Propensity of Australian firms to manage their earnings around recognised benchmarks

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Abstract

This study conducts multiple approaches to identify earnings management within the Australian market. Companies with small positive earnings and positive earnings changes, referred to as benchmark beaters are assumed to be managing their earnings. Versions of the Dechow and Dichev (2002) model, Jones accrual quality model (1991, 1995) and earnings persistence measures are applied to identify whether companies with small positive earnings and small positive earnings changes manage their earnings. Evidence is identified to suggest that benchmark beaters manage their earnings to report a small positive Basic EPS result and this is supported by earnings persistence tests. However, when testing benchmark beaters based on reporting a small positive NPAT result, discretionary accruals are not significantly different for benchmark beaters compared to other firms. No evidence is identified to suggest that firms who report a small positive earnings change are managing earnings to acquire this benchmark. Earnings distributions are tested using NPAT and Basic EPS with no discontinuity identified at zero for small positive earnings and small positive earnings changes.
Declaration

This thesis is submitted to Bond University in fulfilment of the requirements of the degree of Master of Philosophy. This thesis represents my own original work towards this research degree and contains no material which has been previously submitted for a degree or diploma at the University or any other institution.
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