Abstract

The study examines the four dimensions of earnings management i.e., detection, factors influencing EM with reference to firm-specific parameters, managerial preference in EM decision, and implication of EM in the Indian context. In detection, the study discusses two dimensions (i) detection of data anomalies using Benford’s Law, and (ii) Detection of EM using existing theoretical models covering both accrual-based earnings management (AM) and real earnings management (RM). With reference to the second dimension, the study finds that firms’ growth opportunity, financial leverage, performance, institutional ownership, business group affiliation, and age influence both AM and RM. With respect to managerial preference, both AM and RM support the complementary relationship. With respect to the fourth dimension, stock price is more synchronized with the market, and less synchronized towards firm-specific information. The findings of the study have implications for accounting standard setters, regulators, and the government.

JEL Code: G19; G38; M40; M41

Keywords: Earnings Management; Accounting; Stock Price; India

1. Introduction

EARNINGS MANAGEMENT IS a subjective choice, which is exercised by the management to manage the financial statements to suit their requirement. In other words, managers undertake earnings management when they use their discretionary power/judgment to present the financial reporting to suit their requirements or to meet certain expectations while preparing financial statements. Earnings management decisions can be governed by entities both internal and external to companies. For example, companies may be resorting to earnings management as managers may be

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1 The Thesis was submitted to Indian Institute of Technology, Kharagpur in 2017, for the award of Doctoral Degree, awarded in 2018, under the supervision of Dr. Chandra Shekhar Mishra, Associate Professor, Vinod Gupta School of Management, IIT Kharagpur 721302 and Dr. Prabina Rajib, Professor, Vinod Gupta School of Management, IIT Kharagpur 721302

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Submitted January 2021; Accepted June 2022
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