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Earnings management under German GAAP versus IFRS

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Pages 155-180 | Published online: 12 Apr 2011

Cite this article <https://doi.org/10.1080/0963818042000338988>

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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

The authors are grateful for the comments received from Bill Rees, Christian Leuz, the participants of the 26th Annual European Accounting Association Congress 2003 in Sevilla, the participants of the 2003 European Institute for Advanced Studies in Management (EIASM) Workshop on implementing IFRS in Brussels, Workshop participants of the University of Amsterdam and the Catholic University Leuven, the participants of the Business Economics Seminar of the University of Antwerp and the participants of the 2004 Doctoral Colloquium of the European Accounting Association. Thanks also to Rick Cuijpers and an anonymous reviewer.

Notes

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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 indicate a significant ($p = 0.016$ two-tailed) difference between the two groups regarding accruals.

⁹Non-parametric tests yield similar results.

¹⁰As measured by the amount of excessive depreciation, firms that report certain profits in tax returns are more likely to accrue profits in tax returns. This suggests that firms are more likely to report profits in tax returns if they have reported that they have excessive accruals. This is likely due to the limitations, which are filtered out because of the excessive accruals.

¹¹Firms that report profits in tax returns are more likely to report profits in tax returns if they have reported that they have excessive accruals. This is likely due to the limitations, which are filtered out because of the excessive accruals.



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