



## CFOs Concede Earnings are 'Managed': Study

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**A study** by four prominent business school professors on earnings quality shows that 'managed' earnings are not a figment of short-seller imaginations.

In this case, the fudging relies on tools available in the gray area of Generally Accepted Accounting Principles to make results look better than the underlying business really is.

Based on a survey of 169 public-company chief financial officers, with in-depth interviews of 12, the study concludes that high quality earnings are sustainable when backed by actual cash flows and (this is my favorite) "avoiding unreliable long-term estimates."

More to the point, according to the study:

- About half of earnings quality is determined by innate factors — that is by forces outside manager's control.
- About 20 percent of firms manage earnings to misrepresent their economic performance.
- And for such firms, 10 percent of the typical EPS number is managed.

Furthermore, the CFOs "believe that it is difficult for outside observers to unravel earnings management, especially when such earnings are managed using subtle unobservable choices or real actions."

What's an investor to do? The professors say the CFOs "advocate paying close attention to the key managers running the firm, the lack of correlation between earnings and cash flows, significant deviations between firm and peer experience, and unusual behavior in accruals."

- **CNBC's Earning Central, Click Here**

*My Take: This really confirms what many of us already suspect but most investors ignore until it's too late. The real question is whether the actual numbers on "managed" earnings are too low.*

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