Testing Accruals Based Earnings Management Models in an International Context

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ABSTRACT

The main purpose of this thesis is to extend the study by Dechow, Hutton, Kim and Sloan (2012) in two ways: firstly by comparing the specification and power of the McNichols (2002) model with a newer model, Dunmore (2013). Secondly, the Dechow et al. (2012) study is extended into an international context using data from China, Japan and the United Kingdom to examine the specification and power of the models as a result of institutional factors. Data was collected for the years 1993 to 2012 and comprises a total of 13,238 firm years from China, 44,005 firm years from Japan and 7,782 firm years from the United Kingdom. The study finds that both the McNichols (2002) and the Dunmore (2013) models are well specified and the test power is improved by the incorporation of reversals. However, the study also finds that the McNichols (2002) model outperforms the Dunmore (2013) model. Finally, the results are quite different for each country, but not in the way that is predicted by the institutional factors.
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