed out the temporary changes in the profits.

Rakhshani [13]studied the asset sales timing and financial costs asprofit management tools in the companies listed in the Tehran Stock Exchange. The statistical population of the research consisted of the companies listed in the Tehran Stock Exchange during 1999 to 2002.The results indicated a significant relationship between the "fixed asset sales profit" and"profit before tax deduction minus the profit of fixed asset sales". Also, there was a significant relationship between the "financial cost" and "profit before tax deduction and financial cost".

RESULTS ANS DISCUSSION

Operational definition of the research variables

The model used for testing the hypotheses using the multivariate regression is described as follows:

$$TAccrual_{it} = \alpha_{it} + \beta_1 TAccrual_{it-1} + \beta_2 RR_{it} + \beta_3 GDP_{it} + \beta_4 Flex\_EM_{it} + \beta_5 lpb_{it} + \beta_6 CPI_{it} + \varepsilon_{it}$$

Where,
TAccrual: dependent variable of the research model's is theaccruals. The Jones model was adjusted to measure this variable:

$$\frac{TAccrual_t}{TAsset_{t-1}} = \frac{\alpha}{TAsset_{t-1}} + \beta_1 \frac{\Delta Sales_t}{TAsset_{t-1}} + \beta_2 \frac{PPE_t}{TAsset_{t-1}} + \beta_3 SG_t + \beta_4 Divid_t + \varepsilon_t$$

TAsset: total company assets.
ΔSales: this variable shows the variation of the company sales and it is calculated from the difference of current year's sales with the past year's sales.
PPE: net indicator of company's machinery, equipment and property.
SG: average sales growth of the company.
Divid: ratio of the company dividends.
It must be mentioned that in the relevant foreign article, the financial analysts' forecast was used as the dependent variable of the probit regression model.Therefore, due to the lack of financial analysts' forecast in Iran, the total accruals variable was used. The reason for choosing this variable was investigation of the explanatory and predictive capability of flexibility of accruals in Iran.
RR: accruals'rate of return. The following equation is used to measure this rate in the company's operational cycle:

$$Operatingcycle = (\frac{AvgA/R}{Sales} + \frac{AvgInventory}{Costofgoodssold} - \frac{AvgA/P}{Costofgoodssold}) * 90$$

The operational cycle in this variable is the number of days required between the order and cash payment of the goods inventory and raw materials and stock sales (cash receipt from customers). The rate of return of discretionary revolving capital is the rate of return of discretionary accruals because the greater part of the discretionary accruals is a result of revolving capital accounts.
GDP: gross domestic production. Since the economic conditions create boom and bust in the company's business. Hence, this variable will be extracted from the reports of the Central Bank of the Islamic Republic of Iran.

lpb: this variable is simply the ratio of the market value to the book value of the ordinary shares.
CPI: consumer price index.Hence, this variable will be extracted from the reports of the Central Bank of the Islamic Republic of Iran.
Flex_EM: three separate criteria will be used for the calculation of the profit management flexibility.
A-Barton & Simko indicator – it is obtained from the net division of operational assets' flexibility by company sales. Net operational assets are equal to the shareholders equity minus available cash and negotiable securities, plus debt. A higher ratio means a lower flexibility.
B- Kasznikparameter – change in the total number of accruals. This flexibility parameter is obtainedby the difference between total accruals of the current season with the same season in the previous year divided by total accruals of the same season in the previous year. The total accruals are obtained by the difference between the profit before unexpected items and the cash flow resulting from operational activities.
C-The flexibility of operational cycle is obtained by the difference between upper flexibilitylimit with total discretionary accruals of Qi seasons. Qi is the number of seasons used in the company's operational cycle.
The following equation is used for the calculation of the accumulated delayed discretionary accruals:

$$CLDA_t = DA_{t-1} + DA_{t-2} + DA_{t-3}$$

The upper flexibility limit is obtained by the mean of accumulated delayed discretionary accruals plus twice the standard deviation of these delayed accruals. In other words,

$$UpperFlexibilityLimit = \overline{CLDA} + 2\sigma(CLDA)$$

So, the flexibility of operational cycle can be achieved by the following equation:

$$Flex\_EM = UpperFlexibilityLimit - CLDA$$

Descriptive indicators of the variables

[Table- 1] showssome of the concepts of descriptive statistics of variables,including the mean, median, minimum observations, maximum observations and standard deviation. The main central index is the mean that represents the point of balance and center of gravity of distribution and it is a good indicator for demonstrating centrality of the data.

For example, according to the table 4-2, the mean value for the total company assets variable is 2.5123 which shows most of the data is focused around this point.The median is another one of the central indicators that show the status of the population.It can be seen in the table 1 that the median of the variable of the total company assets is 1.8168 indicating that half of the data are less than this amount and half are higher than this amount. Standard deviation is one of the most important dispersion parameters and this indicator is used for thedispersion of the observations from the mean. The value of this parameter for the total company assets variable is 5.6765.

Table :1. Descriptive stats of the research variables for all companies

Variables	Number of observations	Mean	Median	Maximum	Minimum	Standard deviation
TAsset	685	2.5123	1.8168	71.0873	-15.9201	5.6765
TAccrual	685	.0..31	0.0062	0.8726	-0.4703	0.0999
ΔSales	685	1.0909	1.0784	2.3564	0.1623	0.2843
Ln PPE	685	0.7481	0.6131	3.1863	0.0396	0.4583
Flex_EM	685	3.9771	0.5751	216.3644	0.0012	17.2847
CPI	685	13.4469	13.2291	18.3163	9.8808	1.3865

Testing the correlation coefficient of the research variables

We define correlation as the intensity of dependence of two variables to each other. Generally, the correlation coefficients should be between -1 to +1. When the correlation coefficientgets closer to one, the correlation of the two variables will be higher. This dependency is not causation and the correlation coefficient does not say anything about which is the cause and which is the effect. We test for correlation to check the basic relationship between variables andaccording to the results,there is a relationship between variables and one may investigate these relationships more carefully.The results presented in **[Table- 2]** shows that there is a direct relationship between the quality of accruals and the future stocks yield.

Table: 2. Correlation coefficients of the research variables

Variables	TAsset	TAccrual	ΔSales	Ln PPE	Flex_EM	CPI
TAsset	1.0000					
TAccrual	0.0513	1.0000				
ΔSales	0.0360	-0.0197	1.0000			
Ln PPE	0.3129	0.0092	-0.3203	1.0000		
Flex_EM	-0.0354	0.0052	0.0213	-0.0069	1.0000	
CPI	-0.0098	-0.0006	0.1042	-0.0744	-0.2110	1.0000

Study of the research variables'stationarity

As we pointed out in chapter three, we should study the stationary of the variables before estimating the model. A variable is stationarywhen the mean; variance and coefficients of its autocorrelation stay the same over time.Generally, if thetime origin of a variable changes but the mean and variance and autocorrelation coefficients do not change, the variable is stationary, otherwise the variable is non-stationary.

The hypotheses relating to the variables' stationary are as follows:

H_0 : The variable is stationary.
H_1 : The variable is stationary.

The variables' stationary can be investigated in three modes on the surface, on the first difference, and on the second difference.For the variables whose probability of their on the surface test is 5%, the null hypothesis is rejected and that variable is stationary on the surface and if it is over 5%, it will be non-stationary.

The results of the stationary tests are shown in table 3.Based on Lin & Chu test, because the probability value was less than 5%, all independent, dependent and control variableswere at stationary level during the course of research. Stationary means that the mean and variance of the research variables were fixed over time and the covariance of the variables was the same between different years.
As we have shown in the **[Table- 3]**,all variables are stationary and we do not need any cointegration test.

Table: 3.The stationarity test results of the research variables

Variables	Levin, Lin & Chu		ADF		Results
	Statistic	**Probability**	**Statistic**	**Probability**	
TAsset	33.75	0.000	476.05	0.000	Stationary
TAccrual	-32.27	0.000	461.45	0.000	Stationary
ΔSales	-35.14	0.000	435.16	0.000	Stationary
Ln PPE	30.21	0.000	405.86	0.000	Stationary
Flex_EM	-2165.2	0.000	970.92	0.000	Stationary
CPI	8.81	0.000	189.68\	0.000	Stationary

It is shown in the **[Table- 4]**,the F-Limer probability of the first model is less than 5%and therefore, we use the panel data method for their estimation. According to the Hausman test probability and since the probability of the first model test is less than 5%, we used the fixed effects model for their estimation.

Table: 4. Results of the F-Limer test and Hausman test

Model	Test	Statistic	Probability	Result
First	F-Limer	1.52	0.0006	Panel method
	Hausman	85.06	0.000	Fixed effects

Table: 5. Hypotheses test results

$$TAccrual_{it} = \alpha_{it} + \beta_1 TAccrual_{it-1} + \beta_2 RR_{it} + \beta_3 GDP_{it} + \beta_4 Flex\_EM_{it} + \beta_5 Ipb_{it} + \beta_6 CPI_{it} + \varepsilon_{it}$$

Variable	**Estimated coefficient**	**t statistic**	**Probability**
C	-7.1867	-0.4927	0.6224
TAccrual	-.01614	-0.2167	0.8285
RR	8.3060	7.0529	0.0000
CPI	0.0050	0.7090	0.4786
GDP	0.2577	0.2327	0.8161
Flex_EM	0.1915	1.0960	0.2740
Ipb	0.4012	0.1999	0.8417
Coefficient of Determination	0.604		
Adjusted coefficient of determination	0.502		
Durbin–Watson	2.139		
F statistic	5.885		
Probability (F statistic)	0.000		

Recommendations resulting from the research findings

As we havementioned in this study, profit management is a kind of targeted intervention in the profit management that is attemptedby the manager of the business unit to raisethe reported profit to the desired level. With regard to the acceptance of the second hypothesis of this research and the

existence of significant relationship between its variables, we recommend to the institutions that try to show more profit to their investors to take more advantage ofdiscretionary accruals for the management of profit.Since the accruals are under the control of the manager, he/she can manipulate them by taking decisions by the virtue of such control and more importantly such changes occur within the framework of accepted accounting standards and principles and do not have a direct impact on cash flows.

CONCLUSION

Information enhances the knowledge of decision makers and reduces the level of their uncertainty. One of the most important factors of economic development of the countries is the existence of appropriate information systems. Accounting is an information system and it is a subject of attention in the economic enterprises as an effective tool in the process of preparation and presentation of financial information in order to make informed decisions by the users. In today's world, accounting information systems play a highly effective role in activities of the economic enterprises because the greater part of the information required across commercial and non-commercial departments for decision-making by the managers consists of accounting information.

The two articles by Barton &Simkostudied the effect of profit management flexibility.The net ratio of operational assets of the company (i.e.shareholders' equity minus available cashand negotiable securities, plus debt) to the sales is considered an indicator of profit management flexibility. Barton & Simko suggested that the companies with low flexibility in the management of profits will face analysts' forecastingproblems by increasing Rls. 1 per share.Kasznikfound that companies with low flexibility (that used the change in total accruals in the previous year indicator) faced problems with regard to the forecasts of the management of those same companies.The coreidea of both articles appertaining to the effect of the company's previous profit management on the current profit management flexibility seems interesting.This research adds the analysis of the decisive factors of profit management flexibility to the theoretical literature.This discussion studies various impacts of previous profit management measures on the company's ability to manage the profit and proposes a new structure that combines all of these factors. Experiments show that the new structure complements the flexibility discussed in the past research and includes the specific component – company; profit management flexibility. This study investigates the new criterion of flexibility (operational cycle flexibility criterion). This flexibility criterion is based on the difference between the applied flexibility and the flexibility limit. Gary Giroux [1] argues that the profit management covers a wide range starting from conservative accounting to non-based accounting and then continues with aggressive accounting and finally treacherous accounting.The important point is that there are numerous methods of profit management and the manager enjoys a great amount of freedom to manage the reported net profit in the framework of accounting standards. Also, for many accruals, disclosing the applied management of profit by the auditors will be difficult or if the auditors already know about it, sometimes they can't protest because most of the profit management techniques are within the scope of accounting standards. However, evaluation of profit management flexibility in a specific range is very important.

This research proposes and tests a new flexible profit management structure based on changes (fluctuations) within the range of the applied profit management and flexibility.The previous studies of profit management have focused on identifying managers' motivation to manipulate the profit [14]. Although these studies have shown that the profit management exists, in this case there is a missing link and that is the deliberate manipulation of the profit by the managers. Accounting covenants restrict the neutrality (objectivity) and provability of a set of allowed accruals. Also, the accepted general accounting principles restrict the managers' flexibility in the management of profit. Internal and external control mechanisms such as auditors, external operators, auditing committees and authorities that enact standards and regulations all contribute to restricting managers.Although managers can manipulate the accruals in the allowed set (e.g. committing fraud) but the costs of violation is high and its benefits are more important for most companies.In most situations, the managers may want to stay within the limits of accruals which they call "profit management flexibility limits". The specific limit of accruals is the profit management flexibility available to any manager at any specific time minus the limit of accruals that was adopted in the previous periods.

CONFLICT OF INTEREST

Authors declare no conflict of interest.

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