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Monitoring financial risk ratios and earnings management: evidence from Malaysia and Thailand

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Abstract

The main focus of this study is to examine the mean difference of earnings management, leverage, financial distress and free cash flow between the neighbours —Malaysia and Thailand. Based on 335 Malaysian listed firms and 224 Thailand listed firms from 2010 to 2012, this study finds that there is a significant mean difference for earnings management, leverage, and financial distress between Malaysia and Thailand. These results should be of interest to public listed firms, regulators and various stakeholders to assist proper guidelines and understanding on earnings management.

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Keywords: leverage, financial distress, free cash flow, earnings management;

1. Introduction

Within the opportunities and loopholes offered by the accounting system, managers are able to manage earnings by choosing accounting methods that are acceptable by the General Accepted Accounting Principles (GAAP) or by making changes in ways which given methods are applicable (Pornsit, Miller, Yoon, and Kim, 2008). Other than that, managerial intervention may occur in the reporting process through operational decisions like alterations in shipment schedules, acceleration of sales and delaying of maintenance and research and development (R&D) expenditures (Roychowdhury, 2006) . According to Dechow and Skinner (2000), accrual accounting is part of

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