

Does Earning Management Tend To The Accrual Basis Against The Cash Flow Basis?

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Abstract – Accountings Accrual basis is seen to seek favour in all corporate practitioners that manage earnings. There exists plethora of studies which focus on earning management mainly their risks. The study also leads to accounting literature as it reflects the tendency of market to the accounting accrual basis as it's appears to motivate the earning management willingness. It further assessed the performance if any sample company with respect to the accrual-indicators vs. the cash-indicators along with their pricing spread in Iraq. The ownership of corporate in Iraq is one of the most dominant models of shareholder that turns the study unique with highlight of the motivation in earning management. The companies reveal preference for the Market for the accruals, as seen in the behavior of share pricing. We vision that the Study would better the perception of investors pertaining to the company's performance reliability as assessed by the earning. This is advantageous for the corporate finance and the accounting users both at local and global levels that help rationalize the motivation as seen behind the management manipulation of earning.

Keywords: Accrual Basis, Cash Basis, Accounting Indicators, Share Pricing, Earning Management.

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I. INTRODUCTION

The motto of the financial statements is directed towards several stakeholders and aim to aid evaluation process of managements' performance. At a stance, the system of accrual accounting is thought to have huge importance. Also, appears to be superior to others even if the same has been challenged continuously by the accounting of cash flow. The cash flow challenge is important and also effective with respect to the accrual basis along with the cash flow shift looping in security analysis. Superiority question of accrual over the cash flow relates to nature and objectives of financial reports. But, the earning management is kind of a strategy which the company's management uses for manipulation of the earnings of the company mapping the needed goals. Such practice has been done on the basis of accrual assistance. The study of Goel (2012), estimated management Benefits has an impact and been analyzed by the Indian Companies [1]. The analysis suggests the prevalence of accrual in relation to the earning management studied.

In a same way, the discussions prime objective is studying comparative benefits of the indicators of accounting both for cash flow and accrual basis with

respect to the relation in volatility and persistencr of the earning behavior

Though Iraq, is the first Arab country appearing in legislation of laws of companies and trade, here the laws started in nineteenth century, but the entry delayed in markets of finance, and the same started in 1992, Baghdad Share Exchange failed to lead the market of Iraq to aid control role security having impact on the financial fraud occurrence which causes both financial loss and added problems. In lieu of such frauds a question arises for the efficiency of the framework of governance and the earning quality. The above necessitates changes in the regulatory system. The application by Iraq of the Companies Law No. 21, 1997 along with its amendments entitled Capital Market Authority Law No74, 2004, is the financial terms reference point and key to the study.

In United States, a model of corporate governance of shareholder persists. Countries as Japan owns the model coordinated, however in Iraq, the intermediaries' model along with the promoters overpower the private and the mix sector. Further, a small proportion of the corporate shareholders seem to be owned by the large-share households. The above calls for a special attention to earning

management motives and corresponding disclosure at early stage.

But, there does not exist any study which explores the earning quality with respect to Iraqi. The above study analyzes earning quality as registered for the companies that operate locally in Iraq. The Iraqi policy makers seek amendment of law, instructions and regulations that add practices for good governance in all Iraqi companies, further deeming the study timely and important.

The above study adds to the market's literary response for the detection of accounting management of earning in the companies of Iraq. The above effect has been studied taking help from the indicator of accounting of few Iraqi companies. Also, consistency and variance has been tested to analyze the earning management degree of evidence.

Lastly the study has been organized as: the next section reflects a dynamic and detailed reference review on concepts that aid development of the expectations of the researcher pertaining to the earning management. Next section drafts the procedures of sample selection, the methodologies and the descriptive statistics. Next, fourth and the fifth sections reveal the study's results. Sections 6 and Section 7 show the implications of the study along with the future research.

A. Objective of the Study

The studies purpose is determining the following:

- To study the advantages of the accounting indicators as derived from accounting system based on accrual or the cash flow with respect to variation and share price continuation
- To Test drive the motivation and the accrual basis highlighting the prevalence of management of earning for necessary commitments.

B. Limitations of the Study

Several restrictions of the research could be found that can be classified as:

- Research here can be limited to just the ten leading profit-making corporate firms in mix and private sector in Iraq with the exclusion of rest of the companies because there is no information.
- There can be extension in size for more research in terms of country-level outcomes and worldwide outreach for earnings management.

- Duration mentioned in research is five years, which is 2012 to 2016, and it sheds light on earnings management motivation. It might be possible that investigators choose another time-period on the basis of their viewpoint.
- There can be studies on extent of earnings management in addition to share pricing behavior for rest of the motivational limitations taking the increasing knowledge of stakeholders regarding accumulated reported figures into the consideration.

C. Implications for Future Research

Outcomes of the research are significant for:

B. Limitations of the Study

- Standard setters and managers of sample companies because it focuses on need for efficient parameter to recognize earnings management.
- Appropriate policies and regulatory means with regards to security and recognition of earning management practices are required in the initial phase. Features of assets and liabilities along with their changes can be taken into the account by standard-setting bodies.

In the other words, considering the proof, there is the need of a revenue/expense and asset/liability idea of earnings instead of cash-flow view of earnings.

II. LITERATURE REVIEW

A. Definitions of Earnings Management

The earning management of Corporate has been documented in the academic literature since long. The earning management suggests an intense concern for accounting both for industry and academia [2].

Watts and Zimmerman (1978) stated that the management of earning takes place when the managers own a behavior that relates to the accounting numbers either with limit or without limits, further the behavior could be added to enhance the company's value [3]. Several surveys published on the above subject [4] Statement by [5] points to the management of earning as the insightful intervention in the process of external finance reporting, having intention to obtain private gain." Healy and Whalen (1999) give an explanation stating that the management of earnings management happens when the managers induce the power of financial information

disposal [6]. "Either to the misleading of the certain stakeholders pertinent to the underlying performance of company's performance or influence the contractual results that rely on the stated accounting numbers."

In lieu of the above, Lara et al (2005) stated that the management of earnings has been carried out intentionally as a practice, or an opportunistic, educational, having the ideas to suggest the stated results and appear different from the ones that are real [7]. Scott (2009) has determined the earnings management being "the accounting policy choice or actions which own an impact on the earnings to attain a desirable objective [8]." Consistency in the above definitions is the notion of manipulation of the management numbers in a nutshell; the management of Earnings is the 'accrual management', which uses the accruals to attain a target pre-determined by management.

In all such definitions, the idea of manipulating deliberately the figures as stated by the management. Summarizing, the earning management as the "merit management", which is the receivables to attain a goal predefined.

B. Motivations of Earnings Management

Burgstahler et al (1997) has provided systematic evidence stating that the companies increased reported earnings so as to attain the several incentives [9]. Usage of the information of accounting given by the investors and the financial analysts aiding the value shares help create incentives for the managers to influence the earnings with the attempt to dominate the performance of short-term prices. Further, the question arises that - Do the companies monitor the earnings for purposes of share market? [10] Has reported that the information of earnings is vital for the management buyout valuations and the hypothesizes of the managers of companies buyout own an incentive so as to "understate" the earnings.

Next, the findings reveal that the companies have reported positive and unexpected accruals before the offer of season equity, initially offered AEM Other Prior studies in and around the US. IPOs have stated combined results [11].

It states that the investors fail to view management of earnings as pervasive to turn data of earnings unreliable.

On a whole, the evidence of wealth having impact on the share-market of number of earnings suggest that, In spite of the issues related to the earnings management, the investors see earnings in terms of the data that is value-relevant and far more informative as compared to the data of cash flow. The above finding gets replicated for huge time and also in multiple nations. The interpretation has been confirmed by the findings of: stating that the existing

earnings predict better the future cash flow and not current ones.

Link of Earnings management with the insider trading has been documented, [12] [13]. Several studies also document the relationship that exists between the share compensation and the earnings management via options of share [14].

Graham et al (2005) argues that the managers prefer a management of real earnings to the earnings that are accrual-based as the accrual manipulation appears likely to get scrutinized by the external auditors and the regulatory bodies where the manipulation of real activities owns a lesser chance to get detected [15]. Further, Cohen, Dey and Lys (2008) saw that companies switch from the management that is accrual-based to real earnings post the Sarbanes-Oxley Act (SOX) in 2002 [16].

The current literature states that the management Strategies of possible earnings at the time of issuance of SEO and other settings does not remain limited to the accruals overstatement but add real activities manipulation [17].

Kin et al (2017) has explored ways by which the annual reports readability varies with the earnings management [18]. For is used to measure the readability, then focusing on management discussion and also the annual reports analysis section which then predicted and saw it is more likely to own earning that are managed to surpass the earlier year's earnings having MD & also As being more complex.

However, the research avenue in the management of earning is the driver's investigation to make choice of a practice over another and the cause clarification as the IPO or situation of financial crisis Camacho-Minano 2015.

C. Methods of Earning Management

The problem with the measurements of the impact of manager using the method of a discretionary accounting while managing earning is important. There exist two techniques to deal with the earnings: one is the entitlement manipulation or the real activities manipulation. Schipper (1989) saw that, amortization estimates and bad debts provisions is seen to surround the manipulation activities of IPO company checked the estimate of depreciation and provision of bad debt that surrounds the initial public offers [5]. It was seen that on a sample of unmatched non IPO companies, these companies are likely to own deprivation policies of income-increasing and allowances of bad debt in IPO year and also for later years. Beneish (2001) discusses the income increasing analytics for the earnings management,

the income-decreasing analytic for the earnings management and the various contexts [19].

The research focuses on the accrual manipulation which represents literature's most significant part. Cohen and Zarowin (2010) have focused on three different issues [20]:

- If managers manipulate the earnings via both the accruals manipulations reflecting the costs linked with real-time activities or strategy
- How does the company tradeoff amidst the accruals and the management of real earnings, around the SEOs. The above results reveal that the companies have both AEM and the REM around the SEOs. Further, such companies outperform in the peers of their industry before SEOs and also underperform among peers following SEOs.
- Zang (2011) has proposed that the extent up to which the managers can engage in all real time activities manipulation and the manipulation of the accruals suggest the associated costs [17].

The research that is seen to focus on the manipulation of accruals reflects the important literature part. They use the manipulation of accruals as earning management proxy and the total accruals splits across the discretionary and the nondiscretionary accruals of the models, proposed by prior research [21].

Though, the models of aggregate accrual are criticized widely [21], though they won few limitations, yet the researchers use them in the given area [22].

Leonidas (2014) has examined the impact of the Mandatory adoption of international financial reporting Standards (IFRS) both on earning management that is Accrual-based [23]. A sample of 15,206 observations used from 22 different European nations from 2000 and 2010, with a sample control of the voluntary adopters has been employed with various designs as applied to the events of control founding. The results states that the adoption coordinator mandatory IFRS doesn't have an impact on accrual or real based practices of earnings management.

D. Gap Areas

The above review articles reflect their focus on areas of accounting preference in accrual form, inculcated by management for earning design. On a whole there is very little evidences of motivation for the management earning. This suggests scope of further research. As seen in the introduction, the study sees the impact of the accounting indicators based on the

share pricing and seeks motivation for investigation and testing timely.

III. HYPOTHESIS

The hypothesis implies that the data of accounting derived from the accrual or the system of cash flow accounting.

These accounting indicator as favored in the market reflects the price of the market reveal less variation and stays persistence. The hypothesis implies that the data of accounting derived from the accrual or the system of cash flow accounting.

These accounting indicator as favored in the market reflects the price of the market reveal less variation and stays persistence. Rationale being the fact that association with nature amidst the security prices behavior and the numbers of derived accounting state that though the market seems to relate to the data for equilibrium price setting.

Hence, the method which produces the accounting numbers owning an association with the security prices, has minimal variability and highest persistence, are most consistent with respect to the data that leads to security price efficient determination. So, the current discussion hypothesis is:

H1: There exists a comprehensive correlation amidst the accounting indicator as derived from accrual system which gets favoured mostly in the market

H0: There exists insignificant correlation amidst the accounting indicator as derived from the accounting of cash flow and favored by the market.

IV. SAMPLE DESIGN & APPROACH

The current study undertakes the mix and the private sector companies listed in Iraq, apart from the undertaking of government, banks & the financial institutions due to their Mecha of distinct regulatorym The enterprises are chosen based on their performance with respect to profit generation (PAT performance) for 2012 to 2016,. Two different criteria as used to select companies in final sample:

First, companies must be either in mix or private sector.

Next, the market data and the accounting are, available for study.

Companies list is in Appendix I

A. Study Period

The study period covers five years - 2012 to 2016 and is follows:

- It is important to emphasize on practices of earnings management of companies as chosen and detected several gray areas with regards to the accruals management.
- Five years seek sufficient to reveal short and the long-term changes with correct conclusions.

B. Data Used

Though the prime data appear secondary to study's nature yet it has been used on the market as there the data seen from the company annual reports are relevant and obtained from Iraqi Share Exchange. Unit Market data has been attained from the market site of Iraqi security

C. Data / Techniques Used

Indices of Earnings management has been specifically, developed to detect the accrual motivation with respect to the earning management and used here.

D. Accounting Indices

The three different accounting indices of the rate of return have been used to compare the merits of cash and accrual accounting.

Cash-flow per ratio of share to share price represents the derived cash accounting semi accounting rate of the return Index.

Common equity per ratio of share to share price represents the derived accrual accounting- along with the balance sheet-specific rate of return index of semi accounting.

Earnings per ratio of share to share price represent the accounting specific accrual and the income statement-oriented rate of return index of semi accounting.

The per share to share price Security of cash flow for time periods', is defined:

$$CFP_{i,t} = \frac{CFO_{i,t} / CSO_{i,t}}{P_{i,t}}$$

Where,

$P_{i,t}$ = Price of security i at the end of period t adjusted for capital changes such as share splits and share dividends.

$CFO_{i,t}$ = Cash flows from operations calculated by adjusting net income for non-cash charges (credits) and for changes in the current accounts, of firm i in period t.

$CSO_{i,t}$ = Common shares outstanding of firm i in period t.

The common equity per share/share price of security i for time period t is defined as:

$P_{i,t}$ = share price i at the end of period t adjusted by capital changes such as share split and dividend distribution.

$$CFP_{i,t} = \frac{CE_{i,t} / CSO_{i,t}}{P_{i,t}}$$

Where:

$CE_{i,t}$ = i company's common equity at time t.

Common equity shows the Common share with retained earnings.

The i security earnings per share to share price for time t, is as:

$$EPSP_{i,t} = \frac{EPS_{i,t}}{P_{i,t}}$$

Where:

$EPS_{i,t}$ = the Earnings per share (primary), apart from the extraordinary items, of i company for t period

EPS show the per share primary earnings as the company reports. The above numbers as, $CFP_{i,t}$ and $CE_{i,t}$, $EPSP_{i,t}$ reflects the numbers that gets derived from a cash flow or the accrual relating to share price and with ones whose merits get evaluated with respect to variability and their persistence. They show the rate of return indices of semi accounting as found from cash flow and accrual based accounting.

The indicator of accounting is taken from the accrual accounting system that has both the income statements. Such indicators own two characteristics:

First, they get calculated by share number, and second, market price dominates rate. The first is used for the verification of indices and the company comparison. And second to affirm that indicator shows both the market based and the account-based performance. Additionally, the facts of accounting should reflect the existing belief which

needs to be assessed with respect to the effect of market price relations.

E. Statistical Tools

Statistical tools are used to test the results, stating the analysis of correlation, coefficient Spearman's Rank correlation, and the corresponding descriptive statistics.

V. RESULTS AND DISCUSSION

Variability of the derived accounting indicators:

The three accounting indicators, namely, the Cash flow per share/share price (CFP), Common equity per share/share price (CEP), and Earnings per share/share price (EPSP) are three accounting values and they were calculated for sample firms through the course of 2012 to 2016. Such indicators of rate of return are helpful in comparing the relative merits of accumulation and cash accounting.

Table 1 and Figure 1 show the means, standard deviation and coefficients of variations of the values and along with that, the table comprises of position of coefficients of variations of resultant accounting values numbers.

Table 1: CEP, EPSP, and CFP's Means, Standard Deviations, and Coefficients of Variation for the Sample Companies, 2012-2016

Co.	CFPi			
	Mean	S.D.	C.V.	R
Kharkh Tour Amusement City	1050495209	91355356	0.87	7
Mamoura Real estate Investment	479420960	756068554	1.58	1
Al-Mansour Pharmaceuticals industries	793941667	872043323	1.1	4
Modern sewing	117606582	114610890	.97	6
Iraqi for Tufted Carpets	2657886504	1480325246	.56	9
Baghdad For Packing Materials	177902074	177426166	1.00	5
Baghdad soft Drinks	65068173320	16517072361	0.47	10
Iraqi Carton Manufactories	63022215	88655766	1.41	2
Iraqi Engineering Works	126158477	93634888	.74	8
Al-Hilal industries	457528993	613597753	1.34	3

Co.	EPSP _i			
	Mean	S.D.	C.V.	R
Kharkh Tour Amusement City	0.05	0.005	1.1	4
Mamoura Real estate Investment	(0.52)	0.13	(0.25)	8
Al-Mansour Pharmaceuticals industries	0.03	0.01	0.54	6
Modern sewing	0.04	0.05	1.25	2
Iraqi for Tufted Carpets	0.01	0.01	0.86	5
Baghdad For Packing Materials	0.00	0.02	(11.33)	10
Baghdad soft Drinks	0.07	0.03	0.35	7
Iraqi Carton Manufactories	(0.26)	0.11	(0.43)	9
Iraqi Engineering Works	(0.08)	0.13	(1.63)	1
Al-Hilal industries	0.08	0.08	1.06	3

Co.	CEP _i			
	Mean	S.D.	C.V.	R
Kharkh Tour Amusement City	6727199159	17829376298	0.24	7
Mamoura Real estate Investment	17829376298	4381501811	0.25	6
Al-Mansour Pharmaceuticals industries	1977468294	63613545	0.03	10
Modern sewing	708338984	417492175	0.59	1
Iraqi for Tufted Carpets	13871489690	7012450473	0.51	2
Baghdad For Packing Materials	1015387166	261866600	0.26	5
Baghdad soft Drinks	193861288430	34187747531	0.18	8
Iraqi Carton Manufactories	9283957745	3475367863	0.37	3
Iraqi Engineering Works	1539366568	138903136	0.09	9
Al-Hilal industries	1285520582	413539324	0.32	4

Distinct changes can be seen in variability of the numbers after the Table 1 was evaluated. Variability of CFP numbers are more than variability of CEP and EPSP numbers. To be specific, coefficients of variation of CFP's numbers exceed in comparison to the ones of CEP and EPSP numbers in the seven situations. There are three situations when coefficients of variations of EPSP numbers exceed in comparison to the coefficients of variations of CEP and CFP numbers and majority of the times, the differences are apparent. In the situations when variability of CFP and EPSP numbers are more than the CEP numbers, differences are small or there is no certain pattern that can be seen. Variability of CFP numbers, calculated by coefficients of variation, varies from 1.58 for Mamoura Real Estate Investment to the least 0.74 for Iraqi engineering works. When the variability of Mamoura in CEP coefficient is not included, then variability of EPSP numbers varies from the maximum 1.25 for Modern sewing to the minimum 11.33 for Baghdad for Packing Materials. Variability of CEP numbers varies from 0.59 for the modern sewing to the minimum 0.03 for Al-Mansour Pharmcetual industries and numerous companies.

It shows the high-market preference for the Accrual-based values. Variability of CFP number is more than variability of CEP and EPSP numbers

and therefore it can be stated in the end that despite of differences in variability of EPSP, CEP, and CFP numbers, minor relations can be found between them and that relation has increasing significant for the pricing problems.

Question which emerged with such findings indicates towards possible reasons that variability of cash accounting-based numbers (CEP) is more when the companies are more in sample in comparison to the ones of income statement-oriented numbers (EPSP) and balance sheet-oriented numbers (CFP). It can also be said that cash-based values demonstrated more variability in comparison to accumulation-based values and it shows the market preferences for accumulation-based values in the share pricing. One reason might originate from the fact of EPSP numbers indicating towards earning prospects of company and are on the basis of accounting information that would more probably be the object of flexible accounting income leveling and of leveling procedure intrinsic in accounting income description. Income leveling is simpler and more beneficial with the income figures in comparison to cash-flow accounting information. There might be higher amount of inducement for the managers in leveling income figures, considering the resilient relationships between accounting income and reward pattern of company. Therefore, marketing shows the high-reported income figure and it may differ from the real figure and it is enough to clarify about variability of cash flow-based figures. Market appeals increasing significance to balance sheet position when income statement and cash flow is done. Balance sheet has an edge over the cash-flow data and it is probably because of discriminating market feedback, which is because of high resemblance with balance sheet information than cash-flow data or because of balance sheet application.

A. Persistency of Derived Accounting Indicators

Study of median rank relation between accounting value number in development year and same number in following years help in the calculation of persistency of derived numbers of accounting indicators. Table 2, Figure 2 and tables 1, 2 and 3 in Appendix II presents median relation between CEP, EPSP and CFP links with CEP, EPSP and CFP in the following years, in that particular order.

Table 2: Correlation of Accounting Indices of Sample Companies, 2012-2016

	2012	2013	2014	2015	2016
CEP with CEP in subsequent years	1.00	0.834**	0.763**	0.795**	0.763**
EPSP with EPSP in subsequent years	1.00	0.806	0.818	0.617	0.365
CFP with CFP in subsequent years	1.00	0.564	0.939**	0.806**	0.881**

** Correlation is significant at the 0.005 level (2 - tailed)

Table 1 (Appendix II) represents the median correlation of CEP numbers which shows changes for three years in post-development period. It fell down to 0.763 last year and its relation is considerably high at 0.05 levels that validate the persistency.

Table 2 (Appendix II) represents the median correlation of EPSP numbers which shows the changes for three years in post-development period and the number fell down to 0.365 last year. Similar to CEP, the relation is considerably higher at 0.05 levels and it is enough to validate the persistency.

Table 3 (Appendix III) represents the median correlation of CFP numbers which shows changes in the movements in comparison to rest of the variables and it kept changing for the year after development. Figure grew to reach 0.939 from 0.564 in the year 2014; it fell down to 0.806 in the year 2015 and grew back to 0.881 in last year of development in the year 2016. Correlation scale is relatively lesser and thus it has less persistency.

It can be seen from the outcomes that there is high persistency in EPSP and CEP numbers whereas less persistency in CFP numbers. A question again indicates towards possible reasons about persistence of income statement-oriented (EPSP) and balance sheet-oriented (CEP) accumulation numbers are more in comparison to those of cash-flow accounting-based figures (CFP). Income leveling theory and discriminating market response theory are two reasons provided for variability outcomes might be used in persistence outcomes.

In the outcomes, it was seen that there was a proper balance in EPSP and CEP numbers along with the constant reduction or increase in CFP numbers. A question indicates towards the potential reasons about persistence of income statement-oriented (EPSP) and balance sheet-oriented (CEP) accumulation numbers being more in comparison than the ones of cash flow accounting-based numbers (CFP). Income leveling theory and discriminating market response theory are two reasons provided for variability outcomes might be used in persistence outcomes. High

variability of CFP which was seen in previous analysis is then validated through median rank correlation in this part. Accumulation-based values EPSP and CEP had low variability and high-level persistency. Due to this, market response was seen to be more towards the side of accumulation-based indicators.

VI. CONCLUSION

Stewardship function is the primary feature of finance function. Financial statements are helpful in assessment of stewardship of management to end-users. Accumulation system is a little more favorable for informing in comparison with the rest, which is quite apparent. Distinct changes could be seen in variability of accounting values of sample companies with regards to cash flow per share/share price (CFP), common equity per share/share price (CEP), and earnings per share/share price (EPSP). There were seven situations when CFP figures variability was more than variability of CEP and EPSP figures.

Variability of CEP numbers observed to be more in comparison to the variability of EPSP numbers and variability of CFP numbers under three situations. Variability of EPSP numbers exceeded in comparison to the variability of CEP numbers and variability of CFP numbers under just two conditions. Variability of CFP number was more in comparison to variability of CEP numbers and EPSP numbers, with regards to range and number of companies. Even though there were variances in variability of EPSP, CEP, and CFP numbers, considerable relation could be seen between those numbers which is quite apparent in correlation rank and shows how each and every indicator influences one another in a direct or indirect way in share pricing.

Study of median rank correlation between accounting value number in development year and same number in the following years after that was helpful in the calculation of persistency of derived accounting value numbers. It was seen from the findings that there is high level of persistency in EPSP numbers and CEP numbers while less persistency could be seen in CFP numbers.

Income statement-oriented and balance sheet-oriented accumulation accounting-based figures gave the outcome where the variability was lesser and persistency was higher in comparison to cash flow accounting-based figures. With all of these mentioned details, it would be safe to make a suggestion about share market indicators being more partial towards accumulation figures in comparison to cash-based figures. Share market encouragements have a considerable part to play in the regulation of the companies and due to this; the companies are inclined to follow accumulation accounting to practice the earning management selections. It was seen from the findings that they were quite similar to previous study on the subject of quality of earnings.

Therefore, it is need for an efficient forensic audit regulation for interests of the investors.

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Appendix I

Index of Companies Included in the Study

Table (1) Companies Sample Study

S. No	Company Name	Total Assets 2016
1	Kharkh Tour Amusement City	1062756412
2	Mamoura Real estate Investment	20432829576
3	Al-Mansour Pharmaceuticals industries	7526687699
4	Modern sewing	1188372456
5	Iraqi for Tufted Carpets	1896604325
6	Baghdad For Packing Materials	1006751988
7	Baghdad soft Drinks	237407153171
8	Iraqi Carton Manufactories	(2818739873)
9	Iraqi Engineering Works	1316716336
10	Al-Hilal industries	(9554020484)

Appendix II

Rank Correlation of Companies' Accounting Indices

Table 1

Rank Correlations of All the Sample Companies' CEPs with CEPs in Subsequent Years, 2012 to 2016

Base Year	Years following base year				
	1	2	3	4	5
2012	1.00	0.564	0.939	0.806	0.881
2013		1.00	0.823	0.723	0.748
2014			1.00	0.425	0.448
2015				1.00	0.578
2016					1.00
Correlation Median		0.564	0.856	0.592	0.684

Table 2

Rank Correlations of All the Sample Companies' EPSPs with EPSPs in Subsequent Years, 2012 to 2016

Base year	Years Following Base Year				
	1	2	3	4	5
2012	1.00	0.806	0.939	0.564	0.055
2013		1.00	0.733	0.697	0.273
2014			1.00	0.612	0.224
2015				1.00	0.552
2016					1.00
Correlation Median	1.00	0.806	0.818	0.617	0.345

Table 3

Rank Correlations of All the Sample Companies' CFPs with CFPs in Subsequent Years, 2012-2016

Base Year	Years Following Base Year				
	1	2	3	4	5
2012	1.00	0.927	0.815	0.891	0.852
2013		1.00	0.714	0.695	0.725
2014			1.00	0.743	0.690
2015				1.00	0.645
2016					1.00
Correlation Median		0.834	0.763	0.795	0.763

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