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Earnings management under German GAAP versus IFRS

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These findings contribute to the current debate on whether high quality standards are sufficient and effective in countries with weak investor protection rights. They indicate that voluntary adopters of IFRS in Germany cannot be associated with lower earnings management.

Acknowledgements

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Notes

¹For con
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resulted



³Tax-free exchange for new assets treated as massive depreciation thus reduce

commercial income in order for them to be tax deductible, but when reported as a 'special item with equity element' the depreciated asset can be represented in the balance sheet with its 'real commercial book value'. Companies are however not obliged to report tax induced higher depreciations this way. According to a 1987 study, less than one-quarter of the German companies actually do so (Haller, [1992](#)).

⁴First time applications of IFRS could not have its full effect yet or result in substantial changes in the computations of earnings causing high abnormal accruals that would incorrectly be attributed to earnings management.

⁵Average adjusted R^2 is 30% and ranges from 0.2 to 77%.

⁶While most earnings management studies assume earnings are managed for opportunistic reasons, the exercised discretion can also be used to signal private information and thus reduce information asymmetry (e.g. Subramanyam, [1996](#)). However, because accounting systems likely underreact to economic shocks, using accruals to signal firm performance results on average in a less negative (and in specific cases even positive) correlation with cash flows (Leuz et al., [2003](#)).

⁷This variable appears to be highly significant in the IFRS model ($p < 0.01$).

⁸Non-parametric tests (Wilcoxon Mann-Whitney test) yield the same result regarding the discretionary accruals, but it is not significant ($p = 0.046$, two-tailed). Difference between accruals and cash flows is significant ($p = 0.000$, two-tailed).

⁹Non-parametric tests (Wilcoxon Mann-Whitney test) yield the same result regarding the discretionary accruals, but it is not significant ($p = 0.046$, two-tailed). Difference between accruals and cash flows is significant ($p = 0.000$, two-tailed).

¹⁰As mentioned in the introduction, the study focuses on the impact of IFRS on earnings management. The study finds that firms using excessive accruals to manage earnings are more likely to be in the tax-exempt category. This suggests that firms in the tax-exempt category are more likely to use accruals to manage earnings. The study also finds that firms in the tax-exempt category are more likely to have higher accruals. This suggests that firms in the tax-exempt category are more likely to use accruals to manage earnings. The study also finds that firms in the tax-exempt category are more likely to have higher accruals. This suggests that firms in the tax-exempt category are more likely to use accruals to manage earnings.

¹¹Firms that have adopted IFRS are more likely to have higher accruals than firms that have not adopted IFRS. This suggests that firms that have adopted IFRS are more likely to use accruals to manage earnings. The study also finds that firms that have adopted IFRS are more likely to have higher accruals. This suggests that firms that have adopted IFRS are more likely to use accruals to manage earnings.

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The Effect of Audit Quality on Earnings Management*

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