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The Impact of International Financial Reporting Standards adoption on Earnings Management: Evidence from EU countries

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Forthcoming in Book “Understanding Bankruptcy: Global Issues, Perspectives and Challenges, Nova Science”
Abstract

The European Parliament has introduced a regulation in 2002 requiring all public traded firms in the European Union (EU) to prepare their consolidated financial statements according to the International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS). Since 2005, more than 150 countries have adopted the IFRS. This is considered to be an outstanding improvement to accounting regulation that became a global concern of accounting scandals and bankruptcy during the recent financial crisis. Eventually, as firms are harmonizing their accounting and reporting standards, a question arises whether IFRS has an impact of this change on earnings manipulation and transparency of firms accounting reporting procedure. This chapter documents the impact of IFRS on earnings manipulation behaviour considering the impact of the financial crisis on the European banking system after 2008. An analysis of 1,688 listed firms from EU countries from 2000 to 2015 shows that although earnings management can be a possibility during financial crisis and IFRS can change managers’ accrual earnings behaviour, but managers may still use real earnings manipulation to meet or beat their earnings target. The findings also indicate that strict accounting standards are not enough to mitigate earnings management, especially for financially distressed firms. We contribute to recent literature on earnings management to assist policy makers to take decision based on the earnings management techniques exercise by firms.