

# Article 5

Business



**ASSIGN  
BUSTER**

“ Earnings Wizardry” Summary This article on the Wall Street journal which is based on a study conducted by Ilia Dichev and Shiva Rajgopal of Emory University and John Graham of Duke University discusses the roles which Chief Financial Officers (CFOs) of companies play in making the quarterly earnings of the company seem attractive. According to the article, they tamper the accounts depending on whether the quarterly earnings were good or bad. The CFOs however say they are forced to do this if they are to keep their jobs and hence it’s not fully their fault.

When the quarter earnings have been good, “ restructuring changes” excuse is used to hide some of the earnings and when it is bad, they tap into the reserves to cover the tracks of a bad financial quarter. The tampering is a form of accounting ruse that is done in such a clever and legal way that noticing the difference in economic performance is hard. According to the study, this fiddling is called searing due to the carefulness it’s accorded and the difficulty in detecting it.

Guerrera in this article provides several tips to the investors (who are the majority victims of this accounts searing by CFOs) on how to detect that something is amiss in the company’s financial reports. He however warns them that it may not be as easy as put in the article and the major key is in the financial talk by the CFOs during the presentation. Some of the tips provided include: observing carefully the cash flow against the earnings, when the cash flow deteriorates but the earnings is high, there is a cause of alarm. The other is examination the company’s earnings records and any deviations that may have occurred from those recorded should also raise an alarm among the investors.

Work Cited

<https://assignbuster.com/article-5/>

Guerrera, Francesco. “ Earnings Wizardry.” The Wall Street Journal, October 1, 2012.