

# Does Financial Crisis impact Earnings Management Evidence from Portuguese and UK

**Inês Lisboa**

Corresponding author

School of Technology and Management, Management for Sustainability Research Centre, Polytechnic  
Institute of Leiria

Morro do Lena - Alto Vieiro, P.O. Box 4163, 2411-901 Leiria, Portugal

Phone number: 00 351 244 820 300

E' mail: ines.lisboa@ipleiria.pt

orcid.org/0000-0003-2802-2589

**Aleksandre Kacharava**

Student master in International business in School of Technology and Management, Polytechnic Institute  
of Leiria

Accountant in Rustavi, Georgia

E' mail: [aleko.kacharava@gmail.com](mailto:aleko.kacharava@gmail.com)

## **Abstract**

**Purpose:** The main aim is to analyse if 2008 financial crisis had impact the extent of firms' involvement in earnings management. Previous studies associated financial scandals with the inappropriate use of accounting practices. Furthermore, we compare two countries with different legal forces in terms of quality of accounting to see the main differences. Finally we analyse which determinants impact earnings management.

**Design/methodology/approach:** This study analyses Portuguese and UK listed firms from 2004 till 2014. We use the Kothari, Leone & Wasley model (2005) to calculate the discretionary accruals, a proxy of earnings management. Then we analyse the impact of six determinants on earnings management.

**Findings:** Findings suggest that financial crisis had impact on firms' tendency to manipulate financial results. Country effect is not statistically relevant, even if the Portuguese and UK firms' propensity to manage earnings is singular. Finally, firm's size and indebt are two relevant characteristics to explain earnings management.

**Originality/values:** We not only analyse if the firms in the sample manipulate results, but we also study the impact of some characteristics on earnings management. We focus on two main effects: crisis and country effect. Studies analysing both effects in simultaneous are scarce. We also believe that results are relevant to both financial investors and regulators as they may understand which factors impact manipulation of results.

**Keywords:** earnings management, financial crisis, accruals, Portugal, UK

**Article Classification:** Research paper