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**The Relationship between Accounting Comparability  
and Earnings Management Practices under IFRS:  
An Empirical Study for Egyptian Firms  
listed on Egyptian Stock Exchange**

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**The Relationship between Accounting Comparability and Earnings Management Practices under IFRS: An Empirical Study for Egyptian Firms Listed on Egyptian Stock Exchange**

**Abstract**

**Purpose:** This research aims to investigate the causality relationship between accounting comparability (AC) and earnings management (EM) practices through accruals, and real activities during pre-post (IFRS) adoption, by using a sample of (154) non-financial firms, with (2156) observations during the period from 2009 to 2022.

**Design/Methodology:** The researcher uses archival panel data using a general method of moments (GMM) model to determine direction of influence between (AC) and (EM) practices through accruals and real activities. Also, research models estimated using robust standard errors to account for autocorrelation and heteroskedasticity problems.

**Results:** the researcher finds a negative causal relationship between (AC) (as an independent variable) and total of (EM) practices through accruals and real activities (as dependent variable), but this relationship is insignificant in periods before (IFRS) adoption compared to periods after (IFRS). The results show that, improved (AC) leads to a decrease in (EM) practices through accruals by an amount greater than the increase in practices through real activities, especially in the period after (IFRS) adoption. Results are robust in different proxies for accounting comparability.

**Originality/Value:** The current research is one of the first in the Egyptian business environment, which examines the mutual influence between (AC) and the two types of (EM) practices under (IFRS) adoption. Additionally, it defines the role of (AC) in restricting managers' decisions regarding the trade-off between (EM) practices through accruals and real activities under (IFRS) adoption as one of the determinants of improving the company's information environment.

**Keywords:** Accounting Comparability, Accruals Earnings Management, Real Earnings Management, IFRS.

## 1- Introduction

Accounting Comparability (AC) is one of the qualitative characteristics that enhance (support) accounting information quality according to the accounting conceptual framework. Improving the level of (AC) of financial statements is one of the desired goals behind achieving convergence between accounting standards across countries of the world as a preliminary step to adopting (IFRS), to narrow the scope of differences between alternatives and different accounting treatments for similar economic events, regardless of their geographical location, to rationalise investment decisions for stakeholders associated with the company.

FASB (2010) (SFAC, No.2) stated that comparability is concerned with identifying and explaining similarities and differences between two sets of economic phenomena. In this case, it is possible to rely on the accounting information provided by the financial statements in making comparisons for the same company across different periods, or between companies different from a certain period, especially in light of the lack of absolute metrics to evaluate its performance. Therefore, comparability relates to two or more information items and not to a single item like the rest of the other qualitative characteristics of accounting information.

According to De Franco et al. (2011) and Barth et al. (2012), Comparability is based on identifying similarities and differences between companies' accounting systems concerned with translating economic transactions into accounting data. Thus, companies' accounting systems become comparable if they produce similar financial statements for a group of similar economic events. Francis et al. (2014) defined Comparability by determining the closeness of the earnings disclosed by companies in light of consistency in applying the same accounting rules for similar economic events, which explains the similarity facet of comparability.

Comparability also stipulates that companies with different economic activities must disclose additional accounting information, in contrast to companies with similar economic activities, whose accounting system must produce similar accounting information, which explains the dimension of difference facet for comparability. Studies (e.g., Yip

and Young, 2012; Hellman et al., 2023) have made clear and clarified that achieving one dimension of comparability without the other does not result in an improvement in comparability as a whole, Whereas achieving comparability requires the availability of both dimensions together, or performing one of them without harming the other.

Comparability in accounting refers to how well companies can generate similar financial statements for alike economic events. This hinges on maintaining consistency in accounting policies and procedures for similar events, whether it's over time within the same company (vertical comparison) or between different companies or sectors at a given time (horizontal comparison). Adjustments to accounting policies can happen for better outcomes, but they must be disclosed along with their expected impacts.

It should be noted that comparability may be surface which may reflect uniformity if the same accounting treatments are applied to economic events that may appear similar but are different in essence, and thus comparability is not achieved due to the difference in the essence of economic transactions, and the opposite, if different economic events were treated with different accounting methods, this would highlight the difference between economic transactions to show them what they are. Thus, comparability is affected by the essence of economic events and accounting methods used (Barth, 2013; Srivastava, 2014).

Much Previous literature has documented some of the benefits achieved by high levels of comparability, the most important of which is improving the information environment of companies; financial statements with higher comparability allow investors and other investment decision makers to explain information the companies being compared and evaluate more effectively alternative investment opportunities. Higher levels of comparability also contribute to improving the accuracy of financial analysts' forecasts, reducing information asymmetry (De Franco et al., 2023), in addition to reducing the cost of analyzing and processing information (Choi et al., 2019; Farshadfar et al., 2023), which reflects positively on effectiveness of capital allocation (Cheng and Wu, 2018), and reducing the cost of capital (Huang and Yan, 2020).

Comparable financial statements play a crucial role in predicting future earnings following specific economic events. Analyzing peers' earnings in similar scenarios helps companies anticipate their own future earnings more accurately (Choi et al., 2019). However, striving for financial statement comparability can pose challenges and added costs for managers. When statements are easily comparable, competitors gain insight into operational performance, making it harder for management to conceal information in their financial reports or otherwise. This transparency allows competitors to assess their strengths and weaknesses more effectively (Young and Zeng, 2015). Consequently, managers in competitive industries might resort to discretionary earnings management practices to diminish financial statement comparability. In essence, reducing comparability safeguards a company's competitive edge by employing certain earnings management strategies (Imhof et al., 2022).

Earnings management is a controversial research topic. Many definitions of the concept of earnings management have emerged. Heally and Wahlen (1999) defined it as managers exploiting their personal judgments and estimates when preparing the financial report and structuring financial operations, with the main goal of misleading stakeholders about the fair performance of the company or manipulating contractual results, which depends mainly on accounting numbers. Schipper (1989) defines earnings management as deliberate intervention by management in the financial reporting process with the intention of obtaining some private gains.

It is possible to distinguish between two methods of earnings management practices, which are earnings management through accruals, which is done by management exploiting the freedom granted to it to choose or change accounting policies with the aim of bookkeeping impact on accounting information (Gunny, 2010). The second method is managing earnings through real activities. It occurs through management making decisions related to operational or investment operations, but they deviate from normal business practices with the aim of truly influencing accounting information. For example, accelerate or deferring investment operations, or accelerate or deferring some discretionary expenses, such as maintenance, repair, and advertising expenses, as well as research and development costs, which affects the net cash flows of the firm, but

without creating a fundamental impact on its daily ongoing activity (Roychowdhury, 2006; Al-Sawy, 2019).

It is worth noting that applying earnings management practices based on real activities compared to accruals is more dangerous to the economics of business enterprises because they affect the net cash flows of the firm, which may reflect negatively on the future operational performance of the firm, in exchange for the difficulty of detecting these practices by auditors and regulatory bodies, due to the possibility of it being hidden in the normal operational activities of the firm (Kang, 2017). Like any economic decision, management's decision to implement both types of earnings management practices is subject to a comparison between the benefits and costs resulting from them.

Numerous studies have explored the significance of accounting comparability in financial statements and its relation to different types of earnings management practices. They've looked into whether accounting information comparability is an external factor stemming from the development and uniformity of accounting standards. Accounting standards, established primarily to foster comparability (FASB, 1980; 2010), aim to curtail managerial discretion, including the use of earnings management practices. Moreover, they strive to reduce variability in industry practices to enhance comparability among similar companies.

Previous research (e.g., Rathke and Santana, 2015; Chen and Gong, 2019; Liem, 2021) has highlighted how accounting comparability influences earnings management practices. This influence acts as a constraint on managers when preparing financial reports. Such constraints may limit the application of various earnings management methods or shift their focus from accrual-based practices to real activities, as suggested by Chen (2016) and Sohn (2016).

In essence, as financial statements gain greater comparability, managers tend to resort to real activities-based earnings management practices to meet performance expectations. This involves manipulating real operations, such as increasing production excessively or inflating sales volumes, to achieve desired outcomes from their current performance (Hajiha and Chenari, 2017).

Sohn (2016) believes that comparability makes the accounting system of any company belonging to a particular industry closely resemble the accounting systems of its counterparts in the industry, which leads to reducing the cost of collecting and analyzing its information, thanks to the availability of information from similar companies, which allows external parties - Such as investors and creditors - making comparisons about company performance over time and/or between companies as an additional input. As a result, a company's true (fair) performance will become less elusive and can be estimated more accurately when its financial statements are more comparable (Gong et al., 2013), and managers therefore less capable of engaging in earnings management practices, Since it becomes more costly, meaning that if such an act is detected managers may be subjected to disciplinary action, for example, management may be replaced (Liem, 2021).

In general, previous studies related to the first path support that increasing the level of financial statements comparability will lead to improving the company's information environment because it increases the total quantity and quality of information about the company by enabling users to make clearer conclusions about the similarities and differences between companies. Users are in a better position to understand and predict economic events, reducing information asymmetry (Kim et al., 2013), and as a result, higher levels of comparability should improve users' ability to detect and undo the effects of earnings management (Chen, 2016).

As seen by Torabi et al. (2023), the financial statements of comparable peer companies are one of the most important sources of information that managers rely on in order to be more aware of the company's competitors, industry trends, and economic conditions, as well as their impact on the company; This enhanced knowledge facilitates managers' abilities to evaluate company performance and forecast future events and should help managers integrate the information into reliable forward-looking estimates to report high-quality accruals. That is, comparability may motivate managers to report accruals that are more consistent with the firm's core economic activity.



Other studies (e.g., Bordeman, 2015; Ross et al., 2020; Gil, 2020) explored a different angle, highlighting how within a weak regulatory environment lacking oversight mechanisms, management might resort to both types of earnings management practices to influence the financial statements comparability and the contained accounting information (the second track). Gil (2020) pointed out that market competition can drive managers to adopt these practices, ultimately reducing the comparability of financial statements.

In general, some previous studies related to the second path - for example, Chen and Gong (2019) - raise an interesting discussion and debate that comparability may be considered an endogenous variable, largely due to management discretion, due to the space in which accounting standards provide the choice between accounting alternatives. Accounting standards do not completely eliminate subjectivity and, thus, diversity in the selection and application of accounting methods. Hence, managers may tend to exaggerate the use of their own estimates when preparing financial reports to achieve their personal interests, even if it harms the rights of other stakeholders, by concealing their private information or referring to it through discretionary accruals, which may affect negatively on financial statements comparability.

In this context, the majority of previous international accounting studies related to the determinants of comparability focused on the role of accounting standards, such as International Financial Reporting Standards (IFRS), Generally Accepted Accounting Principles in the United States of America (US GAAP), and Local Generally Accepted Principles (Local GAAP) and ignored the unique legal, cultural, and societal factors at the country level (Nam and Thompson, 2023). Barth et al. (2013) explained that (IFRS) adopting is necessary, but it may not be sufficient to improve the comparability of financial statements. Gil (2020) highlights the role of the manager's discretion and financial reporting options to influence financial statement comparability in order to achieve two conflicting goals: the first is protection from competitors, and the second is to attract new external investors.

In regions with lax financial reporting regulations, managers in competitive industries might purposefully decrease financial statement

comparability by leveraging their discretion and employing earnings management tactics. Conversely, in a bid to attract transparency-seeking investors, managers may opt for less discretion to enhance financial statement comparability (Alhadi et al., 2020).

Furthermore, prior accounting research (e.g., Desir, 2012; Beatty et al., 2013) suggests that managers could use peer companies' financial reports to glean strategic insights. This understanding might lead managers to wield their discretionary authority while preparing financial reports, intentionally reducing comparability. This action aims to prevent competitors from capitalizing on such strategic information (Peng et al., 2019).

Further, Bordeman (2015) focused on investigating the relationship between the level of discretion allowed in (IFRS) and financial statements comparability. The study concluded that the freedom granted to managers when preparing financial reports increases the possibility of an error in estimating accruals (intentional or unintentional), affecting comparability of financial statements.

It is clear from the above that there is a contradiction in research evidence about the nature of the relationship between financial statements comparability and earnings management practices, as well as the direction of the effect, especially pre-post (IFRS) adoption, in preparation for identifying whether financial statements comparability will result in a preference for one of the two types of earnings management practices, without the other, or applying both types together to achieve the self-interests of managers. The opposite must not happen; That is, verifying that applying one type of earnings management practices without the other or applying them together will not have a greater significant impact (whether positively or negatively) on financial statements comparability. This may constitute a research addition to the current research, especially in the period pre-post (IFRS) adoption.

**Therefore, the research problem can be summarized through the following question:**

Does the adoption of IFRS have an impact on the relationship between financial statement comparability and the use of different types of earnings management practices?

This study makes significant contributions to existing literature in multiple ways. Firstly, it delves deeper into the comparison between real earnings management (REM) and accruals earnings management (AEM) in the context of IFRS adoption. It explores the costs and benefits associated with both practices while investigating the factors influencing the decision-making trade-off between them.

Secondly, this research broadens the scope of accounting literature on comparability by introducing a measure based on accounting outputs, building upon the methodology of De Franco et al. (2011). Unlike traditional approaches comparing accounting features across different countries' GAAP systems, this study focuses on comparing accounting outputs within a single country undergoing IFRS adoption.

Thirdly, it contributes to a better theoretical and empirical understanding of the interplay between accounting comparability and the choice between accruals and real activities-based earnings management practices in the context of mandatory IFRS adoption. The study employs the General Method of Moments (GMM) model to analyze the directional impact of accounting comparability on both types of earnings management practices, exploring how enhanced comparability affects the exchange between these practices.

Furthermore, this study provides insights into how accounting comparability influences firms' information environments and financial reporting decisions related to earnings management practices. Conducted on non-financial companies listed on the Egyptian stock market, a developing economy with emerging financial markets that adopted IFRS in 2016, this research offers a unique perspective. Most prior studies on this topic focused on advanced economies and financial markets, making the Egyptian context a fertile ground for this investigation.

Lastly, the findings of this research hold regulatory implications. They shed light on the costs associated with issuing accounting standards that enhance comparability and transparency in financial reports. By

highlighting how these standards may inadvertently encourage excessive use of REM while minimizing AEM due to their detectability under IFRS regulations, this study provides valuable insights for supervisory and regulatory bodies overseeing accounting standards and financial markets.

In summary, the primary findings of this study reveal a notable increase in real earnings management (REM) paired with a decrease in accruals earnings management (AEM) following enhanced accounting comparability, notably post-IFRS adoption. However, it's important to note that the rise in REM hasn't reached excessive levels—this precaution is crucial as excessive REM can adversely impact a company's future cash flows in the long term. Consequently, while there's an observable increase in REM, its impact is moderated to prevent such negative effects, resulting in a greater reduction in AEM compared to the increase in REM.

These outcomes underscore the success of IFRS in bolstering the company's overall information environment and specifically improving accounting comparability. This improvement plays a pivotal role in curbing the combined impact of both types of earnings management practices, showcasing a limitation in their net effect post-IFRS adoption.

The remainder of this paper is structured as follows: Section (2) literature review and hypotheses development. Section (3) explains research methodology; it includes population and research sample, research variables measurements, empirical models used to investigate research hypotheses, then the statistical methods used. Section (4) presents the empirical results and discussion, as well as results limitations. Finally, Section (5) the conclusion.

## **2- Literature Review and Hypotheses Development**

Despite the control and oversight of financial reporting by accounting standards and regulations, managers still retain considerable discretion in selecting accounting methods and policies for preparing financial reports. These choices encompass areas like bad debt expenses, loan loss allowances, deferred tax asset valuation allowances, impairment losses, pension expenses, and warranty expenses. These managerial estimations,

within their control, hold significant sway over investors' ability to fairly compare companies' operational performance (Imhof et al., 2022).

This latitude afforded to managers in determining accounting estimates and methodologies could adversely impact the comparability of financial statements, even with the mandatory adoption of International Financial Reporting Standards (IFRS). The reliance of IFRS on general principles, lacking specific guidelines for applying accounting methods, underscores the flexibility allowing managers to exercise personal judgment in these accounting estimates (Lin et al., 2019). Moreover, the findings of Hellman et al. (2023) support the notion that increased managerial discretion in accounting standards fosters opportunistic behavior, ultimately diminishing the comparability of financial statements.

In addition, managers in competitive industries consider that the cost of disclosing information about their companies outweighs the benefits that can be achieved. Hence, managers may use discretion to withhold information about their companies (Verrecchia, 1983). Likewise, these managers may decide the extent to which they use their discretion, regardless of the comparability of the benefits and costs of financial statements to the managers. In fact, comparability can contribute to lowering the cost of capital (Imhof et al., 2022), but on the other hand, comparable financial reports can reveal proprietary information for peers from similar companies, which increases the amount of threats they may face companies by competitors (Young and Zeng, 2015; Choi et al., 2019). Imhof et al. (2022) showed that competition may motivate managers to use financial reporting estimates in a way that reduces financial statement comparability, which may support the theory of ownership costs (Floros et al., 2023). In countries with weak regulatory and information environments, management faces little monitoring or discipline while preparing financial reports. This lack of oversight leaves investors poorly protected. Consequently, managers often find an incentive to exercise reporting discretion, aiming to present higher earnings compared to their competitors. This significantly hampers the comparability of financial statements. On the other hand, robust regulatory frameworks in some

countries ensure that accounting information within financial statements serves as a reliable tool for investment decisions (Ball et al., 2000). Here, managerial practices in preparing financial reports undergo effective monitoring and discipline. As a result, managers are less inclined to manipulate earnings through discretion, ultimately enhancing the financial statements comparability (Afzali, 2023).

As shown in the study of Seifzadeh et al. (2022), that earnings management has a negative effect on accounting comparability, and Liu's (2018) study showed that earnings comparability is affected by the accrual components of companies, and accruals-based earnings management practices are one of the most important and fundamental determinants of accounting earnings comparability between peer companies with similar economic events.

Liang et al. (2022), analyzing Chinese listed companies from 2008 to 2019, highlighted how independent directors within the same industry effectively enhance accounting information comparability by reducing earnings management practices. The increase in earnings manipulation (AEM) predominantly leads to decreased accounting comparability. Earnings management, driven by varying motives among companies, distorts accounting information in diverse directions, thereby limiting its comparability. Independent directors, intimately familiar with industry-specific accounting standards and practices due to their managerial roles, possess a heightened ability to spot potential earnings manipulation and financial statement errors within their companies. This expertise allows them to mitigate opportunistic management behavior, ultimately improving the quality of financial reports. As a result, users of accounting information gain access to more comparable and reliable data.

Liang et al. (2022) found that the accuracy of management's interpretation of accounting standards significantly impacts accounting information comparability. Misinterpreting these standards may drive managers toward increased earnings manipulation to meet short-term performance targets, thus decreasing comparability. This contrasts with the views of Bordeman (2015) and Young (2023), who suggest that managers engage in earnings management for informational rather than opportunistic purposes, thereby enhancing accounting comparability. Liang et al. (2022) argue that

granting managers more discretion in financial reporting, alongside robust oversight mechanisms like external audits and governance, curbs their inclination to act on personal incentives. This restrains the transfer of exclusive company information, reducing information asymmetry and bolstering financial statement comparability.

In contrast to the above, and according to agency theory and the opportunistic behavior hypothesis, engaging in the application of both types of earnings management practices may enable managers to achieve some special advantages if they succeed in presenting misleading figures for financial performance (Shleifer and Vishny, 1997; Leuz et al., 2003; Louis and Robinson, 2005; Bergstresser and Philippon, 2006), however, if these behaviors are revealed, disciplinary actions can be implemented against insiders, especially managers, therefore, managers are more likely to consider advantages and disadvantages of earnings management. Since the increasing level of accounting comparability gives investors and creditors the opportunity to disclose these practices they have more channels and sources to evaluate the company's performance (Chen et al., 2020).

In line with the above theoretical view, Chen and Gong (2019) indicated that investors understand accruals more comprehensively with improved accounting comparability. Thus, on average, better comparable accounting ability should translate into lower levels of earnings management. Because comparability motivates managers to develop more accurate expectations of the company's future performance, it also improves investors' ability to process accounting information, and make clearer conclusions about the similarities and differences between companies, allowing users to understand better and predict economic events, and how to translate company's transactions into accounting performance. This is consistent with Chen's (2016), which indicated that accounting comparability enables users to understand better and predict economic events, reducing the information asymmetry gap between managers and shareholders and improving users' ability to detect and undo earnings manipulation. Also, Kang (2017) showed that greater financial statement comparability

leads to lower earnings management contagion between firms, suggesting that more comparable accounting information weakens managers' incentives toward engaging in implementing earnings management practices.

Increased accounting comparability restrains managers from manipulating disclosed accounting earnings. Enhanced comparability grants external parties better access to other companies' performance data, enabling a more accurate assessment of actual performance (Martens et al., 2020; Jiu et al., 2023). This improved comparability enhances the information environment, raising the costs associated with engaging in earnings manipulation and reducing managerial incentives for accruals-based practices (Sohn, 2016). When financial statement comparability improves, managers find it challenging to apply accruals-based earnings manipulation due to the resulting transparency in the information environment (Liem, 2021). Habib et al. (2020) noted that enhanced financial statement comparability aids external investors in accessing peer company information within the same sector, fostering transparency and diminishing opportunistic earnings management. Their findings align with Liem's (2021) study in Vietnam's growing economy, highlighting a decline in managers' incentives for earnings manipulation as accounting comparability improves.

Januarsi and Yeh (2022) also examined the effect of accounting comparability on the trade-off between managers' use of (AEM) and (REM) in five countries of Southeast Asian Nations. This study depends on (1,195) non-financial firms during the period from 2014 to 2017; the results showed that accounting information that is more comparable between companies motivates managers to engage in applying more (REM) in exchange for minimizing (AEM).

After reviewing some previous studies concerned with the field of research. The researcher concludes that there is contradiction in the empirical evidences about the nature of the influential relationship between both financial statements' comparability and earnings management practices in terms of the nature of the influence. Many previous studies (e.g., Liu, 2018; Gil, 2020; Seifzadeh et al., 2022; Imhof et al., 2022; Liang et al., 2022) have documented that earnings



management practices are within the discretionary authority granted to managers when preparing financial reporting affects accounting information comparability, while others previous studies (e.g., Sohn, 2016; Chen, 2016; Kang, 2017; Chen and Gong, 2019; Habib et al., 2020; Martens et al., 2020; Liem, 2021; Januarsi and Yeh, 2022) support the ability of “accounting” comparability as one of the restrictions imposed on managers when preparing financial reports under (IFRS) adoption to restrict earnings management practices - which is the trend that the researcher adopts and focuses in his current research.

The researcher also noticed a variation in the direction of the effect on the two types of earnings management practices through accruals and real activities as a result of improved accounting comparability. Chen (2016); Sohn (2016); Al-Sawy (2019); and Januarsi and Yeh (2022) increased (decreased) REM (AEM) as a result of improved accounting comparability, but Martens et al. (2020) indicated a decrease in (AEM) as a result of improved accounting comparability, without a significant effect on (REM). But Kang (2017); Habib et al. (2020); and Liem (2021), were interested in investigating the effect of accounting comparability on earnings management practices through accruals only or income smoothing in the banking sector, as in Habib et al. (2020) without paying attention to real activities, and they found a decrease in (AEM) and also income smoothing in the banking sector as a result of increased accounting comparability, while Chen and Gong (2019) suggested a positive role of accounting comparability in maximizing the informational perspective of (AEM) instead of an opportunistic perspective, by improving the pricing efficiency of discretionary. On the other hand, other studies have documented in the opposite direction that accounting information comparability is affected by (AEM) under the discretionary authority granted to managers when preparing financial reports (e.g., Liu, 2018; Gil, 2020; Imhof et al., 2022; Liang et al. al., 2022), while Seifzadeh et al. (2022), documented the effect of both (AEM) and (REM) on accounting comparability.

This study observed variations in the objectives and findings of prior literature on the relationship between accounting comparability and earnings management, predominantly limited to advanced financial markets like the USA (Sohn, 2016; Chen, 2016; Kang, 2017; Chen and Gong, 2019; Habib et al., 2020), certain Southeast Asian countries (Januarsi and Yeh, 2022; Imhof et al., 2022), emerging markets such as Vietnam (Liem, 2021), and other developing nations (Martens et al., 2020). Notably, scant research has been conducted in Arab environments, notably the Egyptian Stock Exchange, barring Al-Sawy's (2019) work, which did not delve into the ongoing debate concerning the nature of the relationship between financial statement comparability and earnings management practices post-IFRS adoption. This gap forms the basis for the current research focus.

In light of the expanding scope of IFRS adoption at the international and local levels, Egypt is one of the first developing countries in which regulatory bodies and standard setters have paid attention to the importance of international accounting standards (IAS/IFRS), in response to the changes surrounding the international business environment, resulting on the globalization of markets, the spread of multinational companies, and increased global competitiveness to attract financial resources; Egypt moved from relying on a strategy of adaptation (harmonization) with (IAS/IFRS) in accordance with the second edition of the Egyptian Accounting Standards in 2006 - which is a literal translation of the international accounting standards issued by (IASB) after making some minor amendments to them. To be compatible with the Egyptian business environment to adopt a strategy (IAS/IFRS), coinciding with the third edition of the Egyptian Accounting Standards in 2015, which was mandatory applied starting in 2016 in order to achieve an immediate response to developments in the international standards issued by (IAS/IFRS) ( Attia and Ali, 2021). Upon examining previous studies, it's evident that this research extends the exploration of the relationship between financial statement comparability and earnings management practices. It aims to uncover whether

accounting comparability predominantly drives various forms of earnings management and vice versa. Notably, this investigation, building upon the work of scholars like Sohn (2016), Chen (2016), Al-Sawy (2019), and Januarsi and Yeh (2022), specifically focuses on the pre-and post-(IFRS) adoption landscape. Its goal is to evaluate the feasibility of implementing (IFRS) within the Egyptian business environment.

Therefore, the research hypotheses can be formulated in the alternative form, as follows:

**H1:** There is a positive relationship between financial statements comparability and total of earnings management practices through accruals and real activities together in the periods of pre and post IFRS adoption.

**H2:** There is a positive relationship between financial statements comparability and accruals earnings management (AEM) in the periods of pre and post IFRS adoption.

**H3:** There is a positive relationship between financial statements comparability and real earnings management (REM) in the periods of pre and post IFRS adoption.

### **3- Methodology**

#### **3-1 Population and Sample Selection Criteria**

This study's sample comprises from companies listed on the Egyptian Stock Exchange (ESE) from 2009 to 2022, totaling 218 companies. To assess the accounting comparability of financial statements, each firm's data will be evaluated yearly, starting from 2009. This assessment involves analyzing the company's quarterly data over sixteen financial quarters (equivalent to a 4-year time series) from 2005 to 2008, followed by subsequent years throughout the study period.

The sample selection criteria are designed to ensure a representative and homogeneous sample. To achieve this:

- I excluded companies within the financial sector, both banks and non-bank financial services, as they often have distinct capital structures compared to non-financial firms.

- Sectors with fewer than five companies were also excluded to meet the model requirements for analyzing earnings management. These sectors encompass Utilities, Energy and Support Services, and Education Services.

Using the previous criteria, there are (154) non-financial companies belong to (13) different economic sectors out of (18) - according to restructuring conducted by (ESE) in 2020 regarding market sectors – with a total of (2156) observations during the study period. Table (1) Shows Industrial distribution of research sample.

**Table (1): Industrial Distribution of Research Sample**

No	Sectors	Listed Firms	Sample	Sample Ratio
1	Basic Resources	15	15	100%
2	Health Care and Pharmaceuticals	19	14	74%
3	Industrial Goods, Services and Automobiles	6	5	83%
4	Real Estate	33	30	90%
5	Travel and Leisure	13	13	100%
6	IT, Media and Communication Services	7	5	71%
7	Food, Beverages and Tobacco	28	27	96%
8	Trade and Distribution	5	5	100%
9	Contracting and Construction Engineering	11	11	100%
10	Building Materials	11	11	100%
11	Paper and Packing	5	5	100%
12	Textile and Durables	8	8	100%
13	Shipping and Transportation Services	6	5	83%
	Total	167	154	92%

### 3-2 Variables' Measurements

#### 3-2-1 Dependent Variable: Earnings Management Practices

##### 3-2-1-1 Accrual Earnings Management (AEM) Practices

The extraordinary portion of total accruals or, equivalently, discretionary accruals (DAC) will be used as a measure of the accounting outputs

related to accrual earnings management (AEM) practices. To analyze the total accruals into the expected normal portion and the abnormal (unexpected) portion, the researcher will use the modified Dechow model which was suggested by Kothari et al. (2005), as follow:

$$TAC_{it}/A_{it-1} = \beta_1 (1/A_{it-1}) + \beta_2 (\Delta Sales_{it} - \Delta REC_{it} / A_{it-1}) + \beta_3 (PPE_{it}/A_{it-1}) + \beta_4 ROA_{it} + \varepsilon_{it} \quad (1)$$

**Where:**

$TAC_{it}/A_{it-1}$  : Total accruals for firm (i) at the time (t) relative to total assets at the time (t-1). According to Kothari et al. (2005) Total accruals (TAC) are computed as earnings before extraordinary items minus cash flow from operations, which is taken directly from the statement of cash flows.

$\Delta Sales_{it}$  : Change in net sales for firm (i) at the time (t)

$\Delta REC_{it}$  : Change in net receivables for firm (i) at the time (t)

$PPE_{it}$  : Gross property, plant and equipment for firm (i) at the time (t)

$ROA_{it}$  : Return on Assets for firm (i) at the time (t)

$\varepsilon$  : Error term

According to equation (1), and after obtaining the estimated regression coefficients, non-discretionary accruals can be estimated for a cross-section of companies over a certain period of time for every industry, denoted by NTAC, as follows:

$$NTAC_{it} = \hat{\beta}_1 (1/A_{it-1}) + \hat{\beta}_2 (\Delta Sales_{it} - \Delta REC_{it} / A_{it-1}) + \hat{\beta}_3 (PPE_{it}/A_{it-1}) + \hat{\beta}_4 ROA_{it} \quad (2)$$

Then the researcher will subtract NTAC from the lagged asset-deflated TAC to obtain DAC, which is the main proxy for AEM used in the main analyses.

### **3-2-1-2 Real Earnings Management (REM) Practices**

According to Roychowdhury (2006), Cohen et al. (2008) and Cohen and Zarowin, (2010), the current study developed measures for managing earnings through real activities by focusing on three ways to manipulate real operating activities with the aim of temporarily increasing reported earnings: (1) offering excessive sales discounts or lenient credit terms to

increase sales revenues in the current period temporarily, (2) achieve overproduction to report a lower cost of goods sold in the current period, and (3) reduce discretionary expenses in the current period. As in other studies, the actual operating cash flows are analyzed into the normal (expected) portion and the abnormal (unexpected) portion by estimating the following equation for each industry and during each time period in which that the normal operating cash flows is assumed a linear function of sales and changes in sales as follow:

$$\mathbf{CFO}_{it} / \mathbf{A}_{it-1} = \alpha_1(1/\mathbf{A}_{i,t-1}) + \alpha_2 (\mathbf{Sales}_{it} / \mathbf{A}_{it-1}) + \alpha_3 (\Delta \mathbf{Sales}_{it} / \mathbf{A}_{it-1}) + \epsilon_{it} \quad (3)$$

**Where:**

$\mathbf{CFO}_{it}/\mathbf{A}_{it-1}$  : Cash flow from operational for firm (i) at the time (t) relative to total assets at the time (t-1).

Strategies aimed at boosting income involve tactics like overproduction and trimming discretionary expenses, such as research and development and marketing costs. This results in unusually high production cost and a notable reduction in discretionary spending relative to sales (Roychowdhury, 2006). To dissect the actual production costs and discretionary expenses, separating the anticipated from the unexpected, two equations are estimated for each industry and year:

$$\mathbf{PROD}_{it}/\mathbf{A}_{it-1} = \alpha_1 (1/\mathbf{A}_{i,t-1}) + \alpha_2 \mathbf{Sales}_{it}/\mathbf{A}_{it-1} + \alpha_3 (\Delta \mathbf{Sales}_{it}/\mathbf{A}_{it-1}) + \alpha_3 (\Delta \mathbf{Sales}_{it-1}/\mathbf{A}_{it-1}) + \epsilon_{it} \quad (4)$$

$$\mathbf{DISCE}_{it}/\mathbf{A}_{it-1} = \alpha_1 (1/\mathbf{A}_{i,t-1}) + \alpha_2 (\Delta \mathbf{Sales}_{it-1}/\mathbf{A}_{it-1}) + \epsilon_{it} \quad (5)$$

**Where:**

$\mathbf{PROD}_{it}/\mathbf{A}_{it-1}$  : Production costs, which is the sum of cost of goods sold and change in inventory for firm (i) at the time (t) relative to total assets at the time (t-1).

$\mathbf{DISCE}_{it}/\mathbf{A}_{it-1}$  : Discretionary expenses computed by the sum of advertising expenses, Research and Development expenses, and Selling general and administrative (SG&A) expenses for firm (i) at the time (t) relative to total assets at the time (t-1).

Abnormal CFO, abnormal Prod, and abnormal DiscE, denoted by AbCFO, AbProd, and AbDiscE, respectively, are the differences between actual values of lagged asset-deflated CFO, Prod, and DiscE and their normal levels (ie, the fitted values of Eqs (3), (4), and (5), respectively, these three variables are the individual (REM) proxies

used in the following analyses. Given a level of sales, firms that boost reported earnings via (REM) are likely to use one or all three (REM) strategies (Cohen et al., 2008). To measure the firm's (REM) activities across all three strategies or various combinations of the three strategies, the researcher uses a single, comprehensive measure of (REM) according to Cohen and Zarowin (2010), denoted by AbREM, by summing the three individual REM measures, as follow:

$$\mathbf{AbREM} = -1 \times (\mathbf{AbCFO}) + \mathbf{AbProd} - 1 \times (\mathbf{AbDisCE}) \quad (6)$$

Because (EM) approaches are not without costs, managers trade-off (EM) approaches as a function of their costs (Abernathy et al., 2014; Cohen and Zarowin, 2010; Zhang, 2012). Limitations of REM include increased tax rates, poor financial conditions, and declining industry market share (Joosten, 2012). Limitations of (AEM) include the involvement of a senior auditor with a longer corporate tenure, less accounting flexibility, and the presence of an audit committee (Alzoubi, 2019; Martens et al., 2020). So, the researcher will use a comprehensive measure of (EM) by discretionary accruals and real activities, as follows:

$$\mathbf{All. EM} = \mathbf{Absolute\ value\ of\ discretionary\ accruals} + \mathbf{Real\ Value\ of\ AbREM} \quad (7)$$

### 3-2-2 Accounting Comparability

The current research depends on the methodology of De Franco et al. (2011) to estimate firm-level accounting comparability; most previous studies before De Franco et al. (2011) measured accounting comparability using the inputs of accounting systems such as accounting standards or methods. However, using these input-based measures can be difficult because it must be determined which accounting options to use, how to weight them, and how to account for variance in their implementation, and because it is often difficult to use a large sample of companies (De Franco et al., 2011). To measure the extent of comparability between accounting numbers across firms (even within the use of the same generally accepted accounting principles (GAAP)), De Franco et al. noted with regard to the outputs of the accounting system, that if the accounting systems are similar

between two firms, their outputs (i.e. reported accounting numbers such as earnings and book value of equity) will be the same for the same economic event. Stock returns and earnings are chosen as a summary measure of economic events and accounting outputs, respectively. Following De Franco et al., the following regression equation is estimated, where the constant is interpreted by the estimator ( $\hat{\alpha}$ ) and the regression coefficient ( $\hat{\beta}$ ) is given as the firm-specific accounting system of the firm (i):

$$\mathbf{Earnings}_{it} = \alpha_i + \beta_i \mathbf{Return}_{i;t} + \varepsilon_{i;t} \quad (8)$$

**Where:**

**Earnings** : Quarterly net income before extraordinary items deflated by the market value of equity at the end of the previous quarter.

**Return** : Earnings per share during a quarterly period

These firm-specific regressions are run for the previous sixteen quarters to estimate ( $\hat{\alpha}$ ), ( $\hat{\beta}$ ) at time (t), and the same estimated coefficients are obtained by repeating the same regression at the same time (t) for firm (j). When these two accounting systems are applied to a firm i's return (i.e.,  $\mathbf{Return}_{it}$ ), the resulting numbers in the equations below are expected earnings (i.e., expected accounting outcomes) for firms (i) and (j), respectively, for the same economic event. Accounting systems of two firms are comparable, the smaller the difference between two expected earnings:

$$\mathbf{Earnings}_{iit} = \hat{\alpha}_i + \hat{\beta}_i \mathbf{Return}_{it}, \quad (9)$$

$$\mathbf{Earnings}_{ijt} = \hat{\alpha}_j + \hat{\beta}_j \mathbf{Return}_{it} \quad (10)$$

Accordingly, accounting comparability between firms (i), (j) ( $\text{CompAcct}_{ijt}$ ) is defined as follows (De Franco et al. 2011):

$$\mathbf{COMP}_{i,j,t} = -\frac{1}{16} \times \sum_{t-15}^t |E(\mathbf{Earnings}_{i,i,t}) - E(\mathbf{Earnings}_{i,j,t})| \quad (11)$$

According to equation (11), accounting comparability ( $\text{CompAcct}$ ) is estimated for each pair of firms (i, j) within the same industry classification in a given year. After sorting the accounting comparability values of the pairs of firms for each firm (i) compared to the rest of the companies in the same sector and placing them in descending order, the accounting comparability of each firm during a certain period of time can



be calculated (Comp<sub>4</sub>) by averaging of the four largest accounting comparability values of (Comp Acct<sub>ij</sub>), as well as calculating accounting comparability at the industry level (Comp\_Ind) by taking the industry median in a given year. These are the firm-year level accounting comparability estimates used in the main analyses.

### 3-2-3 Control Variables

The researcher will add some different control variables that have been commonly adopted in previous studies (e.g., Sohn, 2016; Haw et al., 2004; Ashbaugh et al., 2003; Frankel et al., 2002), namely: firm size (Size), return on assets (ROA), financial leverage (Lev), cash flows from operations relative to total assets for lag one period (CFO/lag1.TA), dummy loss variable (Loss), and book to market of equity ratio (BM). The researcher added the total (Lagged All. EM) and two types of earnings management practices through accruals (Lagged. DAC) and real activities (Lagged. AbREAL), in previous period in order to, control the goal of earnings management towards increase.

### 3-3 Research Model

To test hypothesis H1, the researcher will depend on the following regression:

$$\text{All. EM}_{it} (\text{All. EM Pre-IFRS}_{it}) (\text{All. EM Post-IFRS}_{it}) = \beta_0 + \beta_1 \text{All. EM}_{it-1} + \beta_2 \text{Comp}_4_{it-1} (\text{Comp\_Ind})_{it-1} + \beta_3 \text{Size}_{it} + \beta_4 \text{ROA}_{it} + \beta_5 \text{Lev}_{it} + \beta_6 \text{CFO}_{it} / \text{TA}_{it-1} + \beta_7 \text{Loss dummy}_{it} + \beta_8 \text{BM}_{it} + \varepsilon_{it} \quad (12)$$

Where:

- All. EM<sub>it</sub> : Comprehensive measure of earnings management by discretionary accruals and real activities for firm (i) at the time (t).
- All. EM Pre-IFRS<sub>it</sub> : Comprehensive measure of earnings management by discretionary accruals and real activities for firm (i) during pre-IFRS compliance periods (From 2009 until 2015).
- All. EM Post-IFRS<sub>it</sub> : Comprehensive measure of earnings management by discretionary accruals and real activities for firm (i) during post-IFRS compliance periods (From 2016 until 2022).
- All. EM<sub>it-1</sub> : Comprehensive measure of earnings management by discretionary accruals and real activities for firm

- (i) at the time (t-1).
- Comp<sub>4it</sub> : Averaging of the four largest accounting comparability values for firm (i) at the time (t).
- Comp\_Ind : Accounting comparability at the industry level by taking the industry median in a given year for firm (i) at the time (t).
- Size : Firm size measured by the natural logarithm of total assets for firm (i) at the time (t).
- ROA : Income before extraordinary items divided by lagged total assets for firm (i) at the time (t).
- Lev : Leverage, measured by total liabilities divided by total assets for firm (i) at the time (t).
- CFO<sub>it</sub> / TA<sub>it-1</sub> : Cash flow from operations for firm (i) at the time (t) divided by lagged total assets at the time (t-1).
- Loss dummy<sub>it</sub> : Loss dummy set to 1 if a firm (i) reports a negative net income during the fiscal year (t).
- BM<sub>it</sub> : Book-to-market ratio of common equity, measured by the book value of equity divided by the market value of equity for firm (i) at the time (t).
- ε<sub>it</sub> : Random error for firm (i) at the time (t).

The study periods is divided into a period pre and post IFRS and measuring two types of earnings management practices through accruals and real activities using regression model in Eq. (13) to test hypothesis H2 and H3, as follow:

$$\begin{aligned} \text{DAC}_{it} \text{ _ Pre and Post IFRS (AbREAL}_{it} \text{ _ Pre and Post IFRS)} &= \alpha_0 \\ &+ \alpha_1 \text{ DAC}_{it-1} (\text{AbREAL}_{it-1}) + \alpha_2 \text{ Comp}_{4it-1} (\text{Comp\_Ind})_{it-1} + \\ &\alpha_3 \text{ Size}_{it} + \alpha_4 \text{ ROA}_{it} + \alpha_5 \text{ Lev}_{it} + \alpha_6 \text{ CFO}_{it} / \text{TA}_{it-1} + \alpha_7 \text{ Loss} \\ &\text{dummy}_{it} + \alpha_8 \text{ BM}_{it} + \gamma_{it} \end{aligned} \quad (13)$$

**Where:**

DAC<sub>it</sub> \_ Pre and Post IFRS : Absolute value of discretionary accruals as a measure of Accrual earnings management (AEM) practices for firm (i) during pre-IFRS compliance periods (From 2009 until 2015) and post-IFRS compliance periods (From 2016 until 2022).

AbREAL<sub>it</sub> \_  
Pre and Post IFRS : Comprehensive measure of real earnings management proxies (Abnormal CFO, abnormal Prod, and abnormal DiscE) for firm (i) during pre-IFRS compliance periods (From 2009 until 2015) and post-IFRS compliance periods (From 2016 until 2022).

$\gamma_{it}$  : Random error for firm (i) at the time (t).

Other variables have been defined before.

### 3-4 Estimation Methods

The General Method of Moments (GMM) model, a versatile and sophisticated tool in the field of econometrics, holds a pivotal place in empirical research. It excels in addressing the complexities of dynamic panel data, shedding light on intricate relationships between explanatory variables, such as comparability in this study, and the outcome variable, which happens to be earnings management. Additionally, GMM acknowledges and accommodates the presence of unobserved heterogeneity, a crucial consideration that accounts for variations in the effectiveness of board members across different companies, as pointed out by Veprauskaite and Adams in their 2013 study. One of the distinguishing features of GMM is its capacity to model portional adjustment mechanisms, which contribute to a more holistic understanding of the dynamic processes at play. This modeling is accomplished by incorporating one or more lags of the dependent variable. This inclusion of lags captures the temporal aspect of the relationships and addresses the dynamic effects between the dependent variable, earnings management, and independent regressors like comparability and other relevant control variables. This nuanced approach ensures that the model accounts for the evolving nature of these relationships over time, resulting in a more comprehensive and accurate analysis (as highlighted by Roodman (2009) and Veprauskaite and Adams (2013)).

Another remarkable aspect of the GMM methodology is its adept use of "natural" and "valid" instrumental variables. These instruments are critical in addressing endogeneity, a challenge that often plagues empirical research. By incorporating lags of both dependent and independent variables, GMM ensures that the selected instruments are theoretically sound and statistically robust. These instruments play a pivotal role in

untangling the causal relationships between endogenous variables. The significance of this instrument choice becomes evident in its ability to provide reliable and unbiased estimates.

It's essential to recognize that conventional measures like the R-squared and adjusted R-squared, commonly utilized in the context of Ordinary Least Squares (OLS) regression models, may not be directly applicable to GMM. This discrepancy arises from the fundamental differences in the underlying principles of these two estimation techniques. R-squared in OLS relies on the minimization of the residual sum of squares and serves as a metric for assessing the proportion of variance in the dependent variable explained by the independent variables. However, this notion of minimizing residual sums of squares does not align with the GMM estimation process, as emphasized by Roodman (2009).

Therefore, exploring alternative criteria for evaluating the goodness of fit in GMM models is crucial; one such criterion involves examining the validity and strength of the instrumental variables, commonly achieved through the Hansen Test. This test verifies whether the selected instrumental variables meet the vital criteria of exogeneity and relevance. Ensuring the instruments are both "valid" and "strong" is paramount in determining the overall fitness of GMM model. Additionally, assessing autocorrelation at the second level often referred to as (AR 2 test) which examines autocorrelation at the second level. Autocorrelation can indicate whether errors in the model are correlated over time, a matter of great importance in maintaining the accuracy and reliability of the model.

## **4- Empirical Results**

### **4-1 Descriptive Statistics**

Table (2) provides the most important descriptive statistics for the sample used to estimate the variables of the regression model contained in Eq. (12), with a total number of (2156) observations during study period. The researcher noted that the sample of firms under study applied two types of earnings management practices through accruals and real activities

together with on average (0.354) and a standard deviation of (0.122), and the maximum and minimum values for these practices were (4.026) and (-0.998), respectively. It was also observed that increased on average of earnings management practices through absolute value of Accruals versus real activities, with a value of (0.193), (0.158), respectively, and a standard deviation of (0.0074), (0.0686), respectively, while maximum and minimum value for two types of earnings management practices through accruals and real activities, respectively, was (0, 3.123), (-3.318, 5.986). The average of accounting comparability during study period through (Comp\_4), (Comp\_Ind) respectively were (-10.644, -14.467) with a standard deviation (58.12, 29.62), respectively.

As for the control variables, the mean values of (Size), (ROA), (Lev), (CFO/Lagged.TA), and (BM) are (15.861), (0.3073), (0.4326), (0.0196), (1.141), while mean of the sample of firm that achieved negative net income (Loss dummy) during study period was (0.237). As for the control variables, the mean values of (Size), (ROA), (Lev), (CFO/Lagged.TA), and (BM) are (15.861), (0.3073), (0.4326), (0.0196), (1.141), while the mean of the sample of firm that achieved negative net income (Loss dummy) during study period was (0.237).

**Table (2): Descriptive Statistics**

Variables	Observations	Mean	Std.	Min	Max
All. E.M	2156	0.3538	0.12215	-0.9976	4.0258
DAC	2156	0.19306	0.00736	0	3.1231
AbREAL	2156	0.15803	0.06857	-3.318	5.9865
Comp_4	2156	-10.6435	58.119	-40.472	-0.00977
Comp_Ind	2156	-14.4667	29.621	-24.79	-0.02488
Size	2156	15.861	0.73722	13.588	18.0165
ROA	2156	0.30731	0.06517	-0.8715	0.70385
Lev	2156	0.43263	0.2192	0.00052	0.8972
CFO/Lagged.TA	2156	0.0196	0.1253	-0.4075	4.4826
Loss dummy	2156	0.2374	0.4256	0	1
BM	2156	1.1414	0.9454	0.000328	10.862

#### 4-2 Correlation Matrix

Table (3) presents Pearson correlation coefficients between major variables used in Eq. (12). All the correlation coefficients significant at less than the 1% level are denoted by (\*\*\*), 5% by (\*\*), 10% by (\*), and others are insignificant at the 10% level.

In short, the results indicate that alternative measures of accounting comparability (Comp\_Ind), (Comp\_4) are positively correlated with each

other at the level of (1%); The value of the correlation coefficient between them reached (0.6896), and the high value of the correlation coefficient between them indicates the ability of alternative measures of accounting comparability to reflect the different characteristics of accounting comparability between firms in the same sector. It is also noted that the comprehensive measure of earnings management (All. EM) is positively associated with both earnings management practices through accruals and real activities at a significance level (1%) with a value of (0.6108) and (0.5523), respectively, which indicates that the sample of firms during study period applied both earnings management practices through real activities (AbREAL) and accruals (DAC) together to achieve the targeted earnings by management. Compatible with what was expected through the research hypotheses, it is clear that the alternative measures of accounting comparability (Comp\_Ind), (Comp\_4) are positively and significantly related to earnings management practices through real activities (AbREAL) at a significant level (1%).

Although, alternative measures of accounting comparability (Comp\_Ind), (Comp\_4) are negatively and significantly - at different levels (5%) and (1%) - related to both of the comprehensive measure of earnings management (All. EM) and earnings management practices through accruals (DAC). Despite the importance of the correlation matrix results, it cannot be sufficiently taken alone while testing the effect of comparability on both types of earnings management practices, because the effect of other determinants of earnings management are not being isolated. Therefore, the researcher will seek to examine the effect of accounting comparability on both types of earnings management practices after controlling other factors affecting earnings management practices by applying the following multiple regression models.

Table (3): Correlation matrix

	Comp_Ind	Comp_4	DAC	AbREAL	All.EM	Size	ROA	Lev	CFO / Lag. TA
Comp_Ind	1								
Comp_4	(0.6896) <sup>a</sup>	1							
DAC	(-0.5240) <sup>a</sup>	(-0.6018) <sup>a</sup>	1						
AbREAL	(0.7625) <sup>a</sup>	(0.7755) <sup>a</sup>	(0.0283)	1					
All. EM	(-0.7024) <sup>b</sup>	(-0.6531) <sup>a</sup>	(0.6108) <sup>a</sup>	(0.5523) <sup>a</sup>	1				
Size	(0.0054)	(0.0211)	(-0.5621) <sup>b</sup>	(-0.5215) <sup>b</sup>	(-0.5721)	1			
ROA	(0.0412)	(0.0230)	(0.3898) <sup>b</sup>	(0.5409) <sup>b</sup>	(0.3154) <sup>b</sup>	(0.3898) <sup>c</sup>	1		
Lev	(0.0125)	(0.0418)	(0.3529) <sup>a</sup>	(0.4185) <sup>a</sup>	(0.4816) <sup>b</sup>	(-0.2215) <sup>c</sup>	(0.0747)	1	
CFO / Lag. TA	(0.0150)	(0.0125)	(-0.3021) <sup>b</sup>	(-0.3452) <sup>a</sup>	(-0.365) <sup>b</sup>	(-0.4512) <sup>b</sup>	(-0.006)	(0.0299)	1
Loss	(0.1837)	(0.0747)	(0.6512) <sup>a</sup>	(0.3829) <sup>a</sup>	(0.6025) <sup>b</sup>	(-0.0051)	(0.0377)	(0.0945)	(0.0713)
BM	(0.0747)	(0.0973)	(0.4232) <sup>b</sup>	(0.3645) <sup>b</sup>	(0.4612) <sup>b</sup>	(0.1742) <sup>b</sup>	(0.0021)	(0.1726)	(0.2536)
	Loss	BM							
Loss	1								
BM	(0.0125)	1							

- a, b, c indicate the significance level at 1%, 5%, and 10%, respectively.  
- Numbers inside ( ) indicate Pearson correlation coefficients between major variables used in the analyses.

### 4-3 Results of the Research Hypotheses

This research hypothesized, that accounting comparability of a firm is exogenous to its managers. A critical concern on this study is, however, the possibility that accounting comparability and earnings management are both endogenous. That is, managers can exercise discretions in choosing their firms' accounting methods or systems as well as in determining earnings management. Since the research main aim is to evaluate how accounting comparability affects earnings management, GMM is used to account for the potential reverse causality (endogeneity) from earnings management to comparability by utilizing instrumental variables that can estimate unbiased estimates of accounting comparability. This was done by using instrumental variables including (Size, ROA, Lev, CFO / Lagged. TA, Loss, and BM).

For examining validity and strength of the instrumental variables, table (4) and (5) present, according to the Hansen test, the instruments are both shown to be "valid" and "strong", and paramount in determining the overall fitness of the GMM model. In addition, the Arellano-Bond test for AR(2) in the first differences explores that there is no autocorrelation at the second level, which indicates that errors in the model are not correlated over time, which contributes great importance to maintaining the accuracy and reliability of the model. After evaluating the goodness of fit in GMM models, the researcher can express the results of running regression models to examine the effects of alternative accounting comparability proxies on the comprehensive measure of earnings management during the whole study period and pre-post IFRS compliance, as follows.

The findings, as indicated in Table (4), revealed a significant negative impact of accounting comparability (measured by Comp\_Ind and Comp\_4) on the combined earnings management measures post-(IFRS) adoption. This outcome suggests that higher accounting comparability enhances users' access to and processing of accounting information. Companies with greater comparability set better standards for each other, reducing the information acquisition costs while augmenting both the quantity and quality of available company data (De Franco et al., 2011).



Thus, this set of information allows users to better understand the company and its underlying transactions. Consequently, it constrains overall earnings management practices (represented by the aggregate measure of AEM and REM, denoted as All. EM) and curtails their impact throughout the research period.

In line with agency theory and the opportunistic behavior of managers, engaging in earnings manipulation can grant insiders special advantages by presenting misleading financial figures (Bergstresser and Philippon, 2006). However, this behavior can detrimentally impact firm value, potentially disregarding the interests of creditors and minority shareholders. Detecting such actions could prompt disciplinary measures against internal parties, particularly managers, leading them to weigh the benefits and costs of earnings management.

Enhancing accounting comparability offers investors and creditors increased avenues to evaluate a firm's performance, potentially mitigating agency costs associated with concealing negative firm news. Zhang et al. (2020) highlighted that improved accounting comparability substantially reduces governance costs and oversight activities across various stakeholders. This reduction occurs through mitigating information asymmetry problems and curbing agency-related expenses, thereby limiting earnings manipulation practices.

The adoption of (IFRS) not only contributed to enhanced value post-adoption but also improved the process of aligning accounting methods among similar companies while reducing industry-specific rule diversity, thus boosting accounting comparability. This adoption led to improved information environments for companies, clearer distinctions between them, and a better understanding for users regarding their operations and accounting systems. This, in turn, reduced information asymmetry (Kim et al., 2013) and curbed overall earnings management practices, notably after (IFRS) adoption.

Moreover, the unified application of (IFRS) reduces financial statement preparation costs, especially for multinational corporations, compared to using multiple standards or adjusting for various standards. Divergent presentations stemming from different national standards can cast doubts on a company's actual results. (IFRS) adoption mitigates this by

increasing accounting comparability and sparing investors from the complexities of understanding and adjusting between diverse accounting standards (Cabán-García and He, 2013; Yip and Young, 2012). This positive shift ensures more accurate and comprehensive information, elevates the quality of financial reports, and diminishes opportunistic earnings management practices. These outcomes align with findings from previous studies (e.g., Nadhir and Wardhani, 2019; Ferentinou and Anagnostopoulou, 2016; Christensen et al., 2015).

This study's findings align with previous studies (Almaharmeh et al., 2021; Oz and Yelkenci, 2018; Ipinò and Parbonetti, 2017; Ahmed et al., 2013), indicating that adopting (IFRS) narrows managerial discretion in choosing accounting options, curbing earnings management. (IFRS) also emphasises fair value accounting, making it harder to avoid recognising obligations related to restructuring transactions. This clearer portrayal of a firm's performance and financial position improves accounting characteristics, such as comparability and disclosure, reducing incentives for earnings management practices compared to pre-(IFRS) adoption (Ho et al., 2015; Barth et al., 2008; Houqe et al., 2012; Doukakis, 2014).

Regarding control variables impacting earnings management, the results in Table (4) show significant negative effects of firm size and operating cash flows relative to total assets pre- and post-(IFRS) adoption. This implies larger firms and those with more substantial cash flows have fewer incentives for aggressive earnings management. Profitable firms exhibit a mixed impact on earnings management pre- and post-(IFRS) adoption, while firms experiencing losses or high leverage tend to engage more in earnings management. A higher book value of total assets relative to market value prompts increased earnings management practices to enhance the firm's image among investors. Additionally, previous period's earnings management practices serve as a control variable, demonstrating that an increase in past practices corresponds to a subsequent rise in earnings management.

Based on previous results, the first research hypothesis is partially rejected, which states that "there is a positive relationship between financial statements comparability and total of earnings management practices through accruals and real activities together in the periods of pre and post IFRS adoption". This partial rejection stems from the decreased total earnings management practices, notably after (IFRS) adoption, indicating an influence of improved accounting comparability.

Yet, it's uncertain whether this decline in total earnings management practices post-(IFRS) adoption equally reflects a reduction in both accruals-based and real activities-based practices, according to Zang (2012), these methods considered complementary rather than alternative. This raises the question: Can the enhanced accounting comparability notably diminish both accruals-based and real activities-based earnings management practices post-(IFRS) adoption compared to pre-(IFRS) adoption? The researcher will address this in the forthcoming results, presented in Table 5.

**Table (4): Effects of Accounting Comparability Proxies on Comprehensive Measure of Earnings Management Practices (All. EM) During Pre-Post IFRS**

Independent Variables	Effects of accounting comparability proxies on comprehensive measure of earnings management during full period		Effects of accounting comparability proxies on comprehensive measure of earnings management during pre-post IFRS periods			
	Model (1)	Model (2)	Model (3)	Model (4)	Model (5)	Model (6)
	Comp_Ind	Comp_4	Comp_Ind		Comp_4	
	During all period	During all period	Pre-Post IFRS		Pre-Post IFRS	
			Pre-IFRS	Post-IFRS	Pre-IFRS	Post-IFRS
	Dependent Variable	Dependent Variable	Dependent Variable		Dependent Variable	
All. E.M	All. E.M	All. E.M	All. E.M	All. E.M	All. E.M	
Comp_Ind <sub>it</sub>	-0.6916 (0.0058) <sup>a</sup>		0.4178 (0.7701)	-0.6530 (0.017050) <sup>a</sup>		
Comp_4 <sub>it</sub>		-0.0136 (0.3296) <sup>b</sup>			0.3655 (0.0101)	-0.6281 (0.04326) <sup>a</sup>
SIZE <sub>it</sub>	-21.327 (1.25e-06) <sup>a</sup>	-0.1185 (3.03e-06) <sup>b</sup>	-0.852 (0.2057) <sup>b</sup>	-0.487 (0.01946) <sup>a</sup>	-0.2394 (0.15699) <sup>b</sup>	-0.686 (0.02076) <sup>a</sup>
ROA <sub>it</sub>	4.620 (0.00724) <sup>a</sup>	5.580 (0.11908) <sup>a</sup>	0.6484 (0.07894) <sup>a</sup>	0.1196 (0.1224)	0.3086 (0.11236) <sup>a</sup>	0.1291 (0.0278)
LEV <sub>it</sub>	2.595 (1.68e-06) <sup>a</sup>	0.3086 (2.36e-06) <sup>a</sup>	0.1474 (0.08418) <sup>b</sup>	0.462 (0.0092) <sup>b</sup>	0.1607 (0.00913) <sup>b</sup>	0.2367 (0.1146) <sup>a</sup>
CFO <sub>it</sub> /Lagged .TA <sub>it-1</sub>	-0.2568 (0.010258) <sup>b</sup>	-0.0775 (0.04103) <sup>b</sup>	-0.2491 (0.0097) <sup>b</sup>	-0.4829 (0.01962) <sup>a</sup>	-0.2015 (0.2314) <sup>b</sup>	-0.6367 (0.4310) <sup>a</sup>
LOSS <sub>it</sub>	9.8169 (0.18783) <sup>a</sup>	2.226 (2.03e-06) <sup>a</sup>	3.0557 (0.3091) <sup>c</sup>	4.9774 (0.0066) <sup>b</sup>	4.3756 (0.0864) <sup>b</sup>	1.3309 (0.11218) <sup>b</sup>
BM <sub>it</sub>	13.856 (0.01138) <sup>c</sup>	5.325 (0.00635) <sup>a</sup>	0.0868 (0.05888) <sup>a</sup>	0.6176 (0.526037) <sup>a</sup>	0.0182 (0.006129) <sup>a</sup>	0.2810 (0.03178) <sup>b</sup>
Lagged All. EM <sub>it-1</sub>	0.564 (5.51e-06) <sup>c</sup>	0.685 (0.00773) <sup>b</sup>	0.1036 (2.64e-06) <sup>b</sup>	0.0182 (0.2806) <sup>b</sup>	0.0589 (0.17214) <sup>c</sup>	0.2062 (0.0330) <sup>c</sup>
_Cons	2.595 (1.58e-06) <sup>a</sup>	3.178 (0.02148) <sup>c</sup>	1.987 (0.0065) <sup>b</sup>	1.462 (0.1645) <sup>b</sup>	1.289 (0.1179) <sup>a</sup>	1.255 (0.1114) <sup>c</sup>
Observations	<b>2156</b>	<b>2156</b>	<b>1078</b>	<b>1078</b>	<b>1078</b>	<b>1078</b>
Arellano-Bond test for AR (2) in first differences						
	(0.879)	(0.165)	(0.353)	(0.152)	(0.832)	(0.116)
Hansen test: Difference (null H = exogenous): Chi2(6)						
	(0.710)	(0.713)	(0.688)	(0.442)	(0.524)	(0.810)
-a, b, c indicate the significance level at 1%, 5%, and 10%, respectively.						
-Numbers inside brackets ( ) indicate robust standard error.						
-Numbers outside parentheses ( ) indicate regression coefficients values for the independent variables.						

Table (5) presented significant negative (positive) impacts of accounting comparability (Comp\_Ind, Comp\_4) on earnings management practices via accruals (DAC) (real activities - AbREAL), notably post-(IFRS) adoption. Surprisingly, the results didn't show significant effects (positive or negative) of accounting comparability (Comp\_Ind, Comp\_4) on both accruals (DAC) and real activities (AbREAL) based earnings management practices pre-(IFRS) adoption.

This outcome highlights that heightened accounting comparability, particularly after (IFRS) adoption, aids in uncovering and mitigating accrual-based manipulation, thereby reducing accrual-based earnings management. However, this seems to correspond with an increase in earnings management practices through real activities.

Therefore, accounting comparability is more useful in distinguishing between normal and abnormal accruals, which increases the risk of detecting manipulation of accruals, as they are direct results of the accounting system, but accounting comparability is less useful in distinguishing between normal and abnormal operating activities that are not directly affected by the accounting system. So, it is difficult to detect earnings management practices through real activities, according to Cohen et al. (2008), who report that earnings management practices increased through accruals until the advent of SOX but subsequently declined due to regulations imposed on managers and or due to increased regulatory control. However, since real earnings management is challenging to detect since it does not lead to violations of reporting standards (financial reporting), real activity manipulation increased after the implementation of SOX.

Therefore, the current study supports the validity of what Zang (2012) predicted regarding the ability of greater accounting comparability to minimize (maximize) the relative costs of managing earnings through real activities (accruals), and thus accounting comparability provides a greater incentive to manage earnings through real activities rather than accruals, based on the difficulty of distinguishing between operational strategies and manipulation of real activities when managing earnings, firms that achieved their targeted earnings by engaging in earnings management practices through manipulation of real activities may

succeed in achieving better operating performance in their subsequent years compared to their counterparts who did not participate. In manipulating real activities, they fail or only achieve their target earnings, indicating that abnormal operating activities may be optimal and not opportunistic (Gunny, 2010).

In light of controlling the effect of the factors determining two types of earnings management practices through accruals and real activities when investigating the extent to which they are affected by alternative measures of accounting comparability (Comp\_Ind, Comp\_4), the results presented in table no. (5) Showed a significant negative effect of firm size (Size) on practices. Earnings management through accruals (DAC) in regression models (7,8,9,10), whether in the periods before or after (IFRS) adoption, and this reflects decreasing in incentives for largest firms compared to smallest firms - regardless of (IFRS) adoption or not - towards increasing earnings management practices by maximizing the absolute value of discretionary accruals given that they are subject to greater audit compared to small-sized firms by one of the Big (4) audit firms, in addition to the increasing degree to which the financial community follows it, as it is subject to greater coverage by financial analysts, and institutional investments concentration in it.

In contrast, the results revealed a significant positive effect of firm size (Size) on earnings management practices through real activities (AbREAL) in regression models no. (12, 14), especially in the periods after the IFRS adoption, to reflect the increased demand of large firms size compared to small firms size to implement earnings management practices through real activities in compliance with (IFRS) adoption because of the difficulty of being tracked by the external auditor and the ability of these large firm size to avoid harmful effects of implementing these practices on future cash flows, by maintaining better operational performance in the future compared to small firm size.

The results also showed a significant positive effect on firms' performance expressed by the rate of return on assets (ROA) on earnings management practices through accruals and real activities (DAC, AbREAL), whether in the period before or after (IFRS) adoption. The results also indicated that leverage (LEV) positively (negatively) affects earnings management practices through DAC

(AbREAL), regardless adopting IFRS or not; this reflects incentives of managers towards increasing absolute value of discretionary accruals in firms with high leverage compared to firms with low debt, in order to fulfil debt covenants and not violate them, while earnings management practices decrease through real activities due to their negative effect on operating cash flows, especially in light of high leverage.

Operating cash flows attributed to total assets in the previous period (CFO/Lagged.TA) negatively and significantly affect both earnings management practices through accruals (DAC) and real activities (AbREAL). The ratio of book value market (BM) has a positive effect on both earnings management practices through accruals (DAC) and real activities (AbREAL) in the period pre-post IFRS adoption as an attempt to improve the mental image of firms among investors and work to raise their growth opportunities. Also, there is an increase in earnings management practices through accruals (DAC) if firms achieve more losses (loss), regardless of (IFRS) adoption or not. Finally, earnings management practices in the previous period through accruals and real activities (Lagged DAC; Lagged AbREAL) positively affect the same practices but in the following period, thus controlling the earnings management goal towards increase.

The research sheds light on how firms shift from relying on accrual-based earnings management (DAC) to real activities-based manipulation (AbREAL) in a stricter regulatory environment post-(IFRS) adoption. This transformation occurs due to enhanced accounting comparability, allowing external parties to better gather and analyze crucial accounting information. Consequently, there's improved accuracy in evaluating managerial performance, which diminishes incentives for managers to manipulate reported accounting performance via accruals (DAC).

As (IFRS) adoption enhances the detection of inappropriate accrual use by auditors, managers find it more challenging to distort earnings through accruals. However, this shift appears to correspond with an increase in manipulating real activities (AbREAL) to achieve targeted earnings figures (Chen and Gong, 2019).

In particular, improved accounting comparability will push firms and their managers to bear many different costs; companies need to put in a lot of cash and non-cash resources to change their current accounting system towards a system that is more comparable with their peer firms. It also needs to give its managers an increased level of compensation because managers want to compensate for their losses from special benefits and privileges that have been reduced by restricting earnings management practices through accruals (DAC) to the extent that they can only be fully filled by increased earnings management practices through Real Activities (AbREAL). Moreover, since (AbREAL) is more harmful than (DAC) to firm value in the long term (Kim and Sohn, 2013), switching from (DAC) to (AbREAL) due to the enhanced level of accounting comparability may be costly to the firm. Therefore, firms need to evaluate the costs and benefits of improving their accounting comparability before implementing a new accounting system (Sohn, 2016).

As shown in table (5), regarding the second and third hypotheses, both are partially rejected due to the existence of a negative (positive) and significant relationship between financial statements comparability and earnings management practices, whether through accruals (real activities), especially after IFRS adoption. While this research did not find any significant relationship at any level, between accounting comparability and both types of earnings management practices, especially in the period before IFRS adoption. Accordingly, there exist significant differences in the relationship between comparability and earnings management practices of both types in favor of the period after IFRS adoption compared to the period that precedes it. This reflects the positive role of adopting (IFRS) in improving firm's information environment - in an integrated manner with various controlling mechanisms on the actions and behaviors of managers, whether through; corporate governance, institutional investment, audit quality, and coverage of financial analysts - as a result of contributing in improving financial statements comparability level, which facilitates the process of obtaining,

processing, and increasing total quantity and quality of information available about the firm, in a way that enable users to make clearer conclusions about similarities and differences between firms, in addition to reach better understanding of the firm's environment and its accounting system, which facilitates the process of understanding and predicting economic events and how they can be reflected in their accounting performance, which eventually can lead to decrease information asymmetry. Higher levels of accounting comparability improve users' ability to detect and curb accrual-based manipulation. However, this can lead to an increase in earnings management practices through real activities, as they are more challenging for auditors to identify. Persisting with real activities manipulation can negatively impact a firm's future cash flows unless the actual performance improves. The first hypothesis supports a decrease in total earnings management practices (both accruals and real activities combined) due to improved accounting comparability post-IFRS adoption.

While management may replace accrual-based manipulation with real activities manipulation after (IFRS) adoption, this shift doesn't equate the reduction in accruals manipulation caused by enhanced accounting comparability. The increase in real activities manipulation is comparatively less than the decrease in accruals manipulation, considering their detriment effects on firm value and its future cash flows. Descriptive statistics reveal a rise (fall) in the sample average of firms engaging in accruals (real activities) manipulation by 0.193 and 0.158, respectively. This could explain the overall decrease in total earnings management practices post-IFRS adoption after the improved accounting comparability.



**Table (5): Effects of Accounting Comparability Proxies on Earnings Management Practices through Accruals and Real Activities During Pre-Post IFRS**

Independent Variables	Effects of accounting comparability proxies on earnings management practices through accruals during pre-post IFRS				Effects of accounting comparability proxies on earnings management practices through real activities during pre-post IFRS			
	Model (7)	Model (8)	Model (9)	Model (10)	Model (11)	Model (12)	Model (13)	Model (14)
	Comp_Ind		Comp_4		Comp_Ind		Comp_4	
	Pre-Post IFRS		Pre-Post IFRS		Pre-Post IFRS		Pre-Post IFRS	
	Dependent Variable		Dependent Variable		Dependent Variable		Dependent Variable	
	DAC	DAC	DAC	DAC	AbREAL	AbREAL	AbREAL	AbREAL
	Pre IFRS	Post IFRS	Pre IFRS	Post IFRS	Pre IFRS	Post IFRS	Pre IFRS	Post IFRS
Comp_Ind <sub>it</sub>	0.0545 (0.3519)	- 6.249 (0.1123) <sup>a</sup>	---	---	0.7231 (0.0575)	15.072 (13.795) <sup>a</sup>	---	---
Comp_4 <sub>it</sub>	---	---	0.51963 (0.0219)	- 7.5995 (1.9155) <sup>a</sup>	---	---	0.5657 (0.3607)	22.9304 (0.02006) <sup>a</sup>
SIZE <sub>it</sub>	- 5.938 (0.0071) <sup>a</sup>	- 2.0239 (0.0061) <sup>a</sup>	- 1.2111 (0.115) <sup>a</sup>	- 1.7539 (0.0655) <sup>b</sup>	- 0.0962 (0.0474)	0.6545 (15.057) <sup>a</sup>	- 0.162 (0.0922)	0.141 (0.0925) <sup>a</sup>
ROA <sub>it</sub>	0.229 (0.0006) <sup>a</sup>	0.1057 (2.03e-06) <sup>b</sup>	0.2427 (0.431) <sup>a</sup>	0.0246 (0.3153) <sup>b</sup>	0.1105 (0.5257) <sup>a</sup>	0.0352 (0.0354) <sup>b</sup>	0.1003 (7.1224) <sup>b</sup>	0.2243 (0.0123) <sup>b</sup>
LEV <sub>it</sub>	0.0242 (0.0088) <sup>a</sup>	0.1691 (0.0417) <sup>b</sup>	0.1955 (0.042) <sup>a</sup>	0.0832 (2.194) <sup>b</sup>	- 1.126 (0.1121) <sup>a</sup>	- 0.3204 (0.7659) <sup>a</sup>	- 0.4063 (0.1574) <sup>a</sup>	- 0.427 (0.2066) <sup>a</sup>
CFO <sub>it</sub> / Lagged.TA <sub>it-1</sub>	- 0.3203 (0.0091) <sup>b</sup>	- 0.4135 (0.1178) <sup>a</sup>	- 0.4063 (0.487) <sup>a</sup>	- 0.4269 (0.5097) <sup>a</sup>	- 1.5434 (0.1181) <sup>a</sup>	- 2.4226 (0.0119) <sup>a</sup>	- 0.2035 (10.146) <sup>b</sup>	- 0.2847 (0.2951) <sup>a</sup>
LOSS <sub>it</sub>	0.024 (0.0196) <sup>a</sup>	0.8745 (0.04328) <sup>a</sup>	0.2581 (0.323) <sup>a</sup>	0.5756 (1.599) <sup>b</sup>	0.7287 (0.10825)	0.2446 (0.3536)	0.00337 (0.2466)	0.2319 (0.0248)
BM <sub>it</sub>	0.8745 (0.1191) <sup>b</sup>	0.08318 (0.0655) <sup>b</sup>	0.1403 (2.213) <sup>a</sup>	0.1171 (4.677) <sup>a</sup>	0.3042 (11.878) <sup>a</sup>	0.2268 (0.3083) <sup>a</sup>	0.1017 (8.100) <sup>b</sup>	0.0030 (0.7659) <sup>a</sup>
Lagged. DAC <sub>it-1</sub>	0.5897 (0.526) <sup>a</sup>	0.02575 (0.0898) <sup>b</sup>	1.6785 (10.78) <sup>a</sup>	0.1045 (0.950) <sup>b</sup>	---	---	---	---
Lagged. AbREAL <sub>it-1</sub>	---	---	---	---	0.17045 (0.0354) <sup>b</sup>	3.8451 (0.1574) <sup>a</sup>	0.5897 (0.1339) <sup>b</sup>	2.18697 (0.0119) <sup>a</sup>
_Cons	0.2707 (2.36e-06) <sup>b</sup>	4.4593 (0.02076) <sup>a</sup>	16.294 (0.769) <sup>a</sup>	4.3954 (0.0196) <sup>a</sup>	4.221 (1.229) <sup>a</sup>	0.556 (0.6830) <sup>c</sup>	2.512 (0.0726) <sup>a</sup>	0.2726 (0.30827) <sup>a</sup>
Observations	<b>1078</b>	<b>1078</b>	<b>1078</b>	<b>1078</b>	<b>1078</b>	<b>1078</b>	<b>1078</b>	<b>1078</b>
Arellano-Bond test for AR (2) in first differences								
	(0.262)	(0.827)	(0.258)	(0.727)	(0.461)	(0.279)	(0.329)	(0.245)
Hansen test: Difference (null H = exogenous): Chi2(6)								
	(0.525)	(0.931)	(0.219)	(0.744)	(0.353)	(0.276)	(0.861)	(0.159)

-a, b, c indicate the significance level at 1%, 5%, and 10%, respectively.

-Numbers inside brackets ( ) indicate robust standard error.

-Numbers outside parentheses ( ) indicate regression coefficients values for the independent variables.

#### 4-4 Results Limitations

The results limitations tied to how accounting comparability is being measured. The current study relies on the methodology of De Franco et al. (2011), the assessing accounting comparability based on accounting outputs rather than inputs. This method assumes that similar firms' accounting systems will produce identical accounting earnings when processing inputs related to similar economic events. However, unique economic events impacting specific firms within the same sector might affect this uniformity.

Accounting earnings, while seen as a proxy of financial statements, solely represent income statement summary measures. Using only accounting earnings to gauge accounting comparability limits the accuracy of the results of the research hypotheses.

The accounting comparability measure of De Franco et al. (2011) do not consider all degrees of pairwise comparability in their statistical inferences; as they use (Comp\_4), which is concerned with determining the average of the four highest comparability values for each company compared to its peers in the same industry, and (Comp\_Ind), which uses the median of all degrees of accounting comparability for each company compared to its peers in the same industry. Then, they look at the upper end of the distribution of pairwise comparability scores and its centre, while the lower end of the distribution is not examined. As suggested by Yip and Young. (2012), the distinction between similarities and differences in comparability is essential. Therefore, it is necessary to examine the lower end of the distribution. Also, a measure of accounting comparability according to De Franco et al. (2011) methodology, using data on stock prices. Hence, the possibility of examining unlisted firms is excluded, which limits the scope of application of this measure. Furthermore, this measure is affected by returns comparability, which can be different from accounting comparability. Also, the comparability of returns can be affected by differences in stock prices efficiency across peer firms, which can be particularly relevant in an international context. De Franco et al. (2011) suggest that measuring accounting comparability involves considering economic comparability, where firms' cash flows react similarly to economic events. Hence, economic comparability differs from accounting comparability, because it does not depend on the accounting system. Separating these perspectives-accounting and economic-poses challenges conceptually and empirically. This raises criticisms toward other accounting output-based measures of comparability.

Their methodology assumes economic comparability is uniform among firms within an industry. However, within a single industry and period, significant differences in economic comparability can exist. For instance, Srivastava (2014) cited by Gross and Perotti (2017), revealed systematic differences in production, accounting, and financial traits among firms in the same industry. These differences stem from new entrants utilizing more intangible inputs, prompting criticisms about uniformity.

## 5- Conclusion

Financial statements comparability provides accounting information that enables external users to reveal the fair financial performance of firms and determine their values more effectively, especially in the after (IFRS) adoption, with the aim of determining the feasibility of adhering to those standards in improving firm's information environment and activating accounting comparability (as one of the qualitative characteristics of accounting information) to reduce earnings management practices. Despite the importance of accounting comparability, previous literature concerned with studying and investigating implications of accounting comparability has only appeared recently (e.g., Sohn, 2016; Chen, 2016; Al-Sawy, 2019; Liem, 2021).

However, the results of this literature are still subject to criticism for not taking into account the influence that may arise mutually between accounting comparability and earnings management practices, which is called the endogeneity problem; accounting comparability can be treated as an exogenous variable due to the development and consistency of accounting standards, which makes accounting comparability as one of the restrictions imposed on managers when preparing financial reports, which may limit two types of earnings management practices (e, g., Liem, 2021; Chen and Gong, 2019; Rathke and Santana, 2015), and in contrast, accounting comparability can be treated as an endogenous variable, which largely due to management discretion, due to the space provided by accounting standards for choosing between alternatives accounting methods, and from then, managers may tend toward overusing their discretion and financial reporting choices to affect accounting comparability (Gill, 2020).

The current study aims to address a research gap overlooked in prior literature. It aims to comprehensively understand how accounting comparability impacts managers' decisions regarding earnings management practices in financial reporting. Specifically, it delves into how managers navigate between accruals-based and real activities-based earnings management under mandatory (IFRS) adoption. This investigation focuses on non-financial firms listed on the Egyptian Stock Market, an emerging financial market, spanning from 2009 to 2022. The study aims to confirm a unidirectional relationship, ensuring that accounting comparability isn't influenced by earnings management practices, utilizing the General Method of Moments (GMM) model.

Previous literature, even in Egypt (Al-Sawy, 2019), did not address this aspect. The current study focuses on exploring the impact of mandatory IFRS adoption in Egypt from 2016 (Attia and Ali, 2021), compared to pre-IFRS periods, as part of the regulatory environment affecting firms' information quality and alignment with international accounting standards. Its focus is to assess how this adoption influences accounting comparability and subsequently impacts managers' decisions on managing earnings through accruals and real activities.

Analyzing a sample of 154 non-financial firms listed on the Egyptian stock market, the study revealed that accounting comparability, shaped by IFRS adoption, affects earnings management practices. Notably, after IFRS adoption, the effect of accounting comparability on earnings management practices showed no reverse relationship, as indicated by the GMM models' goodness of fit.

Regarding the impact of accounting comparability on managers' choices between accruals and real activities for earnings management under IFRS adoption, the findings highlighted that enhanced accounting comparability, especially post-IFRS adoption, correlated with increased earnings management through real activities. Simultaneously, the use of accruals for earnings management decreased. This shift indicates an improved information environment due to IFRS adoption, leading to more consistent accounting standards. Consequently, managers curtailed accrual-based practices while expanding real activities manipulation. However, the decrease in accruals manipulation was more pronounced, given its adverse impact on future cash flows and firm value. This resulted in an overall decline in earnings management practices, chiefly post-IFRS adoption, driven by improved accounting comparability.

The shift from using accruals to real activities for earnings management hinges on the costs and benefits tied to improving accounting comparability due to (IFRS) adoption. Managers might incur expenses to align their accounting systems for enhanced comparability with peer firms. This increased cost may incentivize managers to offset these expenses by ramping up earnings management through real activities, limiting accrual-based practices, albeit with a cautionary note about the potential long-term detriments on future cash flows and firm value (Kim and Sohn, 2013). Consistently, prior studies (Sohn, 2016; Chen, 2016; Al-Sawy, 2019; Liem, 2021; Januarsi and Yeh, 2022) across developed and emerging financial

markets echo similar patterns, likely due to their adoption of (IFRS) in their financial reporting.

The implications of these findings are important to investors and financial analysts. They highlight the factors influencing accurately earnings management practices, urging caution when constructing investment portfolios. Including firms with high accounting comparability, while seemingly cost-effective in obtaining and processing information, might harbor increased earnings manipulation through real activities, potentially impacting long-term firm value.

Furthermore, this research alerts standard setters and stock market regulators about potential unintended consequences of augmenting accounting comparability. The shift from accruals to real activities as an earnings management strategy might entail repercussions that need consideration.

Finally, these findings pave the way for further research avenues. Exploring alternative measures of accounting comparability beyond De Franco et al. (2011), that examining information asymmetry's role in influencing the relationship between accounting comparability and the choice between earnings management practices, and delving into moderating variables like financial crises, financial constraints, and regulatory factors in the Egyptian context, all present intriguing research prospects.

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