

Original Research Article

Research on financial report fraud in listed manufacturing companies and its countermeasures

Yilu He

Zhejiang Wanli University, Zhejiang, China; 935779218@qq.com

Abstract: Financial fraud is the deliberate and planned fraud of report data. The problem of fraud in financial reporting among listed companies in the manufacturing industry is relatively significant and has not been effectively curbed. This problem has long persisted and has seriously affected investor trust. Therefore, it is of great significance to find a solution to the problem of financial fraud in listed manufacturing companies.

Keywords: Manufacturing; financial report fraud

1. Overview of financial report fraud in listed manufacturing companies

Financial report fraud refers to the fact that when companies prepare financial statements, they do not follow the requirements of relevant standards and systems and do not truly reflect the actual financial information of the enterprise, which leads to false and deceptive information in financial reports. Due to the imperfect capital market in China, some listed companies in the manufacturing industry use financial reports to provide false information to achieve fraud in financial reports. The methods of fraud are endless. Investors usually select companies that want to invest on based on financial reports, so some companies cheat on their financial reports to deceive investors' trust to achieve fund raising and other purposes. Financial fraud will affect the trust of investors and shareholders in the company, and even lead to a social credit crisis. If the financial reporting fraud problem of a listed company cannot be effectively identified, the interests of investors will be severely damaged, the use of China's capital market resource allocation, the healthy development and the stability of economic operations will be affected. Therefore, how to effectively identify the financial reporting fraud problems of listed companies and how to effectively prevent and reduce the possibility of their occurrence are very important for the development of China's capital market.

2. Means of fraud in financial reporting of listed manufacturing companies

2.1 Provision for asset impairment

The "Accounting Standards for Business Enterprises" does not clearly stipulate the timing of asset impairment provision in the provision of asset impairment provision; the method and proportion of the asset impairment provision are determined. Therefore, these are basically determined by the listed companies in the manufacturing industry themselves. The provision for impairment allowances will cause some companies' profits to turn from profit to loss. The provision for asset impairment provision is directly included in management expenses, and then the company's profit is written off, which has an obvious impact on some manufacturing listed companies. For some needs, some listed companies in the manufacturing industry will use asset impairment provisions to manipulate the profit and loss of the

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doi: 10.18282/ff.v8i1.790

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company. Therefore, asset impairment provisions may become a new tool for manufacturing listed companies to manipulate profits. At present, some listed companies in the manufacturing industry face severe losses and small profits, and often manipulate their profits to improve the situation. In order to avoid consecutive losses for several years, companies will increase losses in the loss year, which will help turn losses into profits in the next few years. This kind of accrual method of asset impairment provision will not only damage the interests of shareholders, but also violate the basic requirements of comparability and continuity of accounting information.

2.2 Accounts receivable

The accounts receivable are closely related to operating income, changes of which will cause major changes in the main income of listed companies in manufacturing. Since there is no need to disclose to the outside world, accounts receivable have become an important means for operating profits of listed companies in manufacturing. Some manufacturing listed companies mainly adjust their product costs and current profits and losses through the use of accounts receivables and prepayments, or through the use of accounts receivables and prepayment settlement methods by business staff and some difficult-to-control weak links, embezzling public funds for private gain.

2.3 Particularity of non-monetary transactions

In the course of non-monetary transactions, general income and pricing methods cannot be used. The two parties to the transaction usually exchange non-monetary assets. When there is a difference in the value of the exchanged assets, the currency is used to make up the price. Because of this particularity, listed companies in the manufacturing industry take this as an opportunity to cheat on financial reporting. When transferring huge assets such as equity and land, it is recorded in the accounts receivable, but in fact there is no cash inflow. Between affiliated companies, in order to achieve the purpose of adjusting profits or smoothing profits, such abnormal non-monetary transactions often occur.

2.4 Inconsistent accounting methods

The accounting method should, in principle, be consistent throughout the accounting periods. However, some listed companies in the manufacturing industry will use changes in accounting estimates and accounting methods to manipulate profits. The main methods are as follows: using different or changed fixed asset depreciation methods (extending the depreciation period and changing the accelerated depreciation method to the straight line depreciation method); changing the way in which inventory is valued; or conducting financial fraud without depreciation at all.

2.5 Other accounts payable and accounts receivable

Generally speaking, the amounts of other receivables and payable accounts in the financial reports of manufacturing listed companies are not large, but there are a few exceptions. Some companies conceal the hidden losses of other receivables to cover the fact of bad debts and investment failures, or conceal the profits of other payables, reserve the profits according to actual needs, and transfer them back in case of future losses. By writing about other receivables, companies can achieve the purpose of falsely increasing profits. Some listed companies in the manufacturing industry often hang some receivables that are difficult to recover, to achieve the purpose of falsely increasing assets. In addition, some companies exaggerate the amount of other payables in order to avoid or reduce taxes.

2.6 Related party transactions

Related party transactions are determined through negotiations between related parties in terms of pricing, settlement and payment. Based on this particularity, related party transactions have become one of the main means of fraud in financial reporting of listed companies in manufacturing. Some manufacturing listed companies use fictitious business operations to increase main business income and profits or use non-market prices to purchase and sell, and non-listed state-owned enterprises use high-quality assets to exchange inferior assets of listed companies for equity swaps and other methods to achieve financial fraud.

3. The countermeasures for the fraud of financial reports of listed manufacturing companies

3.1 Increase supervision and punishment of fraud in financial reports

Increasing the supervision and punishment of financial reporting fraud of listed companies can effectively solve the problem in manufacturing industries. The relatively "loose" phenomenon of external supervision at this stage has become the main reason for the financial reporting fraud problem of listed companies. Therefore, it is necessary to solve the financial reporting fraud problem of listed companies through the construction of relevant legal systems and supervision systems. Punishments may include unifying the law's punishment for financial reporting fraud, using the amount of fraud as a base to determine the amount of punishment, the corresponding deprivation and market ban. The increase in the cost of non-compliance will deter the behavior of fraudulent financial reporting through the whole plan, and to a certain extent can prevent the financial reporting fraud of listed companies.

3.2 Optimize the company's equity structure

There are some unreasonable phenomena in the shareholding structure of some listed companies in the manufacturing industry. This is a direct cause of current financial reporting fraud. Because of the unreasonable ownership structure, the board of directors is easy to concentrate, and the performance of the basis function of the board of supervisors will be limited and affected by many factors. A single manufacturing listed company has optimized its equity structure and obtained better large shareholders. It is difficult to rely on equity advantages to interfere with the development of normal business management activities. The board of directors and the board of supervisors can play a more effective role to avoid financial reporting fraud limits.

3.3 Improve the accounting system

Through the continuous improvement of the accounting system, the problem of fraud in financial reporting of listed manufacturing companies can also be resolved accordingly. Accounting work can make better improvements in corporate financial management, capital allocation and use, and asset structure. The so-called fraud in financial reports is mainly due to unreasonable accounting. To find out the fraud in financial reports can be separated from the corresponding accounting work. Therefore, in order to effectively deal with the problem of fraud in financial reporting, it is very necessary for listed companies in the manufacturing industry to start with the improvement of the accounting system.

3.4 Regular internal control assessment

To a large extent, a sound and complete internal control system can avoid the occurrence of fraud in financial reporting. Therefore, listed companies in the manufacturing industry should proactively carry out the construction of internal control, attach importance to the inspection of the internal control construction process, and pay more attention to financial reporting fraud. With the establishment of an internal assessment of financial reporting fraud and the evaluation of the unit's accounting work every quarter, especially the relevant work for the preparation of financial reports, the authenticity and reliability of the company's financial reporting data increase year by year.

3.5 Improve the quality of investors

Fraud in financial reporting has seriously harmed the interests of stakeholders, and related litigation events abound. It can be seen that many small and medium investors lack the most basic knowledge of the securities market, and they have very little knowledge of the operation process of the securities market. Often, most investors follow suit. Therefore, it is necessary to improve the professional quality of investors, increase the sensitivity of financial information, develop the ability to identify fraud in financial reports, and maintain their own interests.

3.6 Improve the existing audit system

It is necessary to strengthen the supervision of certified public accountants, and reform and improve the current auditing system. The accounting firms to carry out audit process should be selected by the regulatory agency instead of the listed companies; the independence of the accounting firm should be guaranteed, and other services cannot be provided to the audited company except for the audit; accounting firms involved in the financial fraud of listed companies in the manufacturing industry should be severely punished, as a warning to others.

4. Conclusion

In a word, fraud in manufacturing financial reporting is still a problem that the capital market pays much attention to. The causes are extensive and cannot be easily resolved overnight. Therefore, to solve the problem of financial fraud in manufacturing requires public efforts from the legal system, capital environment, investment education and other aspects to find solutions and improve them, through multi-pronged approach and comprehensive management like strengthening the supervision. Then investors can have a better investment climate and China's capital market will be able to develop healthily and operate economically steadily.

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