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Investigating the predictive power of bankruptcy models based on real and accruals earning management models of corporations accepted in Tehran Stock Exchange

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ABSTRACT

One of the major challenges faced by major firms is the risk of financial instability and ultimately financial bankruptcy. Hence, the main objective of this paper is to predict bankruptcy based on real Earning management models and the accrual Earning management of companies admitted to the Tehran Stock Exchange. The research method is descriptive-applied and is a correlation study. The time domain of research was between 1382 and 1395, with a sample of 110 companies (65 bankrupt and 65 non-bankrupt companies) selected from the list of companies admitted to the Tehran Stock Exchange. Logistic regression model was used to test the research hypotheses. In general, the findings of the research hypothesis test show that the predictive power of bankruptcy models based on real profit management models and accruals management of companies accepted in Tehran Stock Exchange is significant. Therefore, it can be stated that the amount of real earning management and accrual earnings management affect the bankruptcy of the investigated companies.

1- Introduction

The rise and spread of bankruptcy and fraud among companies have been seen as a warning issued, and manipulations in recent years have created serious challenges for shareholders. Therefore, the existence of fraud in financial statement along with deliberate mistakes in firms financial information which have created through misrepresentation, deliberate disregard, and not suitable disclosure and transmission information to financial statements users, have led to the establishment of the Association of Certified Fraud Examiners (ACFE) (Igbanaki Weigbinovia, 2018: 238).

Of course, it is very difficult to identify potential fraud in organizations. But a relatively good model presented by Benish (1997) using eight-variable financial ratios has allowed the implicit identification of the existence of manipulation in financial reporting, especially manipulation of a firm's profits. Banish's (1997) model has been confirmed by Warafsky (2012), in fact, their model is similar to Altman's (1968), which does not only predict the possibility of corporate bankruptcy. Rather, it seeks to uncover the existence of corporate financial