


# *The Impact of Earnings management and the effect of earnings quality in relation to bankruptcy level (Firms listed at the tehran stock exchange)*

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## ABSTRACT

This paper investigates the variability of real business activities in the form of discretionary expenditures (accounts receivable, selling, general and administrative expenses, and net change in accruals), and the firm's stock price performance concerning the frequency of meeting or beating analysts' earnings forecast. Also, the study investigated the relationship between the firm's stock price performance and the variability of these financial statement accounts. The objective was to examine if these selected financial statements of accounts could be used by management to manipulate earnings in order to meet and/or beat analysts' earnings forecasts so as to enhance the firm's stock performance. The study found that there is a significant difference between the variance of SG&A, NCA and stock returns of the firms that meet and/or beat the analysts' forecast and those that do not. It was also found that there is a significant difference in stock returns based on meeting and/or beating the analysts' estimate.

## 1. Introduction

At the beginning of the 21th century, the world witnessed a number of accounting scandals, the most critical scandals focused on the use of corporate management to exploit the means that would show the unreal image of financial statements, where these companies utilizing the flexibility found in Accounting standards- and what these standards allow, to move between accounting policies, the use of estimates and personal judgment to name a few-in making extra improvements of financial statements that would show a better image of companies than in reality.

The global crisis spillover and the resulting collapse of a large number of global companies such as Enron, World Com and Xerox in the United States, Parmalat and HIH in Italy, One. Tel and Harris Scarfe in Australia and so many others lead to undermining the parties confidence in the published financial statements, in which the relevant parties rely on devising necessary information for administrative and investment decision-making. As a result of these collapses, professional organizations and academic studies have tried to shed a light of understanding the real causes of these failures more accurately, most studies have found that



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