

The issue of management discretion

Finance



**ASSIGN
BUSTER**

Finance and Accounting The Issue of Management Discretion The GAAP guidelines on financial reporting sometimes create controversy on the right course of action to take. A company analyst faces many challenges, which emanate from the GAAP stipulations. During the analysis of companies in the same industry, the company analyst must contend with the challenge of management discretion in the reports on company performance and trends. However, the report will majorly focus on the challenge of the management discretion in company operations. According to Fridson and Fernando, there are many instances when management discretion can cause difficulties in the work of a company analyst (26).

The challenge compromises the quality of the financial reports delivered by the company analysts. This aspect is favorable to one party becomes a barrier for another party to the achievement of a certain goal. For instance, the case of Adelphia Company reveals management discretion challenge for the company stakeholders. In this case, the communications company created a high amount of debt amounting to \$2. 6B in its off-balance sheet records (Siddiqui 37). The company provides cable entertainment and other communication services. The debt was created when the top management of the company shifted the loans of the company amounting to \$2. 6B to the unconsolidated books of account, which were controlled by the family of the founders of the company, Adelphia Company.

Accordingly, the money borrowed by the company to fund the company's projects, balanced personal loans of the Adelphia founder family members. The rest of the amount was used in the covering of other expense relating to the Adelphia founder family members. Additionally, the money was spent in the purchase of a golf course and purchase of Adelphia stock, which was

<https://assignbuster.com/the-issue-of-management-discretion/>

unwarranted, by the company rules and regulations. According to Martin, the money was misused in the purchase of luxurious condominiums in the city of Colorado and New York City (67). No expenditures were related to the initial objectives of seeking the company loan. The whole syndicate was in the benefit of the executive team while it was in complete violation of the company regulation and the shareholders' interests in the Adelphia Company.

The move evoked the stakeholders' stern reaction. The afflicted parties sued the executive management of mismanaging an embezzling of the Adelphia Company's financial resources. The retaliation measure of filing of a bankruptcy claim was appropriate given that the claim represented the true state of affairs of the Adelphia Company at that time. Additionally, the challenge of management discretions affects many stakeholders of a company. In this regard, the bench-marking process is also compromised because of the many conflict of interest in many companies of the same industry.

Additionally, the analysis also includes past performance of companies versus the current performance of the companies. In this regard, the challenge of management discretion compromise even the quality of the ratio analysis reported at the end of every financial year of the company. This analysis is pivotal in sound decision making for the investors. For that reason, the creation of the conflict in the company and business analysis is detrimental to the investors of various companies. The benchmarking process entails the analysis of companies in the same industry (Thomas 73). The debt created by the executive management of Adelphia is represented in the graph below:

<https://assignbuster.com/the-issue-of-management-discretion/>

Graph retrieved from: <http://money.cnn.com/2002/04/03/news/companies/adelphia/>

Works Cited

CNN. SEC investigates Adelphia: Embattled cable provider faces scrutiny for off-balance-sheet

Debt, CNN news, 2005, vol. 2 (1), pp. 47.

Retrieved from: <http://money.cnn.com/2002/04/03/news/companies/adelphia/>

Fridson, Martin S, and Fernando Alvarez. Financial Statement Analysis

Workbook: Step-by-step

Exercises and Tests to Help You Master Financial Statement Analysis.

Hoboken N. J:

Wiley, 2011. Print.

Martin S Fridson and Fernando Alvarez . Financial statement analysis

workbook: step-by-step

exercises and tests to help you master financial statement analysis. Hoboken

N. J.:

Wiley, 2011. Print.

Siddiqui, Siebens. Managerial economics and financial analysis. New Delhi:

New Age. 2009.

Print.

Thomas R Robinson; et al. Challenges of financial statement analysis.

Hoboken, N. J.: John

Wiley & Sons. 2012. Print.