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How has the financial crisis affected earnings management? A European study

Riccardo Cimini 

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Abstract

The article aims to investigate whether and how in the European Union (EU), the burst of the 2008 financial crisis affected misrepresentation of financial information due to earnings management. By analysing a sample of 11 844 firm-year observations listed in the EU over the period 2006–2012, an event study methodology allows us to calculate and compare country-by-country abnormal accruals over the estimation period and over the event period. Our findings validate our research hypothesis and suggest a decrease of misrepresentation in the large majority of the European countries after the burst of the financial crisis. The results take part in the debate in the accounting literature about the change of earnings management over a financial crisis and have several implications for standard setters and regulators that could learn how the common incentives of entities to attract potential investors during a

crisis could lead them to provide a high-quality financial reporting.

Keywords: earnings management financial crisis event study Monte Carlo simulations

JEL Classification: M41



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