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Does Accounting and Financial Expertise in the C-Suite Aid or Mitigate Earnings Management?

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Abstract

Despite the obvious impact of the CFO and the CEO on a firm's financial statements, there is limited empirical evidence on whether and how the personal characteristics of senior management are associated with earnings management. We provide empirical evidence on the relation between earnings management and the accounting and financial expertise of these C-suite managers. For a sample of S&P 500 firms we find that CEOs and CFOs with accounting and financial expertise appear to manage earnings more aggressively than CEOs and CFOs without such expertise. We document greater earnings management by C-suite managers with accounting/financial expertise via accruals as well as real activities, such as overproducing goods, cutting back on discretionary spending, such as advertising and research and development expenses, manipulating sales and shifting of core expenses to special items. Our findings have important implications for boards of directors, members of the audit committee, investors and others.

Keywords: CFO, CEO, real earnings management, financial expertise, CPA**JEL Classification:** M43, M41[Suggested Citation](#) >[Show Contact Information](#) > Download This Paper (Delivery.cfm/SSRN_ID1420182_code37863.pdf?abstractid=1420182&mirid=1)

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