

Enter your search terms here



Advanced search

[Home](#) / [Journals](#) / [Accounting Research Journal](#) / [Volume 22 Issue 2](#)

/ Financial status, corporate governance quality, and the likelihood of managers using discretionary accruals

To read the full version of this content please select one of the options below:

Add to cart

32.00€ (excl. tax)
30 days to view and
download

Access through your institution



Access and purchase options ▾

Financial status, corporate governance quality, and the likelihood of managers using discretionary accruals

[Sebahattin Demirkan, Harlan Platt](#) ▾[Accounting Research Journal](#)

ISSN: 1030-9616

Article publication date: 11 September

2009

Serial

Number.)

[Reprints & Permissions](#)

DOWNLOADS



2887

Abstract

Purpose

The purpose of this paper is to investigate, using data on US manufacturing firms, how and when corporate governance affects managers' decisions to use discretionary accruals and thereby artificially influence company financial reports.

Design/methodology/approach

Three-stage least squares is employed to study the relationship between financial status, corporate governance and financial reporting discretion. The sample spans the years 2001-2003 during a severe downturn in the US stock market. Financial status is measured with the Altman Z-score.

Findings

A significant difference is found between firms not classified as healthy or failed (i.e. the mid-range group) and the two extreme categories when examining governance quotient using a well-known index. A positive relationship is found between discretionary accruals and the governance index. Strong governance appears to reduce the incidence of mid-range firms engaging in accruals management. The least healthy and the most distressed companies have the weakest relationship with discretionary accruals. By contrast, mid-range firms are more likely to resort to discretionary accruals.

Practical implications

Related articles

[Do discretionary accruals affect firms' corporate dividend policy? Evidence from France](#)

Anis Ben Amar et al., *Journal of Financial Reporting and Accounting*, 2018

[Does the disclosure of corporate governance structures affect firms' earnings quality?](#)

Jui-Chin Chang et al., *Review of Accounting and Finance*, 2010

[The association between earnings management and asset misappropriation](#)

Dan-Bee Song et al., *Managerial Auditing Journal*, 2013

[A Comparison of Payments to a For-Profit Dialysis Firm From Government and Commercial Insurers](#)

Christopher P. Childers et al., *JAMA Internal Medicine*, 2019

[Screening for modulators of autism spectrum disorder using induced human neurons](#)

Rao S.R. et al., *SLAS*

We are using cookies to give you the best experience on our website, but you are free to manage these at any time. To continue with our standard settings click "Accept". To find out more and manage your cookies, click "Manage cookies".

Accept

[Manage cookies](#)

The relationship between firms' financial health and discretionary accruals reveals an agency problem in credit markets with financially stressed firms. More attention is required on firms whose financial condition is uncertain. Also, it is documented that significant findings of importance to the earnings quality and corporate governance literature by documenting the role of corporate governance on discretionary accruals and financial status.

I consent to the use of Google Analytics and related cookies across the TrendMD network (widget, website, blog). [Learn more](#)

Keywords

Corporate governance

Financial reporting

Financial performance

United States of America

Manufacturing industries

Citation

Demirkan, S. and Platt, H. (2009), "Financial status, corporate governance quality, and the likelihood of managers using discretionary accruals", [Accounting Research Journal](#), Vol. 22 No. 2, pp. 93-117.
<https://doi.org/10.1108/10309610910987475>

 [Download as .RIS](#)

Publisher: Emerald Group Publishing Limited

Copyright © 2009, Emerald Group Publishing Limited