Big Bath Earnings Management in Accounting

By

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Abstract

This study examines the potential use of big bath earnings management (BBEM) techniques in the leisure and travel industries during the pandemic of 2020. Data is collected through Compustat and Mergent Online databases and then merged for analysis using SPSS 27. First, the preliminary t-test shows the possibility of the firms in these industries to have conducted BBEM. After, modified Jone's model is used to distinguish discretionary from non-discretionary accruals. Using multiple regression analysis, three hypotheses are tested to discover whether the year of the pandemic, political costs, and executive compensation had any significant effect on the use of discretionary accruals on the use of big bath earnings management. The analysis results show that the year of the pandemic and the political cost had significant effects on the use of discretionary accruals. However, no significant relationship is found between executive compensation and discretionary accruals. The results of this study are consistent with the prior studies that political cost and economic crisis have a significant correlation with earnings management; however, prior research found a significant association between executive compensation and earnings management which was not found in this study.

Keywords: Earnings Management; COVID-19; Pandemic; Political cost; Executive compensation

Dedication

"I've got a theory that if you give 100 percent all of the time, somehow things will work out in the end." —*Larry Bird*

This dissertation is dedicated to my amazingly supportive family whose continuous care motivated me throughout this entire process and who had confidence in my abilities. A special feeling of gratitude for my loving husband, Al, who helped me, and inspired me all the time. I give special recognition to my beautiful daughter, Ashley. I really appreciate all your patience and cooperation during this journey and you being a special source of motivation for me. I thank my wonderful daughter Melody who accepted less personal time with me while encouraging me to focus on my research. I pray that my strong desire for accomplishing this important objective will inspire you to persevere in your works to achieve your life goals and dreams.

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Section 1: Foundation of the Study

This research investigated the potential use of big bath earnings management (BBEM) by management and accountants during the pandemic in 2020, resulting in misrepresentation of financial statements and massive financial losses within the leisure and travel industries. The general problem to be addressed is that earnings management (EM) exists in the accounting profession despite the accounting code of conduct, resulting in severe harm for organizations, including financial losses, leading to corporate bankruptcy and closure. Companies may use various methods of EM to manipulate earnings upward by overstating the assets, revenues, and income and understating the cost, losses, and liabilities.

Numerous researchers have studied the use of EM affecting financial statements. For example, Hussain et al. (2020) revealed that Corporate Life Cycle (CLC) stages could explain a firm's tendency to employ accrual base and real earning management practices in Chinese firms. The authors found that management manipulated earnings upward more throughout the introduction and decline phases and less throughout the growth and mature stages of CLC, mainly to acquire loans from creditors without severe debt covenants requirements.

Similarly, Cui et al. (2021) found a positive relationship between higher exposure to economic policy uncertainty (financial distress for high-leverage firms and cash flow instability for high-growth firms) and EM behavior in Chinese firms. Likewise, Mendoza et al. (2021) investigated whether leverage and short-term debt affected EM by firms and found that firms with high leverage and short-term debt manipulated their earnings upward by reporting positive discretionary accruals. Thanh et al. (2020) studied 432 non-financial Vietnamese listed firms and found that debt ratio has non-linear effects on upward EM. Park (2019) investigated whether there was any relationship between executive compensation of peer firms and upward EM and

found a positive relationship between the two as the peer firm's compensation may have been used as a benchmark providing an incentive for EM. The study also found that the possibility of EM was higher for the case of Certified Executive Officer (CEO) duality. Also, Lin et al. (2020) stated that narcissistic chief executive officers were more likely to manipulate earnings upward to compensate for their performances.

However, during economic downturns, unethical accountants may have used BBEM to overstate the company's losses. This will allow them to show substantial income in the subsequent year. For example, according to a study performed by Gonçalves et al. (2019), organizations with negative income used impairment of Goodwill as a Big bath practice to decrease the current year's income and show inflated earnings for the following year. Makarem and Roberts (2020) found that businesses used EM to avoid earnings increases. They found that when the companies' earnings were higher than those of last year, management used EM techniques to lower their earnings and tried to smooth earnings over a number of years to prevent earnings increases in one particular year. Similarly, Ozili and Outa (2019) investigated EM in the banking sector and studied whether banks used commission and fee income to smooth their earnings. They found banks utilized these two accounts to manipulate their earnings during declining periods and in situations with stronger investor protection.

While the majority of researchers believe that EM is done for opportunistic management reasons and using it will create negative consequences for firms and stakeholders (Gonçalves et al., 2019; Makarem & Roberts, 2020; Ozili & Outa, 2019), several other scholars found that EM is not always done to manipulate financial statements and employing EM techniques creates positive future outcomes for businesses (Abbas, 2018; Abbas & Ayub, 2019; Cao et al., 2018; Theiss et al., 2019). Prior studies in BBEM include firm-specific firm issues (Ayedh et al., 2019;

Cheng et al., 2021; Hope & Wang, 2018; Lazar, 2019), and financial crisis (Cheng et al., 2019; Hao et al., 2019; Mollik et al., 2020; Oskouei & Sureshjani, 2021; Ozili, 2021).

No study presented whether managers would engage in BBEM during global health and social crisis such as the one in the pandemic of 2020, where high moral and ethical standards were expected from everyone. This paper brought the gap closer by investigating the extent of potential BBEM practices by firms during the pandemic of 2020, where business leaders were supposed to act ethically and morally. In Section 1 of this paper, the background of the problem, problem statement, purpose statement, research questions, hypothesis, nature of the study, theoretical framework definition of terms, assumptions, limitations, delimitations, and significance of the study are discussed, followed by a detailed review of professional and academic literature.

Background of the Problem

Many professions such as accounting, medicine, and law require professionals to adhere to their specific rules, regulations, and code of conduct to protect the profession and the public who trust the professionals. Ethical rules provide a framework for professional behaviors in various fields, such as business (Giorgini et al., 2015). With enhanced technological changes and developments in today's global economy, a company must receive accurate information promptly to act accordingly. For example, accountants present business performance and processes utilizing numeric data, influencing the organization and stakeholders' financial decision-making. The information provided and presented in the financial statements by the accountants should be truthful and present an accurate picture of the financial situations and operation of a company to provide a guideline for the company's management to properly use the available resources, skills, and expertise to respond to the changes required by rapid

technological advancements and globalization (Agustia et al., 2020). Stakeholders also should be able to trust the information provided by the accountants to make sound financial decisions. However, EM practices have been used to depict an untrue financial picture of a firm for decades, and they lead to both loss of information and inaccurate financial information (Hanlon et al., 2020). EM can be done in two ways: accrual EM and real EM (Anagnostopoulou & Tsekrekos, 2017; Chang et al., 2019).

In accrual EM, managers manipulate earnings through accruals. Two types of accruals exist in accounting: discretionary accruals and non-discretionary accruals. Non-Discretionary accruals exist due to regular operation and the economic situation of the company. Discretionary accruals, on the other hand, come from the management choices of accounting policies. Therefore, the management has discretion over choosing these policies and standards and can manipulate earnings through them (Siekelova et al., 2020).

The income smoothing EM techniques are used to increase the income to present a better picture of the financial statements in the affected year. To upward the income, management may decide to defer routine scheduled maintenance to the next accounting period, which may have a detrimental effect on the company's operation in the future, or they may report the inventory obsolescence loss in the future period and ignore the GAAP requirement of disclosing this loss in the period in which the losses occurred. On the other hand, downward manipulation of income to show more losses will affect the share prices negatively and may lead to the danger of a downfall of the share price as it causes a lack of confidence in investors (Kim et al., 2011). In addition to the accrual EM, real EM also exists through managing the timing or the real activities of the operation, such as production, financing, or sales (Roychowdhury, 2006). For instance, a company can accelerate or slow down the production of a specific product or temporarily reduce

the prices to achieve a specific goal. Thus, real EM has a direct impact on cash flow (Roychowdhury, 2006).

The American Institute of Certified Public Accountants (AICPA) has been developing technical and ethical standards and monitoring and enforcing the accounting profession's compliance since 1988. According to the AICP code of conduct, accountants should maintain objectivity and integrity rules, avoid conflict of interest, and be truthful in presenting facts (AICPA, 2014). Unfortunately, in the past few decades, many organizations misrepresented financial statements using EM techniques.

According to Scott (2009, p. 403), EM is defined as "the choice of accounting policies or actions that can affect earnings in order to achieve a specific objective." Davidson et al. (1987) described EM as deliberate steps taken by management, within the limitations of GAAP, to "bring about the desired level of reported earnings." Similarly, Schipper (1989, p. 92) stated that management deliberately manipulates the external financial reporting process to achieve some private gain. Deegan (2009) confirmed prior researchers' findings that managers show better profits, better performance, and liquidity positions to receive higher bonuses.

The case of BBEM exists in various situations and for different motives. For example, research conducted by Jordan and Clark (2004) revealed the same opportunistic behavior of management during economic downturns and found that firms recognized impaired Goodwill in 2002 and showed even higher losses as the earnings were already drastically reduced and management would get less punishment from the market if they showed more losses. Accordingly, studies conducted by Van de Poel et al. (2009) revealed that the impairment was acknowledged in cycles when other losses were recorded, and the earnings before Goodwill impairment were relatively low. Also, Warfield et al. (1995), Mostafa (2017), and Alsufy et al.

(2020) acknowledged that management tended to alter the financial report of a company to misinform investors regarding the firm's real operation by raising or reducing the stated profits through opportunistic use of accruals.

Problem Statement

The general problem to be addressed is that despite the accounting code of conduct, unethical behavior of EM exists in the accounting profession resulting in severe harms for organizations, including financial losses, which may lead to corporate bankruptcy and closure. According to Buchholz et al. (2020), unethical EM behaviors of many narcissistic accountants and managers have distorted the accurate picture of financial statements. Ishaque (2021) stated that EM practices have caused many firms to face heavy fines from regulatory organizations. Van Akkeren and Buckby (2017) believed that accounting misconduct caused devastating results for organizations, such as the financial losses incurred for Xerox, WorldCom, and OneTel, leading some of them to bankruptcy. A study conducted by Smieliauskas et al. (2018) revealed that intentional misjudgment in forecasting future events has led to earnings manipulation and fraudulent reporting. The specific problem to be addressed is the potential use of BBEM within the pandemic in 2020, resulting in the misrepresentation of the leisure and travel industry's financial statements.

Purpose Statement

This study explored the potential use and the magnitude of BBEM during the pandemic of 2020. Prior studies have mainly addressed financial-related issues and crises. However, the crisis of 2020 was a pandemic disaster that negatively affected the whole world, which caused the travel and leisure industry to almost halt. Furthermore, the pandemic caused losses for businesses, and these incurred losses were acceptable and justified in the public eyes and opinion

as the management had no control over them. This situation may have incentivized management to overstate the losses by manipulating accruals in the following years to gain from accrual reversal. This paper discovered the utilization of big bath theory by manipulating companies' accruals during the COVID-19 pandemic within the travel and leisure industry. It aimed to find the causal relationship between lower-income during the pandemic and the level of accrual manipulation for these industries.

Research Questions

RQ1: How did the pandemic of 2020 affect earning management behavior by corporations within the leisure and travel industries?

The pandemic in 2020 created a financial downturn crisis for the leisure and travel industries as the number of people using these services decreased tremendously. People fearing and avoiding unsafe crowded places along with the travel bans imposed by most governments around the globe intensified this decline and caused these two industries to get hit most by the pandemic. According to research by the U.S. Travel Association, travel spending declined by 42%, from $1.2 trillion in 2019 to $680 billion in 2020. Literature shows that firms have had an inducement to participate in EM during a crisis. Habib et al. (2013) examined the association between EM and the economic downturn using New Zealand firms during finance company collapses and financial crises. The authors found that managers of distressed firms tended to manipulate their income downwards. Similar results were achieved by Ming Chia et al. (2007). The researchers used 383 service-oriented firms' observations in Singapore and found that management of these companies engaged in income diminishing EM during the crisis period. According to McDonnell et al. (2019), when firms face contentious challenges, they modify their earnings significantly downward depending on their market status and reputations, the amount of

political attention they receive and the level of regulatory agencies' capabilities in examining their financial reports. According to Charitou et al. (2007), the downward manipulation of earnings uses the BBEM in accounting. Therefore, since the prior studies indicate the importance of economic crisis in the use of BBEM and the pandemic of 2020 created an economic depression and financial disaster for firms, it was essential to study whether the downturn affected EM behavior in the leisure and travel industry, which was affected the most.

RQ2: How did the executive compensation plan affect EM behavior during pandemic 2020 in the leisure and the travel industry?

Executive compensation is an essential factor with a positive relationship with EM (Barton, 2001; Dechow et al., 2010; Healy, 1985; Marantika et al., 2021). Executive compensation that is directly related to the corporation's financial performance is determined as an income ratio. The higher the level of the income, the higher the management compensations. Based on prior studies, it was reasonable to predict that losses during the pandemic of 2020 had resulted in the elimination of the management bonuses tied to earnings which could have motivated managers to choose accounting techniques to report higher amounts of losses in 2020 so that in the following year, 2021, they could show higher income through accrual reversals to increase their compensations. Therefore, this research aimed to find a relationship between the BBEM and executive compensation during the pandamic.

RQ3: How did political costs affect BBEM during pandemic 2020 in the leisure and the travel industry of 2020?

Political cost created another incentive during the pandemic. Earlier findings indicated a positive association between the political cost and the EM, indicating that the management could manipulate earnings downward to avoid the political costs when the sensitivity to these costs was

high (Almashaqbeh et al., 2018; Byard et al., 2007). Management faced political costs during the pandemic of 2020, which were created by not taking advantage of the financial government assistance programs offered to businesses. According to the U.S. Travel Association, the U.S. government enacted laws that provided many assistances relief programs, such as the American Government Rescue Plan Act and End of Year Omnibus Bill for the travel and tourism industry during the pandemic. The plans included the Paycheck Protection Program, which provided forgivable loans of up to $12 million. The Economic Development Administration also provided $3 billion in grants to eligible entities, including $750 million for communities impacted by job loss in the travel, tourism, or outdoor recreation sectors. In addition, small Business Administration (SBA) Express Loans were offered for $1 million. Shuttered Venue Operators Grant (SVOG) included $16.2 billion in grants to shuttered venues which granted businesses equal to 45% of their gross earned revenue. However, eligibility to take advantage of these relief programs required financial distress and difficulties of firms. In other words, firms that could show financial pressure could qualify for these assistance programs. Therefore, it was predicted that the eligibility requirement for the programs incentivized the management to manipulate earnings downward to be qualified for these plans.

Hypotheses

The hypotheses for this study are as follows:

Hypothesis 1:

H0: There is no relationship between BBEM and the pandemic.

H1: There is a significant relationship between BBEM and the pandemic.

According to the U.S. Travel Association, the pandemic crisis caused travel spending to decline tremendously in 2020. Prior studies show that firms have an incentive to engage in EM

during a crisis and manipulate their income downwards (Habib et al., 2013; McDonnell et al., 2019; Ming Chia et al., 2007). According to Charitou et al. (2007), management manipulated earnings downward, which means they took a big bath in accounting. Therefore, it was expected that the pandemic had a positive relationship with the downward manipulation of earnings during the pandemic.

Hypothesis 2:

H0: There is no relationship between the firm's executive compensation and BBEM during the pandemic.

H1: There is a significant relationship between the firm's executive compensation and BBEM during the pandemic.

Earlier research studies showed that CEO compensation was linked to the associated earnings (Barton 2001; Dechow et al., 2010; Healy 1985; Marantika et al., 2021). In these cases, the management tried to manipulate the earnings upward and consequently increased the accruals to earn more bonuses. Thus, a positive relationship between executive compensation and the BBEM was expected form this study.

Hypothesis 3:

H0: There is no relationship between the political cost and BBEM during the pandemic.

H1: There is a significant relationship between the political cost and BBEM during the pandemic.

Prior studies indicate that this factor motivated the management to change earnings downward as the sensitivity to the political cost increased (Almashaqbeh et al. 2018; Byard et al. 2007). In addition, since during the pandemics, the U.S. government provided many financial assistance programs to businesses (U.S. Travel Association); it was predicted that these programs

may have created an incentive for the firms to show a higher amount of losses to take advantage of the government assistance programs during the pandemic of 2020.

Nature of Study

Nature of study explains the type of sample that a researcher studies along with the methods and the processes involved in collecting the data. It discusses the foundations and resources that the researcher needs to answer the research questions. This study used a fixed quantitative research design with a positivist view. Below, various research paradigms, designs, and methods are explained and compared, followed by the research paradigm used for this research.

Discussion of Research Paradigms

A paradigm is a way a researcher views the world and a lens from which he understands human perception. In research, it includes the methodology, ontology, and epistemology that a researcher uses to conduct research. Ontology refers to the question that seeks the reality that the researcher wants to explore. Epistemology relates to the ontology that is accessible to discover and the way to attain it. The methodology is the method used to conduct the study. There are four research paradigms in social science research: positivism, post-positivism, critical theory, and social constructivism (Guba & Lincoln, 1994).

Positivism. According to this paradigm, reality exists due to natural laws and mechanisms but is unrelated to time or context (Guba & Lincoln, 1994). The objective of a researcher who believes in positivism is to uncover the truth which is not associated with personal biases, social and cultural issues (Clark, 1998). Thus, the experiences of the researcher and the context are irrelevant, and only direct observation of findings reveals the truth. Methodologies that can be included in this type of research are experimental and empirical

studies, and hypotheses are constantly tested for verification purposes (Clark, 1998; Guba & Lincoln, 1994).

Post Positivism. This view uses an analytical approach to seeing reality and does not consider it an absolute fact. They believe that reality can only be approximated through inquiry and can never be perfect. Post-positivist researchers are not considered neutral and detached. The truth is considered probable, and hypothesis tests are not done for verification but for falsification purposes (Guba & Lincoln, 1994). Post-positivism studies are influenced by contexts, knowledge, social and cultural settings, rely on evidence, and are open to interpretation (Clark, 1998). The researchers may use various methods to conduct research depending on the nature of the study and the research questions. This approach minimizes personal biases as the subjects are examined from various perspectives (Miller, 2000; Phillips et al., 2000). Natural settings are utilized for this research instead of experimental settings, and qualitative and quantitative methods of interpreting the data can be used to explain the results (Guba & Lincoln, 1994; Wildemuth, 1993). Therefore, post-positivism findings are not context-free and generalizable (Clark, 1998).

Critical Theory. Max Horkheimer developed the ideas related to the Critical Theory paradigm. This paradigm concentrates on power, inequality, and social change. According to Calhoun et al. (2007), this means that social science studies can certainly not be objective and should be done with the critical aim of social change in mind. Researchers in this paradigm should collect information and do their investigations knowing that systems are not free of bias, such as bias towards women or smaller ethnic groups. The result of these studies should be to make positive changes in society, knowing that there is a power imbalance. In this type of study, unlike positivism and post-positivism, the researcher and the subjects engage in a dialogue, and

the researcher's aim is mainly to uncover societal misunderstand, misinformation, and miscomprehension (Guba & Lincoln, 1994). Although Hussain et al. (2013) observed that either qualitative, quantitative, or mixed approach methodologies had been used to improve the imbalance in the social system, the researchers believe that a qualitative approach is applied more.

Social Constructionism. This paradigm states that our realities are created by social context and interaction. This paradigm rejects the single objective truth, unlike positivism, and instead believes in various standpoints of knowledge (Charmaz, 2009; Guba & Lincoln, 1994). Unlike critical theories that challenge different versions of realities, social constructionists believe that truth varies depending on people and their interactions and interpretations (Berger and Luckman, 1966).

The research paradigm for this study is positivism. According to Neuman (2003), positivists believe that social science uses precise empirical observations of people's behavior to predict and determine the general pattern of human behavior logically and rationally. According to Marczyk et al. (2005), the laws of cause and effect create reality irrespective of people's beliefs. Ulin et al. (2004) stated that factual systems could estimate that truth correctly. In accounting, ethical issues are among the most critical factors in the profession. The ethical code of conduct and standard in accounting should not change and be modified due to the circumstances and economic situations of the pandemic. Financial records should always be accurate and reliable so that stakeholders can trust them and make sound decisions. However, EM exists, and unethical accountants misrepresent financial records for opportunistic reasons by manipulating discretionary accruals and during economic downturns. According to Kivunja and Kuyini (2017), there is an essential relationship between paradigm and methodology, and in the

positivism paradigm, data analysis involves quantitative data that is collectible and could be analyzed using quantitative techniques.

Discussion of Designs

Research design provides a framework and step-by-step guide that researchers can use to conduct scientific research. The design is categorized in many ways subject to the purpose of the research and the type of research. Fixed, mixed, and flexible research designs are the three types of research that researchers commonly use. A research design may be fixed entirely, completely flexible, or have some degree of flexibility. In addition, each design of fixed, flexible, and mixed has various types, which are discussed below.

Fixed Research Design. In a fixed design, many elements such as the purpose of the study, theories related to it, research questions, research methods, and sampling method should be specified before data collection (Kampenes et al., 2008). Fixed design will be required in a controlled setting. An instance of a fixed design study is when a researcher is interested in testing a theory and uses statistical analysis as a research tool to conclude (Arisholm et al., 2007). Several types of fixed design, including descriptive, correlational, causal-comparative, quasi-experimental, experimental research designs, and non-experimental designs (Burns & Grove, 2010), are discussed below.

Descriptive Research. In this research, the researcher tries to describe the status of the collected variables and provide systematic information about a phenomenon, and the hypotheses may be developed after the data are collected by data analysis and synthesis. Therefore, careful collection, examination, and analysis of each data and variable are essential in this type of study. For example, a study that describes how parents may feel about a 3-month intensive educational program during summer is considered descriptive research (Burns & Grove, 2010)

Correlational Research. In this study, the data are identified, and the correlation between the data and the distribution is studied. The researcher aims to find and interpret the relationship between two or more variables utilizing statistical tools. This study is done in a natural setting, and patterns and trends are explored without determining any cause-and-effect relationship (Burns & Grove, 2010; Shields & Smyth, 2016). For example, research that explores the relationship between SAT scores and the GPA of high school students would be considered correlational research.

Causal-Comparative Research. The researcher aims to find a causal relationship between the variables in the research design. This study is very similar to experimental research. In this study, dependent variables and independent variables are identified, and the effect of independent variables on dependent variables is measured. In this research, groups should have pre-existed forms or have been naturally formed. The control groups are exposed to the treatment variables compared to those that are not controlled. The causal relationship must be carefully examined and determined because other variables may impact the outcome. An example of this type of study would be the effect of part-time jobs for high-school students on their social development (Burns & Grove, 2010).

Quasi-Experimental Design. This research design is similar to an experimental study where the researcher attempts to find a cause-and-effect relationship between the dependent and independent variables by manipulating the independent variables (Harris et al. 2006). However, in this study, experimental treatments are not assigned randomly to the subjects. Instead, Non-random criteria are used for this purpose due to ethical or practical limitations. An example of this type of study would be determining the effect of a new drug on lung cancer by choosing

subjects whose doctors want them to be treated with the new drug and comparing the results of the treatment with the subjects who did not receive the treatment (Burns & Grove, 2010).

Experimental Research. The researcher aims to establish a cause-and-effect relationship between the variables when using the experimental research. A group of independent variables is identified, and the researcher imposes controls over them to determine the effect on the dependent variables meaning that the independent variables are manipulated, and the effect on the dependent variables is determined. The highest level of control can be achieved through experimental studies (Shields & Smyth, 2016). Experimental treatments are assigned randomly to the subjects. An example of this type of study would be determining the effect of a new drug on lung cancer by randomly treating some patients with the new drug and comparing the result of the treatment with the subjects who did not get the treatment (Burns & Grove, 2010).

Non-Experimental Research. In this type of research, the researcher does not manipulate control the variables. Variables are measured naturally without any interference or manipulation. Compared to experimental research, non-experimental studies are not as robust to make causal relationships between variables as manipulating the independent variable may not be possible or desirable. However, this study provides a good alternative to finding the relationship between two variables (Belli, 2009). Cross-sectional research, correlation, and observational research are nonexperimental since the independent variables are not manipulated.

Flexible Research Design. This design permits the researcher to gain gradual knowledge about the purpose of the study, theories related to it, research questions, research methods, and sampling methods throughout the study (Kampenes et al., 2008; Roser & Kazmer, 2000). So, the research evolves as the knowledge is obtained (Robson, 2002). According to Kampenes et al. (2008), the degree of maturity, purpose of research, research setting, and the schedule are also

essential factors in deciding the type of research design. The maturity of the research relates to the extent of the prior studies in the field. Generally, the less known about a topic, the more flexibility a researcher needs in a research design. Therefore, a flexible research design is appropriate in a field setting where the researcher may face various outcomes throughout the study. Research setting and schedule are essential factors in choosing a research design. The research setting is related to the level of control applied in the setting. The flexible design includes many types, such as narrative study, phenomenology, grounded theory, case study, and ethnography. These types are discussed below.

Narrative. In this type of research, the researcher collects and tells a story of an individual(s) by writing a narrative about his/their experiences and views of life. This research mainly aims to study a person(s). The researcher has tremendous involvement in interpreting the individual's stories, and the stories follow a chronological order and gathers information through many venues such as interviews, family stories, journals, field notes, conversations, and photos. Narrative studies can be done by focusing on analysis strategy and concentrating on the type of narratives. According to Riessman (2008), three kinds of strategies can be used to analyze narratives: a thematic analysis, where the researcher focuses on the themes of the story, a structural analysis where the researcher focuses on the form of the story like comic or romance form, and dialogic or performance analysis where the focus is on how the story is produced.

There are many forms of information about a story that could be collected. A biographical study is used where a person's experience is written and recorded by the researcher. Autoethnography is used where the author, the storyteller and subject of the study, records and writes her narratives (Ellis, 2004; Muncey, 2010). A life history is used where a person's whole life is represented instead of a personal experience story that focuses on the single of a few

episodes (Denzin, 1989). Oral history is used where the focus is on the personal thoughts of one or more people regarding an event and its causes and effects (Plummer, 1983).

Many techniques should be utilized to ensure quality narrative research. First, the researcher should decide if narrative research is appropriate for the research problem and then choose one or a few people to tell their stories or life experiences. The researcher should spend an enormous amount of time with the storytellers to gather as much information as possible using multiple sources such as accessing their diaries, interviews, observation, and gathering information from their family members. Data collection should be done using multiple sources, and the interview should be appropriately transcribed. The researcher can use many ways to collaborate with the participant. In narrative research, the researcher could act as a listener or a questioner (Riessman, 2008). It is crucial to incorporate the context of the stories into the data collection, writing, and analysis. The context could refer to cultural, historical, and personal experience contexts (Czarniawska, 2004). Stories should be reorganized into a meaningful framework such as place, plot, or scene, re-telling the story based on their chronological sequences (Ollerenshaw & Creswell, 2002). The story should have a clear beginning, middle, and ending. The researcher should have a collaborative relationship with the participant in recording the events and re-telling the story (Clandinin & Connelly, 2000). This process assists the researcher and the storyteller negotiate the true meaning of the stories and ensure the validity of the analysis (Creswell & Miller, 2000). The story should contain an introduction, and the researcher should specify a purpose that states the explanation of why the narrative study was used, information about data collection and analysis, telling the story using narrative segments, and the concluding explanation of the meaning of the story (Clandinin, 2013).

The narrative study could be a challenging research approach. Reliability and validity are two of the challenges that a researcher should be aware of and be able to overcome. Reliably is related to the "soundness of the research" and how consistent and clear is the method chosen to complete the research (Miles et al., 2018). It refers to the likelihood that another researcher conducts the same research with the same methodology and gets similar results. To ensure that the research is reliable, the researcher should provide appropriate rationale and justification for the methods used and ensure that analytical procedures are unambiguous. Validity is related to the fidelity and accuracy of the findings related to the researcher, the participants, and the consumers' perspectives (Lincoln et al., 2011). One of the methods to increase the accuracy and validity of a narrative study is member checking. By member checking, the researcher anonymously shares the collected data with the research participants to get their feedback. According to Davis and Lachlan (2017), this allows the researcher to determine how well the phenomenon was understood and interpreted and provide the participants with an idea of how their perception of the phenomenon was captured and recorded.

Phenomenology. This is another flexible design used as one of the methods of qualitative research studies for many years and has roots in philosophy. It is used when the study's goal is to explore the lived experiences of a specific group of individuals for a particular phenomenon. Therefore, the phenomenology research design aims to describe a phenomenon as experienced by individuals. The emphasis is on "what" the individuals experienced and "how" they experienced it. The phenomenon is examined through the subjective eyes of the participants. This method provides a unique experienced description of a phenomenon. Therefore, a rich amount of data can be collected to be analyzed later. For example, a researcher may study different perspectives of experiences of people who, for instance, survived the holocaust. As

another example, the researcher may be interested in studying women's experiences who have been abused. In these cases, the researcher focuses on understanding the subjects who experienced the events rather than explaining the events (Willis, 2007).

The phenomenology research method has advantages and disadvantages that researchers should be aware of. Advantages of this research method include the fact that the researcher can collect the data as seen by the researcher rather than the data reported or collected by others (Greenfield & Jensen, 2010). This is a unique advantage of this methodology that can lead to the development of new theories. The researcher also has the chance to understand the meaning that people attach to the phenomena and adjust the research structure as new issues arise. The challenges of phenomenology research design include the fact that it may require a significant amount of time and effort to observe and communicate with the individuals in the study. The researcher should observe the behavior of the individuals in the study and document and summarize the observations and conversations. Therefore, the data collection can take from a few months to years. The researcher also has less control over the progress and timetable of the study because new unknown issues about the phenomenon may arise. Therefore, the researcher needs resources to commit to an understanding of all aspects of the phenomenon. Another challenge for the researcher is separating his/her beliefs about the phenomenon from his/her observations (Creswell, 2007). This is difficult as the research is performed over an extended period, and the researcher may encounter conflicting observations and opinions. Therefore, the researcher's interpretation of the data becomes a challenging task.

Case Study. This is another type of flexible – qualitative research method used widely. This method is used for a deep investigation of the research subject matter. For example, a researcher may investigate how various customers use certain cleaning products. In this case, the

researcher can choose the case study methodology to investigate the use of the product by selecting a few groups of customers in a specific location. Then he would use a questionnaire related to the use of the product to collect information about how the participants may use the product. The case study will allow the researcher to investigate why and how those customers use the cleaning product. While the case study offers some unique research benefits, it has limitations that may limit its applications. The case study research method is a deep study of a research subject matter in a natural setting as it happened (or happens), rather than a quick survey.

In a survey study, the subjects in the research answer specific questions, and the researcher's goals are to collect data using a questionnaire. The sample size is usually large, and statistical analyses are used to analyze the data (quantitative analysis). However, when a case study methodology is used, the researcher's goal is to focus on a few subjects (or only one) and understand how the subject handles the phenomenon. The sample size is sometimes only one case or just a few cases. The emphasis is not on extensive data collection and statistical analysis (quantitative analysis). Instead, the emphasis is on a deep understanding of how the research subject perceives and handles the phenomenon (Dul & Hak, 2008).

The case study method is also different from the experimental research method. The experimental research design allows controlling the conditions of the environment in which the phenomena occur. In this case, the researcher is interested to understand how the subjects in the research react to certain factors. However, the case study methodology focuses on the natural setting where the phenomena occur (Baskarada, 2014), and the researcher is not interested in manipulating the situation to investigate the subjects' reactions. One of the seminal authors that have explained the nature and scope of the case study methodology in detail is Robert Yin. Yin

(2018) explained that the case study method is suitable when the researcher wants to investigate why and how a phenomenon occurs in its natural setting. For this purpose, Yin (2012) classified case study design into three different types: descriptive, exploratory, and explanatory.

A descriptive case study aims to explain the natural setting in which the phenomena occur. Baskarada (2014) argued that this type of case study is beneficial for supporting theory building. The focus is on "what" rather than on "why" or "How" something took place. The exploratory case study method is beneficial for studying a phenomenon before the research question is fully developed. The explanatory case study is to comprehend the causal relationships and theory examination (Baskarada, 2014). It is used to explain factors and links that are too complicated to understand by using surveys or experiments (Yin, 2018).

The case study design also can be classified as an intrinsic or instrumental case (Dresch et al., 2015). In an intrinsic case study, the subject is the focus of the study, like a person or a phenomenon. In an instrumental case study, the objective is to gain knowledge about the phenomenon. For example, a researcher interested in the awareness of the effect of exercise on health may study gym enrolment. In this case, gym enrollment will give information about people's awareness of the effect of exercise on health. According to Yin (2012), the case study method is appropriate for three situations. First, when a researcher wants to study a phenomenon and find an answer to when and how it happened. In this case, the objective is not to survey a large sample; instead, the focus is on one or a few cases so that the researcher can study the influential contributing factors deeply. Second, the case study is appropriate when the researcher would like to collect data about a phenomenon in its natural setting without controlling for the condition and environment. Third, a case study is suitable for the researcher to investigate the factors and conditions that allow the phenomenon to occur in its natural setting.

Researchers have explained that the case study method involves three steps (Creswell & Poth, 2018). The first step is to describe the case and the objective of the case study. In this step, the case study boundaries should be defined, like location, time, and specific issues related to the case (Yin, 2018). The second step is to decide if a single case will be studied or multiple cases. This will define the scope of the research. Also, it should be decided whether a holistic or embedded approach will be used (Creswell & Poth, 2018). The holistic approach is when all aspect of the case is studied. The embedded approach is when certain parts of a case are studied. The third step is writing the results to communicate the outcomes of the case study understandable to others. The result of the writing is a significant step as the researcher shall determine who will be the reader and ensure the writing will be comprehendible to them.

While the case study design provides the opportunity for a deep analysis of a phenomenon in a natural setting as it happens without controlling the environment, it has some limitations and challenges. One of the challenges is that the case study design may require more resources and a more extended period than other research methodologies such as surveys or secondary data. The availability of resources may negatively affect the researcher by choosing a tighter boundary factor such as fewer cases or a shorter timeframe for the research (Dresch et al., 2015). Furthermore, depending on the research objectives, the generalization of the case study findings can be a challenge. Even when multiple cases are studied, generalizing the findings to a larger population is a concern, also called external validity (Tsang, 2014). However, generalization concern is not limited to the number of the studied cases. The conditions and environment in which the phenomenon took place can also affect the generalizability of the case study. Therefore, researchers should clearly explain the case conditions and environment so that the readers can decide about the generalizability of the results. Another challenge is when the

subject of the case study does not present any timeframe limitation and it is continuing in nature. In this case, the researcher will choose an arbitrary timeframe boundary, which challenges its validity (Creswell & Poth, 2018).

Grounded Theory. This method has also been broadly used in the social sciences. It is primarily utilized to build new theories through collecting data and analyzing them. It necessitates data collection and data analysis concurrently. Barney Glaser and Anselm Strauss developed the grounded theory methodology in 1967 and stated that the theory should be developed from the data (Creswell & Poth, 2018). They believed the data should be collected in action and with the living experiences of the participants. Then, the data should be analyzed to identify patterns and common explanations. Later, the concept of constructivist grounded theory was developed by Charmaz (2006), which emphasized the role of grounded theory from the positivism concept with emphasis on the complexity of events and flexibility in interpreting the results by the researcher. The grounded theory requires data collection and data analysis simultaneously. The primary data collection method is a survey, and the researcher should concurrently collect the data by surveying the participants and comparing the results with the previously collected data to find new patterns. This procedure requires back and forth to the participants for collecting new data and elaborating on the developing theory.

There are two common approaches to grounded theory methodology: the systematic procedures of Anselm Strauss and Juliet Corbin and the constructivist approach of Charmaz (Creswell & Poth, 2018). The systematic procedure approach emphasizes the categorization and coding of the collected data and requires constant comparison with the categories and codes. There could be emerging categories as the procedure continues. The researcher continues seeking a theory that explains categories, codes, and emerging categories. The categories could

be events, activities, and examples. The researcher may conduct 20 to 30 interviews at different intervals, and the data collection and analysis start simultaneously. In other words, the researcher may collect some data to analyze, but he collects more data to analyze before the analysis is over. This process continues until data saturation occurs, which means the new data does not add any new value. The data are coded based on the major categories or events. A category or event is considered a core category, and then some categories around the core category are defined. The other approach of grounded theory is the constructive approach. The main difference between the systematic procedure and the constructive approach is that the constructive approach does not identify a core category. Instead, the constructive approach emphasizes multiple events and realities and considers the participants' values, emotions, and beliefs (Charmaz, 2006). Theory devolvement is based on the researcher's understanding of the hidden network and values. Also, the constructive approach emphasizes good data collection and coding. Charmaz (2005) argued that any conclusion based on the grounded theory is suggestive and not complete and inclusive.

Grounded theory faces challenges that the researcher should be aware of. One of the difficulties in this theory is that it can be very time-consuming and time-sensitive (Backman & Kyngäs, 1999). Data collection and analysis and back and forth to collect more data can be very time-consuming, and the researcher should plan adequately. Another challenge is the biases in sampling when the researcher is selecting the initial and subsequent samples for interviews (Creswell & Poth, 2018). As the researcher selects only 20 to 30 samples for the interviews, random sampling becomes an issue.

Ethnography. This theory shares several similarities with the grounded theory, especially for data collection and coding. However, the main difference between the grounded

theory and ethnography is the size of the research population and sampling. While grounded theory uses a limited number of interviews for the data collection, the ethnography addresses the whole population of the group that shares culture and values such as gender, race, and nationality. For instance, the grounded theory may include 20 to 30 interviews with subjects who may share the same values and characteristics, while ethnography includes the whole population.

In some cases, the entire population includes only a few subjects (such as middle school teachers in a small town), and in some other circumstances, the research population includes a large sample, such as females in a large city. In addition, ethnography emphasizes understanding the nature of a culture-sharing group. For this purpose, the culture-sharing group should have been established enough to develop some norms and values (Wolcott, 2008). Another difference between grounded theory and ethnography is that the ethnography starts with a broad theory or understanding of the culture-sharing group, and the focus is on how the culture-sharing group thinks, what their values are and how they express them through language and behavior. The goal of ethnology research is to understand the similarities and patterns that are shared among the members of that group.

An ethnography research methodology challenge is how much the researcher can get immersed into the culture-sharing group to understand their values, hidden network, and behavior (Wolcott et al., 1987). This method also could be very time-consuming as understanding the culture and its values may take years. Another challenge is logistic issues (Montsion, 2018), as the researcher should travel and interact (or sometimes live) with the culture-sharing group to fully understand their values and behavior. This issue poses a significant limitation to the research as the researcher may not be able to move to the cultural place to understand the culture entirely.

Mixed Research Design. In this method, the researcher combines the qualitative and quantitative research approaches to gain a more in-depth and breadth understanding of the phenomenon (Bazeley, 2003; Johnson et al., 2007; Kemper et al., 2003). For instance, a researcher may collect, analyze, and integrates quantitative data from a survey and integrates it with qualitative research through interviews. Four mixed research designs are sequential, concurrent, multiphase, and multilevel design (Almeida, 2018), which are discussed below.

Sequential. The most popular mixed design is the sequential explanatory design. It follows a two-step process where step two can only be performed after step one. The researcher can decide to collect and analyze the quantitative data before the qualitative data or vice versa, depending on the nature of the study and the researcher's vision (Almeida, 2018; Creswell, 2021; Creswell et al., 2003).

Concurrent. This design includes methods of triangulation design, embedded design, transformative design, and convergence design. In triangulation design, the researcher executes both quantitative and qualitative methodology simultaneously. Then after a separate analysis, the researcher will compare the results of both methodologies. The main methodology guides the study in a concurrent embedded design and defines which data collection and analysis should be done first (Almeida, 2018; Creswell, 2021). Koskey and Stewart (2013) supported this method since it helps reduce the execution time. In concurrent transformative design, the process is executed concurrently. What determines the layout of the study is the nature and the characteristics of the study. The concurrent convergence design has two specific roles for the quantitative and qualitative approaches. First, quantitative data are collected and analyzed by identifying subjective and objective aspects of the problems. Then the researcher integrates both findings for result interpretation (Almeida, 2018).

Multi-step. This involves a few more complex phrases as the phases are dependent on each other. The phases may be qualitative, quantitative, exploratory, or explanatory. The researcher first examines the objective of the problem and then implements quantitative, qualitative, and mixed-method studies. Each new study is based on previously learned (Almeida, 2018).

Multilevel. The researcher identifies various layers or dimensions of the problem first. Baran (2016) called this method a "multi-layered" design. Based on the number of dimensions, the levels of the design will be determined. Then methodology will be adopted for each level. Each level and design will use quantitative and qualitative data collection analysis, and finally, the result will be interpreted (Almeida, 2018). Sequential approaches are easier to implement as the processes are integrated. In this approach, the interpretation might take more time than in the concurrent studies; however, the processes are done faster as qualitative and quantitative processes are executed in parallel. Multi-step and multi-level designs are used for more complex research where many dimensions and analyses are necessary to conduct the research (Almeida, 2018). Since the positivist research paradigm encourages fixed designs, this research was performed using a fixed design - quantitative methods; specifically, a causal-comparative design was utilized.

Discussion of Method

Researchers have used several methods to study the manipulation of earnings by management. Management use either actual or real accounts to manipulate earnings. In prior studies, the single account method, real transactions, specific accruals, earnings distribution, and modified Jone's model (total accruals) have been used to detect EM. These methods are discussed below.

Single Account Method. This method focuses on how management may use a specific accounting policy or account to manipulate earnings. This type of earnings manipulation can occur when there are several accounting methods for treating an account. For example, there are four methods for evaluating inventory accounts: FIFO, LIFO, weighted average, and specific identification method. In addition, management may switch accounting methods to manipulate the reported earnings. The approach of the Single account method, which is a quantitative – fixed design method, was used by Aljifri (2007) to investigate the use of EM in the case of inventory accounts, Skinner (1993) through the case of management compensation plans, and Kighir et al. (2013), Omar et al. (2014), and Franceschetti (2018) through the case of depreciation methods.

Real Transactions. Management may manipulate real financial transactions such as sales or expenses to manipulate earnings based on this approach. For example, management may accelerate credit sales close to the end of the year or offer higher credit limits to boost sales. The real transactions approach, a quantitative-fixed design method, was used by Bartov (1993) and Roychowdhury (2006). Wang (2015) found that real transaction earrings management was used more often in countries with low regulatory environments.

Specific Accruals. The specific accrual method, which is a quantitative-fixed design method, is used when the researcher desires to study EM in industries where some accruals are more significant than others. Examples of specific accruals are bad debt adjustment, deferred tax assets, loan loss reserves of banks, and claim loss reserves of insurers. A leading researcher in this field is McNichols and Wilson (1988), who used a specific accrual method for bad debts provision to study EM and found that firms with low abnormal revenue used income decreasing accruals through bad debt expense. Other examples include banks' loan loss provisions (Beaver & Engel, 1996) and insurance companies' claim loss reserves (Petroni, 1992). Ung et al. (2018)

used a specific accrual approach to examine the impact of brokerage fees across ownership expropriation on EM and found that high brokerage fees and high ownership concentration were associated with EM. They used the Beneish M-score method to detect EM by using five financial ratios Days' Sales in Receivables Index, Gross Margin Index Asset Quality Index, Sales Growth Index, and Depreciation Index.

Earnings Distribution. This method is used when researchers desire to investigate whether there is a systematic pattern in manipulating earnings based on how earnings are reported. For example, whether firms systematically try to avoid reporting losses or show some sort of earnings growth. This method, which is a quantitative-fixed design method, was used by Beatty et al. (1999), who found that firms managed their earnings to evade losses and meet financial analysts' predictions. Makarem et al. (2018) used the earnings distribution approach to investigate the reporting behavior of firms for a small profit or small losses. They found that firms engaged in EM to boost earnings and avoided reporting zero or small losses.

Modified Jone's Model (also called total accruals). This approach, which is a quantitative-fixed design method, focuses on the overall evidence of EM rather than any specific accounting methods or business transactions. This method is the most common approach in studying EM. Total accruals are divided into two potions of discretionary and non-discretionary accruals. It is argued that management can manipulate earnings through discretionary accrual portions. Jone's (1991) introduced a linear regression approach to study EM through total accrual. The method used in this research is the modified Jone's model.

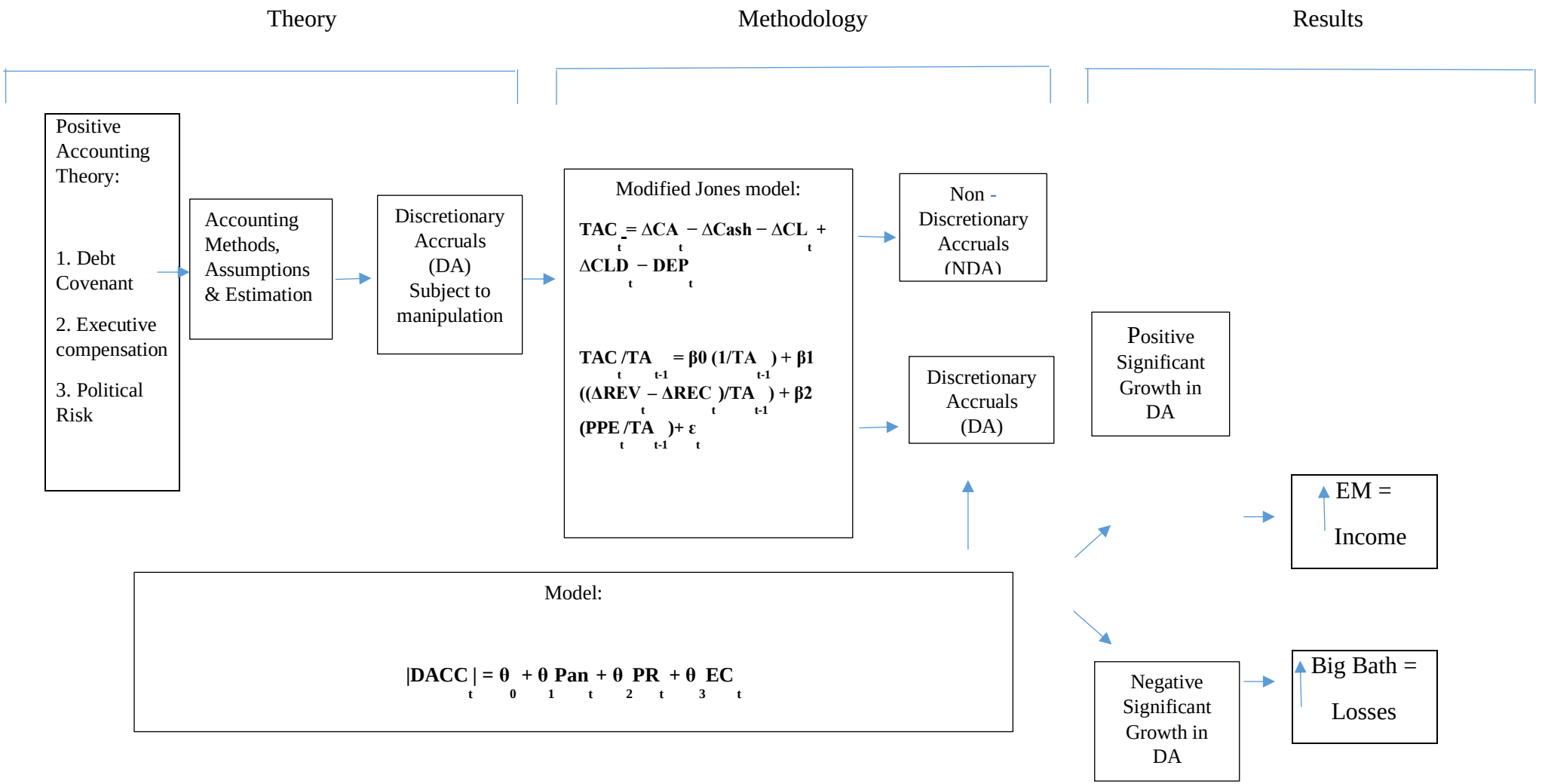
Summary of Nature of the Study

The nature of the study contains a discussion for the paradigm of this research which is Positivism. This paradigm requires an objective research design which is the fixed design. The

theories used in this paper are Positive Accounting Theory and Agency Theory, and since the theories are known, the fixed design suitable and applied. The modified Jone's model was used to detect EM during the period of the pandemic 2020. T-test and multiple regression analysis was conducted to conclude the result.

Figure 1

Framework Diagram



Theoretical Framework

The Framework Diagram for this research depicts the theories, methodology, and result of this study and the flow of the actions and information involved. First, the theories related to EM is discussed, then various methodologies are explained and compared, and lastly, the result of the study is described. Figure 1 depicts the theoretical framework diagram for this study.

Theories

The positive accounting theory by Watts and Zimmerman (1986) was used for this study, and based on the theory, many factors, including executive compensation, political risk, and economic crisis affect EM techniques. In this research, the effect of these three variables on the use of DACC was tested to investigate the possibility and magnitude of the use of the BBEM during the pandemic of 2020.

Agency theory is also used for this study. Based on this theory owners and managers are separated from each other causing management to process more information about the firm than the owners. Since management are responsible for the operational and financial health of the companies, they have incentives to use this information asymmetry to their own advantage.

Actors

Many actors affect and are affected by earnings management. Management, accountants, investors, creditors, and lenders are included in the actors group. Unethical management and accountant affect earning management as they are the ones manipulating financial records. Investors, creditors and lenders, however, are negatively affected if the manipulation is significant since these actors trust unreliable financial statements to make financial decisions.

The variables used to conduct statistical analysis in this study are the executive compensation, operating expenses, as a proxy for political cost, the year of pandemic, and the

variables in the modified Jone's model. Therefore, positive accounting theory provides the variables influential on BBEM, and the BBEM practices affect the stakeholders and actors.

Variables

Several variables were relevant in studying BBEM in this research. Executive compensation, pandemic, and political cost variables were used in the model created for this study, and the rest of the variables came from using the Positive Accounting Theory to separate the amount of discretionary from non-discretionary accruals in each firm. Table 1 defines the variables, their types, and ranges. Then all variables are explained in detail.

Table 1

Variables

Variable	definition	Variable Type	Data Type	Range
Accounts Receivable	claims against others, after applicable reserves, collectible in money, generally within one year.	Independent	Ratio	≥0
Executive compensations	Executive compensation	Independent	Ratio	≥0
Cash	Cash and Short-Term Investments	Independent	Ratio	≥0
Current asset	represents assets that will be used within one year	Independent	Ratio	≥0
Current Liability	represents liabilities due within one year, including the current portion of long-term debt	Independent	Ratio	≥0
Depreciation	Non-cash charges for obsolescence of and wear and tear on the property, allocation of the current portion of capitalized expenditures, and depletion charges.	Independent	Ratio	≥0

Discretionary accrual	Accruals that management has control over	Dependent	Ratio	≥0
Non-discretionary accruals	Accruals that management does not have control over	Independent	Ratio	≥0
Pandemic	The year of the Pandemic of 2020	Independent	Nominal	0 or 1
Property, Plant and Equipment	a component of Property, Plant and Equipment (Net)	Independent	Ratio	≥0
Revenue	Sales/Turnover (Net) plus Operating Revenues - Other.	Independent	Ratio	≥0
Total Accruals	Total discretionary and non-discretionary accruals	Independent	Ratio	≥0
Debt in Current Liabilities	The total amount of short-term notes and the current portion of long-term debt (debt due in one year).	Independent	Ratio	≥0
Political costs: Operating Expense	1. Cost of Goods Sold (COGS) 2. Selling, General and Administrative Expenses (XSGA)	Independent	Ratio	≥0
Total Assets	Current assets plus net property, plant, and equipment plus other noncurrent assets, including intangible assets, deferred items, investments, and advances.	Independent	Ratio	≥0

Dependent variables are affected by the behaviors of the independent variables. In this study, the dependent variable is the discretionary accrual. Since management can choose the accounting standards to estimate accruals such as inventories, accounts payable, accounts receivable, and depreciation, they can directly affect the amount of reported income, either upward or downward, depending on the accounting standards used. Therefore, the chosen standard affects the value of discretionary accruals (Beneish et al., 2012; Dechow et al., 2010). In this study the dependent variable is the discretionary accruals.

Independent variables are the ones that behave independently and affect the dependent variable but will not get affected by them. The researcher could change or control the independent variables in scientific research to determine the change they may cause to the dependent variables. This research contains many independent variables, which are explained below.

- Executive compensations: This is one of the independent variables used in the model of this study. Prior studies revealed that CEO compensation was positively related to the reported income (Dechow et al., 2010; Marantika et al., 2021). According to Healy (1985), firms used BBEM when their determined bonus was achieved, or the minimum condition for the bonus was not attained. In addition, Barton (2001) found a positive relationship between discretionary accruals and CEOs' executive compensation s. Therefore, the executive compensation was considered a factor in this study.
- Political costs: This factor motivates the management to reduce the profits as the sensitivity to the political cost rises (Almashaqbeh et al., 2018; Byard et al., 2007). These programs created an incentive for the firms to show a higher amount of losses to be able to take advantage of the government assistance programs.
- Pandemic: This is another independent variable that affected the use of discretionary accruals during 2020 as it created economic downturn.

Relationship Between the Theories, Actors, and Variables

The agency theory discusses that "information asymmetry" between management and the business owner produces an opportunity for the management to influence earnings. Management manipulates income more when information asymmetry is higher (Richardson, 2000). According to Habib (2004), FASB's loose accounting standards will give the management the discretion to

choose between various accounting methods for opportunistic reasons. Positive accounting theory provides the variables such as executive compensation, debt-equity ratio, and political cost that affect the degree of EM that accountants practice.

Therefore, one can analyze the degree of the effect of the variables provided by the theories on EM. Hence, theories and variables are related. In the meantime, as discussed before, the practice of earnings management affects all actors, including the shareholders, investors, creditors, and lenders. Therefore, theories provide the variables influential on EM, and the EM practices affect the stakeholders, making theories, actors, and variables related.

Summary of the Theoretical Framework

In the Theoretical Framework section, the Positive Accounting Theory and Agency Theory were explained. The actors were identified, and the variables were described in addition to the relationship between the theories, actors, and variables.

Definition of Terms

Accountant: An accountant is a skilled person who knows how to record and report financial transactions (Warren et al., 2018).

Accounting: The process of recording, analyzing, and summarizing, and analyzing the financial transactions of a company as well as producing reports and financial information at any point in time (Warren et al., 2018).

Accounts payable: The amounts that are owed by a company within one accounting cycle (Warren et al., 2018).

Accounts receivable: The amounts that are owed to the company because of sales transactions (Warren et al., 2018).

Accrual: Expenses or revenues are incurred but not recorded yet (Warren et al., 2018).

Accrual basis accounting: The process in which financial transactions should be recorded as they occur rather than paid for (Warren et al., 2018).

Accrued expense: Expenses that are accrued but not paid for yet (Warren et al., 2018).

Asset: The objects of value that a company owns and can use over time (Warren et al., 2018).

Auditors: Certified public accountant professionals who review financial records of a corporation and sign off on the financial statements to indicate that there is no material misstatement in the records and that financial statements are provided according to Generally Accepted Accounting Principles (Warren et al., 2018).

Big bath EM (BBEM): A technique used by management to manipulatively downward the income (Cheng et al., 2019; Hope & Wang 2018).

Cash flow: Inflow and outflow of cash due to expenses and revenues generated by a company for a certain period of time (Warren et al., 2018).

Certified Public Accountant (CPA): An accounting professional who passed a standardized test by the American Institute of Certified Public Accountants and has the authority and ability to audit corporations and public companies and sign off on their financial statements (Warren et al., 2018).

Depreciation: Allocation of the cost of the asset over its useful life (Warren et al., 2018).

Discretionary accruals: a part of accrual that management has complete discretion over to estimate as managers are free to choose accounting standards related to that accrual such as inventories, accounts payable, accounts receivable, and depreciation. These chosen standards can directly affect the amount of reported income and are guided by the U.S. Generally Accepted

Accounting Principles (GAAP) and International Financial Reporting Standards (IFRS; Welch et al., 1995).

Expense: The amount a company has spent to operate the business (Warren et al., 2018).

EM (EM): The choice of accounting policies or actions that can affect earnings to achieve a specific objective, such as showing better profits, better performance, or better liquidity positions. Earnings are sometimes managed when management's compensations are tied to the reported earnings (Deegan, 2009).

FIFO: First in, first out method of inventory flow (Warren et al., 2018).

Fixed asset (Property, Plant, and Equipment): The access that the company owns and can use for an extended period (more than one year; Warren et al., 2018).

GAAP: Generally accepted accounting principles, the principles, and standards of the accounting profession (US GAAP: Generally Accepted Accounting Principles, 2021).

Liability: The debt of the company (Warren et al., 2018).

LIFO: Last in first out method of inventory flow (Warren et al., 2018).

Liquidity: How quickly a business can convert its assets to cash (Warren et al., 2018).

Loss: Excess of expenses over revenues within a period (Warren et al., 2018).

Materiality: The importance of a transaction or information. Omission or error in material transactions or information could affect the decision-making by the stakeholders (Warren et al., 2018).

Net income: Profit earned after expenses is subtracted from the company's revenues for a certain period (Warren et al., 2018).

Non-discretionary accruals: the expenses that the company has incurred, and it is obligated to pay but has not paid yet, such as utility bills and wages to be paid (Welch et al., 1995).

Positivism: a branch of a research paradigm that states that logical fact exists through the laws of cause and effect regardless of individuals' personal belief and thoughts (Marczyk et al., 2005) and that reality could be approximated impartially using the most developed objective method (Ulin et al., 2004).

Profit: Financial gain received after expenses are subtracted from the revenues within a certain period (Warren et al., 2018).

Research paradigm: worldview about conducting research constructivism (Guba & Lincoln, 1994).

Revenue: Amount of money generated by a business over a period by selling goods and services (Warren et al., 2018).

Assumptions, Limitations, Delimitations

Assumptions are certain aspects of research that are assumed to be true given the statistical test, research design, population, and other delimitations. Limitations are influences that the researcher cannot control; therefore, they provide shortcomings and restrictions in a research methodology or conclusion. Delimitations are boundaries placed on the research, and they are under the control of the researcher. They are placed on the research, so the research goals do not become too large or too impossible to complete. Both assumptions and limitations affect the inferences drawn from the study. (Tanhueco-Tumapon, 2016). Various assumptions, limitations, and delimitations of this study are discussed below.

Assumptions

The following assumption exists due to the nature of this quantitative research and the statistical method used, which is multiple regression analysis (Osborne & Waters, 2002). The researcher assumes a linear relationship between independent variables, multivariate normality, no multicollinearity, homoscedasticity, and no outliers in multiple regression analysis. In linear relationship assumptions, a researcher assumes a linear relationship between the dependent and independent variables. A scatterplot ensures the existence of such a linear relationship (Laerd Statistics, 2021). Multivariate normality assumes that the residuals of the regression are distributed normally. The normal distribution of the residuals is checked by verifying the P-P plot for the model (Laerd Statistics, 2021). If the dots are closely lying on the diagonal line, we have a normal distribution. A large sample usually has a normal distribution.

No multicollinearity assumes that no significant correlation exists between the independent variables in a multiple regression study. This assumption could be checked by Correlation Coefficient and Variance Inflation Factor value (VIF) methods. To use Correlation Coefficients, the researcher should place the predictor variables into the Correlation Matrix and search for Coefficients with a level of 0.8 or higher. Magnitudes at or higher than .80 suggest a strong correlation within the predictors. The VIF values should be below ten and the best-case scenario below five to indicate no multicollinearity. The tolerance also should be above 0.2. If multicollinearity is detected, the correlated independent variables should be removed (Laerd Statistics, 2021). Homoscedasticity assumes that the independent variables have a similar variance of error terms in multiple linear regression analysis. To ensure equal distribution of the residual points, a scatter plot of residuals compared to the forecasted ones can be made (Laerd Statistics, 2021). The independence of residuals assumes that the residuals are independent of

one another. This assumption could be verified by the Durbin-Watson test through SPSS. The Model Summary Box, Durbin- Watson statistics, can be checked to have values between 0 and 4. The value needs to be closer to 2 as values above 3 and below 1 are problematic in which case we could use the generalized difference equation (Laerd Statistics, 2021). No outlier assumption assumes that there are no outliers in the dataset. Cook's test in SPSS was done to ensure this assumption. Values above 1 are considered outliers and should be removed (Laerd Statistics, 2021).

The last two assumptions for this study relate to the collected data and opportunistic behaviors of management. The data set was collected from the firms' financial statements, and it is assumed that corporations prepare financial reports based on GAAP and the reports are free of material misstatements. Since corporations must be audited for following the GAAP rules annually, we assumed that the existing sample of the corporation in this study was successfully audited, and no substantial error existed in their financial statement. The opportunistic behavior of management is related to the positive accounting theory and agency theory used in this study. Both these theories assume that managers are opportunistic and aim to pursue and maximize their interests, which may not apply to some managers (Richardson 2000; Watts & Zimmerman, 1986).

Limitations

Since this research was limited to the use of BBEM during the pandemic of 2020, the data needed for this study came from 2018, 2019, and 2020 and extracted from the Compustat and Mergent Online Databases for the years 2018-2020. Therefore, the result of this study may or may not apply to other years. Also, the database and the years of study could not be changed.

Delimitations

Several boundaries were placed on this study that may limit the applicability of the findings. The years studied in this research were from 2018-2020. Therefore, the findings of this research may not apply to other years. The scope of the study was to detect accrual EM, not real earnings management, so the results may not apply to real EM practices. Data were collected from U.S. public companies; therefore, the results may or may not apply to other countries' firms, although U.S. travel and leisure companies are among the largest leading firms in the world, such as Marriott or Hilton hotels. The industries researched in this study were limited to the travel and leisure industries. This provides opportunities to extend this study to other industries. In addition, this research presented the entire population for this study, not a particular company.

Significance of the Study

This study contributed to the literature, specifically by investigating the extent of the truthfulness of corporate leaders in presenting accurate financial information to stakeholders, especially during the worldwide pandemic where unprecedented challenges to public health, global striking loss of human life, harsh financial, social, and economic situation caused devastating results for everyone.

Reduction of Gaps in the Literature

This study added to the literature in several aspects. The substantial contribution was the use of EM in combined economic, financial, and environmental crises. Several studies documented that corporations engaged in BBEM depending on a set of factors such as economic turnover or shocks, CEO turnover cases, financial crisis, and accounting standard choices. However, there is no consensus in the conclusions provided.

For instance, Jordan and Clark (2004) examined BBEM within a group of fortune 100 companies. They concluded that firms experiencing depressed earnings each year engaged in BBEM. However, they showed higher profits later when Statement of financial accounting standards (SFAS) No. 142 required the management to test Goodwill for impairment annually and created a distinct opportunity for the managers to have discretion overestimating this asset. Breuer et al. (2021) found that companies engaged in BBEM when the CEO was turned over. Kjærland et al. (2021) found that management engages in BBEM by using abnormal income-decreasing accruals when faced with macroeconomic shocks. Kwon and Lee (2016) found that management used BBEM techniques to reduce earnings by recording losses related to loan loss allowance when significant shareholder changes occurred in the banking sector. Similar results were reported by Bornemann et al. (2015), Ozili and Outa (2019), and Pierk (2021).

On the other hand, Seetharaman et al. (2006) found that managers did not use BBEM to lower their reported earnings when faced with financial problems. In fact, the researchers found opposite results that managers used income-increasing accruals to demonstrate a positive picture of the company's performance for financing purposes. Similar results were found by Li et al. (2020).

This research explored BBEM during the pandemic of 2020, which was different from the prior financial crisis periods in many aspects, as the findings of the prior studies may or may not apply to the pandemic. During the pandemic of 2020, most corporations were financially suffering losses due to a shortage of supply and a limited number of suppliers and vendors, which constrained production and sale. The unemployment rate rose tremendously, which triggered the demand to decrease as well. Most organizations closed, and the workers were encouraged to work from their own premises. All these factors caused the corporations to face

economic downturn and suffer losses. However, the pandemic was not merely an economic situation. It affected the entire world and all societies from all aspects, including the health and wellbeing of individuals. This period was a very emotional at the time. Media, government, and social activists were encouraging people to offer help to each other. The management of major firms such as Walmart, Target, and Amazon changed their regular business practices to accommodate employees, customers, and other stakeholders for their basic needs. The government offered significant financial aid to individuals and corporations to provide support during the uncertain period of the 2020 pandemic. Such a business environment was unique in modern history. Corporate managers were expected to change the business practices to be considerate of their employees, customers, and the entire supply chain. Therefore, it was noteworthy to investigate whether managers showed sympathy and acted ethically by not engaging in BBEM for opportunistic reasons of increasing their bonuses the year after. Consequently, the current study added to the literature by delivering evidence about whether managers avoided BBEM during the pandemic, or they still did engage in BBEM for dishonest reasons and overstated the losses, even more, to take advantage of the governmental financial assistance offered at the time.

The second contribution of the current study is to deliver evidence about the quality of financial statements during a worldwide pandemic. During the pandemic, corporate managers were expected to be faithful leaders to society and their shareholders. However, taking advantage of the situation and engaging in BBEM to manipulate the financial statements is contradictory to what was expected from them. Hence, the current study provided evidence about the quality of financial statements during this challenging period, which is helpful in shareholders' evaluation of management behavior.

Another contribution of the current study is related to the overall literature in BBEM. As it was mentioned, prior studies' results show that the management engagement in BBEM does not take place all the time, and it will depend on the situation. Therefore, the current understanding has contributed to the general discussion of when management is likely to engage in BBEM by providing evidence about the manager's behaviors towards financial reporting during health and social crises such as the 2020 pandemic period.

Implications for Biblical Integration

Research is the innovative work of a researcher who uses a series of systematic methods to collect, organize and analyze information to advance the human knowledge and understanding of an issue. Many types of research, including empirical and scientific studies, seek further to understand a topic by quantitative data analysis and testing. From a biblical perspective also, the main purpose of research is discovery. According to Matthew 7:7, "Ask, and it will be given to you. Seek, and you will find." This means that one can find knowledge by seeking, inquiring, and putting time and effort into searching. According to Proverbs 18:15, "An intelligent heart acquires knowledge, and the ear of the wise seeks knowledge." According to Romans 15:4, "For whatever was written in former days was written for our instruction, that through endurance and through the encouragement of the Scriptures we might have hope." This refers to the fact that prior knowledge helps us in our research now. Research opens one's eyes to the truth, and a Christian researcher seeks and searches for wisdom, knowledge, and understanding. Romans 12:2 states: "Do not be conformed to this world but be transformed by the renewal of your mind, that by testing you may discern what the will of God is, what is good and acceptable and perfect." Proverbs 14:15 states: "The simple believes everything, but the prudent gives thought to his steps." The Lord wants humans to search for truth and be vigilant about it. He has given

man the capability to think to increase his knowledge by learning and performing various tasks. God wants man to use his ability to think and learn critically. God is the absolute wisdom and knowledge, and He has created man to portray an image of God on this earth. Therefore, man must obey God's requirements.

This research was about the unethical behavior of accountants and managers that manipulated the earnings of corporations and acted in their own best self-interest instead of acting in the best interest of their principles. This behavior has caused tremendous amounts of problems for corporations and society as a whole. Corporations have lost massive amounts of capital due to fines of regulatory agencies when caught, and the principals have lost billions of dollars of their investments as they delegated authority to the management and accountants who misused their powers. Therefore, accountants should provide reliable financial information that helps the stakeholders and principals make sound financial choices. However, EM behaviors lead to misrepresentation of financial statements, which misleads the investors. Through this empirical research of the travel and leisure industry's corporation's financial records, the truth about the unethical behavior of the accountants and management of the corporations and the extent of the BBEM during the pandemic of 2020 was discovered. As it is stated in Romans 15:4, "For whatever was written in former days was written for our instruction, that through endurance and through the encouragement of the Scriptures we might have hope." This is true in conducting this study, as the prior knowledge of the Positive accounting theory was used as a basis and theory of this research, and the modified Jones model was used in the methodology to obtain the results. Therefore, this research contributes to the knowledge and understanding of EM behavior during the pandemic. This could be informative for all the stakeholders of these industries in the market.

The Benefit to Business Practice and Relationship to Field of Study

The findings of this research study have implications for many shareholders. According to Freeman and Reed (1983), in a corporation, a stakeholder is a member of groups, such as customers, investors, creditors, and suppliers and if there is no support from the shareholder, the business would discontinue surviving. EM will adversely impact the company's operation and the shareholders. Ethical culture will be negatively affected as small earnings manipulation activities eventually turn to more extensive and more aggressive manipulations by management and the company's leaders. According to Ettredge et al. (2010), taking more significant risks and more aggressive ways to manage earnings may lead the management to fraud. For example, Carillion, a service provider in defense, education help, and transport based in the UK, employing over 43,000 people, collapsed in early 2018 due to about 978 million dollars of the pension deficit. KPMG, one of the largest four auditing firms, audited and signed off on the firms' financial statements in 2016, while the company was experiencing severe financial issues in 2017. KPMG's audit work went under investigation, and now KPMG is required to pay $306M because of negligence auditing Carillion (Hodge, 2020). In the meantime, this caused creditors and the firm's pensioners to face deep losses in addition to putting thousands of people out of work. Nikola Corporation, a zero-emission, liquid hydrogen trucking manufacturing corporation based in Phoenix, was another company with a corporate scandal in 2017. The company was found guilty of committing the crime of misrepresenting its technology by promoting a fake video of its technology. As a result, the company's share prices dropped by more than 20%, causing the shareholders to lose billions of dollars (Wayland, 2021). Therefore, one of the critical implications of this study is related to the audit quality of the corporations. If financial statements misrepresentation is detected earlier by auditors, corporate analysts, board of

directors, and the shareholder's stake in the company could be protected, and significant losses could be prevented. In addition, an extensive amount of literature is evident, showing that the quality of financial disclosure has an inverse relationship with the cost of capital (Dadashi & Norouzi, 2020). This means that audit companies should exercise higher oversight and care to audit corporations, especially during economic downturn periods. Many studies reveal that the audit committee and quality negatively affect EM (EL Deeb & Ramadan, 2020; Lopes, 2018; Sitanggang et al., 2020). Therefore, corporation board members should pay particular attention to companies' internal control system oversight and oversee the audit and auditors' reports to ensure the highest audit quality is achieved. Regulatory agencies and overseeing bodies could benefit from the result of this study and consider it when setting accounting standards, enforcing, and inspecting them with the primary goal of protecting the investor's interest.

This study could be extended for any industry or market and any geographic location during any period since EM methods could be used anywhere or anytime to manipulate the earnings either upwards or downwards to show higher income or higher losses to achieve a specific purpose. Many studies are conducted regarding EM in various countries or industries. For example, Khunkaew and Yang (2019) conducted a study of EM in Thailand, and Cheng et al. (2021) researched EM in the U.S. property-casualty insurance industry. BBEM could be potentially conducted for manufacturing or merchandising, or service businesses.

Summary of Significance of the Study

In this section, the significance of this study was explained by reducing the gap in the literature by investigating the practice of EM during the pandemic of 2020, where every aspect of human life was affected negatively, and corporate leaders were expected to be inspirational, have empathy, and understand and help others. Also, it was discussed that this study will benefit

the business practices by explaining how EM can negatively affect the public and how auditors and policymakers could act to reduce the occurrence of EM by managers. In addition, the biblical implication of this research was explained.

A Review of Professional and Academic Literature

The collapse of many corporations and their prominent auditing firms has always caused severe economic distress globally, affecting various stakeholders such as investors, creditors, employees, and regulatory agencies. Opportunistic EM motives and asymmetry of information characteristic of the job of top management have given them the opportunities to manipulate financial information providing an inaccurate portrait of the economic situations of corporations. Many creative methods are used by management to manipulate earnings, such as utilizing accruals of accounting or real EM techniques. Opportunistic EM may cross the line of fraudulent activities and cause loss of billions of dollars invested in these corporations and lead to corporate bankruptcy, wasting significant financial, human, and technological resources. The corporate scandal of Enron and its auditing firm, Arthur Anderson, one of the leading accounting firms, accounts for one of the largest financial frauds in history. According to Baker et al. (2019), management and accountants of corporations with various levels of power use many EM techniques to achieve their goals. The topic of EM is widely researched in prior studies. In the literature review of this research, business practices, nature of the problem, theories, and variables of EM, along with prior studies related to EM and BBEM, are discussed.

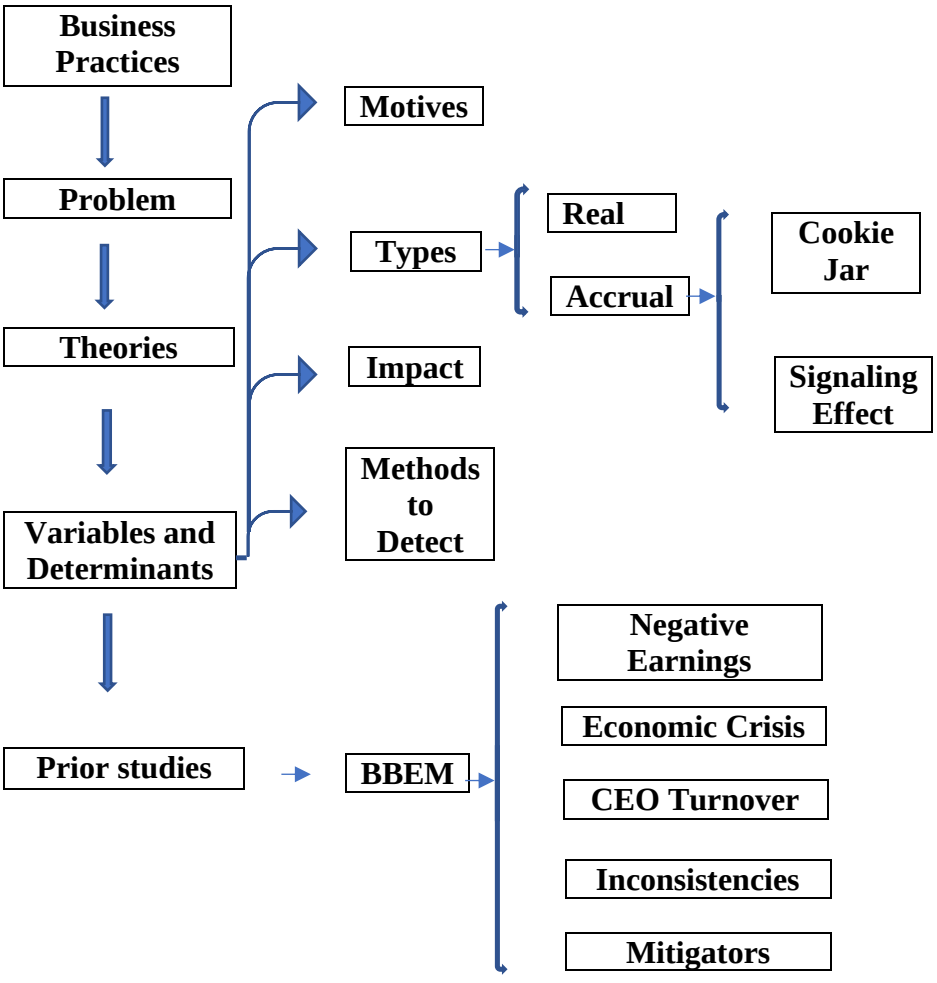
Google Scholar search engine was used along with ABI database for extracting scholarly articles related to this topic. Many keywords such as "EM and big bath," "EM motives," "Impact of EM," "EM methods, Big Bath accounting," and "Big Bath methods" were used to find articles. Articles in a foreign language, unrelated to EM or BBEM, and inaccessible full-text articles were

excluded. Although many articles exist in EM, there are few studies in BBEM, and findings are inconsistent, which provides an opportunity for further studies in BBEM.

This literature review has discussed the business practices, problems, theories, and variables related to EM. Then, the variables in EM, motives for EM, types of EM, impact of EM, and method to detect EM is explained. Next, prior studies discuss the research conducted in BBEM in the case of firms' negative earnings, economic crisis, and CEO turnover. Then, inconsistencies in the finding of BBEM research is explained, followed by the factors that will mitigate the practice of BBEM. Figure 2 depicts the Literature Review Framework for this study.

Figure 2

Literature Review Framework



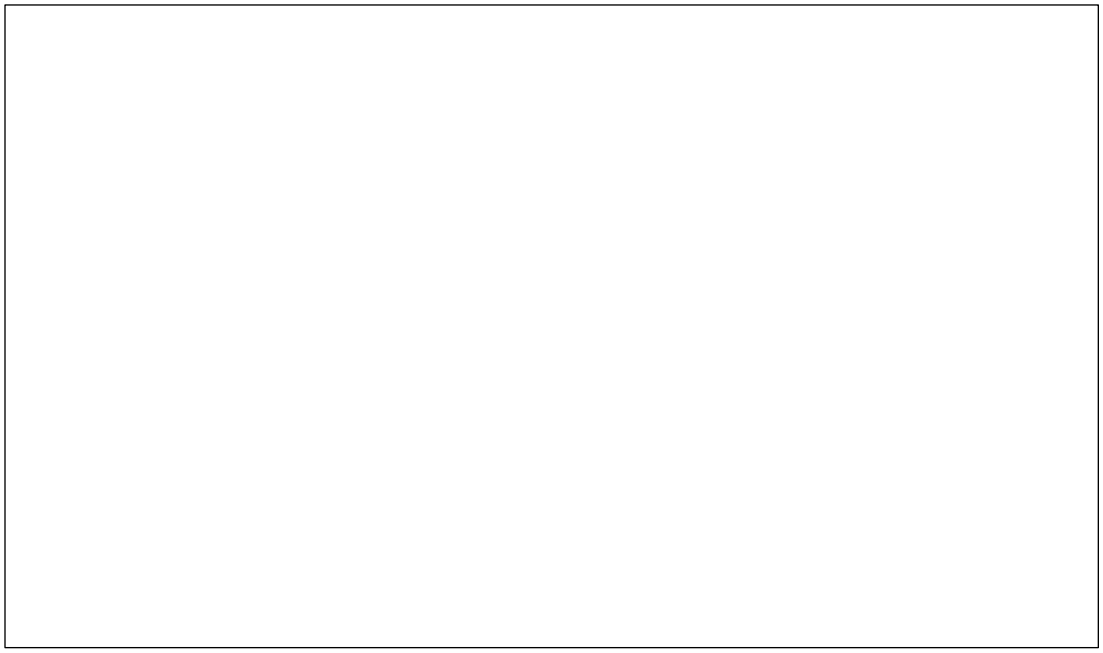
Business Practices

Financial reporting is a business practice that has existed for several centuries, especially in the modern area. Quarterly and annual financial reporting is mandatory for public companies, and it has its root in stewardship and agency theory (separation of corporate management and ownership). As the stockholders are not involved with the daily corporate activities, they will learn about the firm's activities through financial statements prepared and presented by the management. According to Van Mourik (2010), there is no single theoretical concept about the purpose of financial reporting. Its purpose depends on whether the pure proprietary perspective of the firm is considered, or the pure entity perspective is deemed. These perspectives will define whether liability is the dominant concept of the firm or equity is the primary notion. Under the liability concept, the focus of the financial reporting is on the Balance Sheet to offer data about the company's assets and liabilities. Under the equity concept, Income Statement's main goal is to represent the firm's financial operation. Roychowdhury et al. (2019) argued that financial reporting affects corporate investment decisions in two aspects: reducing information asymmetry between the managers and the stockholders and reducing the uncertainty about investment opportunities.

The users of financial statements are classified into two groups of internal users and external users (Kimmel et al., 2018). Internal users need financial information for strategic decision-making and deciding about the operation of the firm. The external users seek financial information to assess the value of their investment in the firm. The major internal and external users of financial statements are depicted in Figure 3.

Figure 3

Internal and External Users of Financial Statement



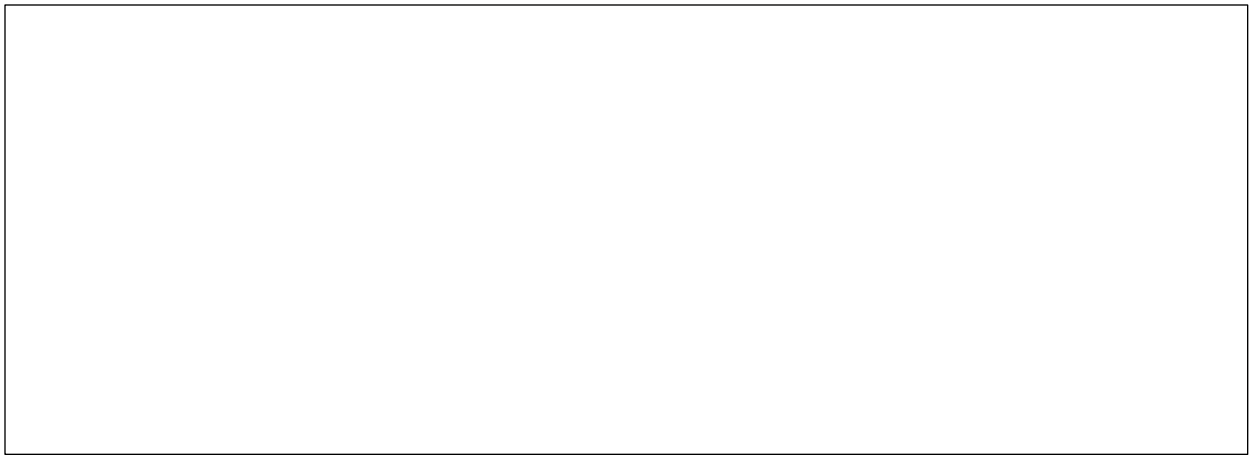
Note. From (https://www.accountancyknowledge.com/user-of-financial-statement/)

Financial Reporting in the US

In the United States, the public corporation should prepare their accounting records and financial reports based on the accounting standards which are presented by the Financial Accounting Standard Board (FASB). The root of FASB goes back to the time after the stock market crash of 1920. However, after establishing the Securities and Exchange Commission (SEC) in 1933, accounting standards for accounting and financial reporting formally started. Figure 4 shows the historical development of accounting bodies and standard setting in the US (Hanlon et al., 2020).

Figure 4

Historical Development of Accounting Bodies



Source: Hanlon, M., Hodder et al. (2020).

Note. From *Intermediate Accounting* (2nd ed.). Cambridge Business Publishers.

FASB introduced a financial reporting theoretical framework in 1973, presenting objectives, concepts, and assumptions of financial reporting (Storey & Storey, 1998). The financial accounting conceptual framework offers two functions: one to indicate financial reporting objectives and the second to explain the definitions of financial statement elements. Therefore, the conceptual framework provides a foundation for financial accounting (Freedman, 2017).

The financial reporting conceptual framework has three levels (Kieso et al., 2019). The first level is associated with the objectives of financial reporting. The second level is linked to the qualitative attributes of accounting information and elements of financial statements, and the third level is associated with the recognition, measurement, and disclosure concepts, including assumptions, principles, and constraints. Collectively, the conceptual framework provides a structure for accountants and managers about how to prepare the accounting numbers and financial statements and what the GAAP limits are. The conceptual framework also provides a

guideline to the users of financial statements about what is included and not included in the financial reports (Kieso et al., 2019). The conceptual framework is depicted in Figure 5.

Figure 5

Conceptual Framework

Note. From "Kieso et al. (2019). *Intermediate Accounting* (Vol. 1). John Wiley and Sons."

For EM discussion, the qualitative characteristics of accounting information are essential. Qualitative characteristics of accounting information are divided into three groups: relevance, faithful representation, and enhancing qualitative characteristics (Hanlon et al., 2020), which indicates that financial information should be applied for decision-making. The relevance characteristic of financial information is divided into three subgroups: predictive value, confirmatory value, and materiality. Faithful representation indicates that financial reports present the result of the business activities and must accurately describe the financial situation and performance of the business. Enhancing qualitative characteristics is related to comparability, verifiability, timeliness, and understandability of the information.

In addition, the conceptual framework for financial reporting, FASB, continuously monitors the business and economic conditions and updates accounting standards accordingly. For example, FASB released ASC 842 in 2016, accounting for leases in its ASU 2016-02, which replaces ASC 840, an older version of accounting for leases. In the new standard, accounting for leases is substantially revised in accounting for both lessee and lessor. The main objective of the new accounting for leases standards is to limit the off-balance sheet liabilities that could arise from a lease transaction. FASB, along with the American Institute of Certified Public Accountants (AICPA), has the mandate to develop and update accounting standards to be used by public corporations. More recently, a new board has been established called the Public Accounting Oversight Board (PCAOB), which approves auditing standards. Auditing standards are primarily to structure the objectives and scopes of auditing financial statements. In addition, the Institute of Management Accountants (IMA) presents explanatory notes about the implantation of accounting standards in practice (Kieso et al., 2019).

The preparation and publication of financial statements in the United States are governed by the Securities Exchange Commission (SEC), which requires quarterly and annual filings of financial statements with its EDGAR database. The public corporation should file their quarterly financial statements through the 10-Q form (for quarterly financial statements) and their annual financial statements through the 10-K form (for annual financial statements). Recently, SEC has required firms to file their financial statements based on eXtensible Business Reporting Language (XBRL) format that is readable by most financial algorithms. The XBRL format facilitates the automatic reading of financial statements (Capozzoli and Farewell, 2010). In addition, the SEC updates its requirements for reporting financial statements based on business and economic condition changes. For example, the SEC recently updated its financial disclosure

requirements for business acquisitions to lower the convolution and costs of preparing financial statements (Brady et al., 2020). The SEC has the power to develop accounting standards for public corporations by law. However, the agency has assigned this responsibility to FASB, as FASB is an independent accounting professional association. The relationship between SEC, FASB, and PCAOB are presented in Figure 6 (Wallace et al., 2020).

Figure 6

Relationship between SEC, FASB and PCAOB

Note. From Wallace et al. (2020). *Financial Accounting* (4th ed.). Cambridge Business Publishers.

The Problem

FASB and SEC have improved accounting standards and financial reporting significantly since their inception. However, as the financial accounting conceptual framework indicates, accounting and financial reporting standards allow management and accountants to exercise certain judgments in selecting appropriate accounting methods among the permitted procedures. In addition, accounting estimates for anticipated future expenses and losses, such as bad debt expense and depreciation expense, are based on the management's best estimates, subject to

accountants and management decisions. These flexibilities are allowed so that accountants and management choose accounting methods to present a firm's financial performance in the best possible way. However, this flexibility provides an opportunity for opportunistic managers and accountants to overstate or understate the firm's financial situation to maximize their interests. This problem is known as EM. According to Healy and Wahlen (1999), management applies judgment in reporting financial positions and manages transactions accordingly to manipulate reports to deceive stakeholders. Scott (2009) argued that EM occurs when accounting policies are chosen to achieve specific objectives. A comparable description is provided by Davidson et al. (1987), which describes that EM results from an opportunistic decision by management within the GAAP limitations. Schipper (1989) explained that management's intention for engaging in EM is to manipulate earnings to achieve personal gains. According to Deegan (2009), managers engage in EM to demonstrate a better financial performance to increase their bonuses. Thus, when management compensation is contingent on the firm's financial performance, the management will show better profits, performance, and higher bonuses.

The accounting judgment is necessary as alternative accounting methods exist for the same accounting subject matter, such as different methods for depreciation calculation. EM implies that managers may select accounting methods to alter earnings information reported in the financial statements. Habib (2004) argued that the Generally Accepted Accounting Principles (GAAP) rules set by Financial Accounting Standards Board (FASB) give management a wide range of discretion in choosing various practices in accounting such as inventory methods, depreciation policy, and allowance for bad debts expense. These choices have enabled the accountants and managers to select methods for opportunistic reasons. The management discretion over choosing these policies and standards has led to manipulated earnings (Mostafa,

2017; Siekelova et al., 2020). Stakeholders such as investors, vendors, and lenders are affected by EM. Degeorge et al. (1999) stated that management prioritizes achieving earnings level benchmark first, earnings changes benchmark next, and the financial analysts' forecast benchmark last. Thus, management may use his discretion over choosing accounting methods to influence earnings numbers to accomplish his goals. This will result in both losses of information and providing inaccurate financial information (Hanlon et al., 2020). Smieliauskas et al. (2018) concluded that management's intentional misjudgment in forecasting future events caused earnings manipulation and fraudulent reporting.

Nevertheless, EM should be distinguished from accounting fraud. EM is mainly about management's discretionary use of alternative accounting methods when the accounting standards permit the choice of accounting method among the accepted methods. Therefore, EM is not about violating accounting standards but about the opportunistic choice of permitted accounting methods to skew earnings numbers toward specific objectives. Ning (2005) explained that EM is a manipulation of earnings numbers within the limits of GAAP, but accounting fraud is a violation of GAAP limits.

Theories

Several theories are discussed in the literature to explain the EM phenomenon. Positive accounting theory explains how financial reporting affects different business parties related to the firm and what roles EM plays in that context. Sunder (1997) explained that a firm is a sequential group of various contracts, and accountants are an integral part of those contacts for writing, monitoring, and enforcing them. Thus, the accounting methods used for reporting and monitoring these contracts can affect the outcome of the contracts and cash flow distribution among the parties. These contracts could include management bonus contracts, debt covenants,

and political costs that can affect the firm and its management financially (Watts & Zimmerman, 1986). This incentivizes managers to select the accounting methods that maximize cash flow distribution to the executives. Parshakov and Shakina (2020) explained that Positive accounting theory implies that firms are interested in revealing data that strengthens their positions and ranks in interaction with other parties. Therefore, management may choose the accounting methods that overstate or understate the reported earnings to benefit from the contractual relationships. Fox et al. (2006) argued that positive accounting theory suggests that managers even lobby with accounting standard-setting agencies to select specific accounting methods to set them as mandatory accounting standards that favor managers' benefits. Fox et al. (2006) presented research evidence that managers engaged in lobbying in certain accounting standards proposals that had a more significant proportionate reduction in a firm's dividend-paying capacity.

Another theory that has been used to explain EM is agency theory. According to the Agency theory, management is the agent, the firm's owners are the principal, and the firm's management is separated from the firm's ownership. Management, as the agent, is expected to work for the benefit of the owners. Thus, an agent-principal relationship exists that defines management compensation for his services. The management compensation is based on the firm's performance and management reports of the firm's financial performance to the owners. Pioneer of Agency theory and EM argue that a conflict of interests exists between management and shareholders (Jensen & Meckling, 1976). In this context, agency theory implies that the presence of independent directors will protect the interests of shareholders from EM (Fama, 1980; Fama & Jensen, 1983; Jensen & Meckling, 1976; Jensen, 1993). According to Watts and Zimmerman (1986), one of the pioneer accounting researchers in this area, management is driven to manipulate earnings to serve its own purposes.

Threshold management is also used to explain the EM phenomenon. This theory implies that there are inherent thresholds that the management's financial performance is compared with, and managers are interested in meeting those thresholds. Therefore, managers may use their opportunity of choice of accounting methods and estimations to meet or surpass the 'threshold.' Among various thresholds, two have received considerable attention in the research (Burgstahler & Dichev, 1997): Threshold of Zero (also called loss avoidance) and Nil Variation Threshold (also called avoiding the negative changes in incomes). In addition, Degeorge et al. (1999) suggested a variant called Financial Analysts' Expectation Threshold. These thresholds provide managers with incentives for EM. Several studies presented support for this theory, such as Robb (1998), Beatty et al. (2002), and Shen and Chih (2005), who found evidence that firms engaged in EM to achieve the thresholds. Xie et al. (2019) investigated the use of threshold and benchmarking by firms to better show their firm's performance and found that the firms that had achieved their annual performance assessment were more likely to manipulate the benchmarking and reset it at the beginning of the new assessment year.

An additional theory that has been used to explain EM behavior is Prospect Theory. Prospect Theory implies that individuals focus on their investment gain or loss with a particular reference in their mind rather than the investment as a whole (Wang et al., 2017). For example, individuals may compare their current year's investment gain with the last year's gain to judge their investment performance and pay less attention to the absolute amount of the gain. This phenomenon puts pressure on the management to show incremental positive earnings improvement every year. Therefore, managers avoid reporting earnings below last year's earnings or below financial analysts' expected earnings. Several researchers have used prospect theory to explain their findings of EM cases. Another aspect of the prospect theory is that

individuals are unwilling to take risks in general, putting more value on losses than on gains. In other words, losses are more painful to them in compassion with the joy of gains. Harrison and Ross (2017) indicated that most individuals' decisions under risk are heterogeneous prospect theory, which Kahneman (1979) proposed. Heterogeneous Prospect theory is a mix of psychology and economics about reference points and evaluation of losses and gains by investors (Kahneman, 1979). Investors are not perfect decision-makers, and their decisions are based on the economic aspects of an investment and the information about the firm's performance. Thus, they reply to financial information presented by the firm and emphasize the continued improvement in the firm's financial performance. Accordingly, managers take advantage of these investors' decision-making and try to smooth earnings to show a positive financial performance improvement through manipulating accruals. Research evidence for this viewpoint of EM has been provided by Wu et al. (2018), Makarem et al. (2018), Garane and Mwangi (2018), and Ogilby et al. (2020).

Variables

Accounting researchers have investigated the determinants of EM, and in this section, prior studies related to the variables, types, motives, impacts, and methods of detecting EM are reviewed. Al-Absy et al. (2019) examined the connection between the attributes of the audit chairman committee, such as tenure, age, gender, accounting expertise, and EM. They found that only the chairman's tenure, gender, and ethnicity were associated with the possibility of EM. They argued that their research findings help reduce agency costs in corporations. In addition, diversity to include more female members was found effective on higher quality of earnings and lower possibility of EM (García Lara et al., 2017; Gull Strydom et al., 2017).

Ung et al. (2018) inspected the effect of the brokerage fee on EM in the real estate industry in Malaysia. According to the Agency theory, they argued that the brokerage fee played an important role in real estate firms as the source of revenue and found that high brokerage fees were associated with downward EM. Furthermore, they found that the firm's ownership concentration moderated the association between the high brokerage fees and EM. Some researchers researched the impact of industry membership on the management engagement in EM and found that EM was more frequently used in specific industries. For example, Ozili and Outa (2019) investigated EM in the banking sector. They found that banks used the commission and fee income to manipulate their earnings through recessionary periods where more robust investor protection environments were present.

Buchholz et al. (2020) explained that narcissistic executive officers used accounting choices allowed under accounting standards to manipulate financial statements and present a better picture of the company's financial performance. In addition, the paper found that those CEOs used accrual-based EM techniques for self-interest purposes. Chief Executive Officer (CEO) duality was found to be an influential factor for engaging in EM. There was less control over the CEO's performance in firms where the CEO was also the board chairman. In addition, the CEO could control the board of directors' agenda. Therefore, there could be a positive association between CEO duality and the possibility of managers engaging in EM (Park, 2019). Similarly, Wang and Wang (2019) found that when the CFO was also acting on the board of directors, the possibility of EM was higher, as this situation would weaken the company's internal supervision. Lu et al. (2015) explored the influence of non-executive directors on the likelihood of managers becoming engaged in EM and found that the existence of non-executive managers significantly reduced the possibility of EM.

Another variable that was found to be associated with the possibility of EM is the dilution of ownership. When the percentage of insiders' ownership in the firms is high, the likelihood of EM is lower because insiders are the owners and thus will try to avoid the costs associated with poor quality financial reports (Fan, 2007). Purayil and Jijo Lukose (2020) investigated the dilution of the founders' ownership percentage during the initial public offering (IPO) process and subsequently during the lockup period, and their findings supported both cases. Similarly, Lassoued et al. (2017) found that concentration of ownership had a negative relationship with EM. However, Deren and Ke (2018) found that firms with a higher ratio of committing shareholders engaged more in real EM.

Changes in the regulations by local government authorities have been discussed as a factor that can encourage management to engage in EM. Chen and Chen (2018) found that when local government authorities' regulations changed, the policy changes caused uncertainty about the business environment. Thus, firms used EM techniques to smooth their earnings throughout the uncertainty period.

The inclusion of excessive non-financial information in the financial reports was associated with the existence of EM because the existence of excessive non-financial information distracts the users of financial reports from manipulated accruals used for EM. Cheng et al. (2021) found a positive association between the existence of excessive non-financial information and the existence of EM. The timing of EM has also been the subject of some prior studies. Several studies found that firms did engage in EM just before going public through IPO. Xu et al. (2017) and Purayil Jijo Lukose (2020) found that firms used EM just before CEO departure to hide bad news during their tenure in the firm.

Research also has found that EM has a negative relationship with corporate social responsibility activities. Choi et al. (2013) investigated the relationship between the managers' intention to promote social responsibility and the engagement in EM. Their findings supported that when all firms were considered in the study, there was a negative correlation between EM and the promotion of social responsibility activities. However, firms with high ownership concentration, who abused social responsibility practices, intended to conceal poor earnings quality. Likewise, Guillamón-Saorín et al. (2018) investigated the impact of EM on the correlation among corporate social responsibility activities and risk. They found that the management engagement in EM reduced the impact of corporate social responsibility activities and the firms' risk increased regardless of how much social activities were done. Table 2 summarizes the variables that can affect EM.

Table 2

Variables Effective on EM

Variables Effective on EM	Reasoning	Sample Studies
characteristics of the audit committee chairman, such as tenure, age, gender, and accounting expertise	The audit committee chairman may play a significant role to limit management's ability to opportunistic use EM techniques	Al-Absy et al. (2019)
Type of the source of the revenue	Some types of sources of revenue provide management with higher opportunities to manage their earnings	Noh et al. (2017); Pustylnick et al. (2017).
Executives' personality	Executives with different types of personalities engage with EM differently, such as narcissistic executive officers who are more likely to engage in EM to present a better picture of the firm	Buchholz et al. (2020)
The effect of industry membership	Accrual activities in some industries are higher and	Ozili and Outa (2019)

	allow a higher level of EM, such as the banking industry	
Chief Executive Officer (CEO) duality	When CEO is also chairman of the board, the CEO is more likely to engage in EM	Park (2019)
Dilution of insiders and founders' ownership	When the dilution takes place, managers are less concerned about the costs associated with low-quality financial reports due to EM	Purayil and Jijo Lukose (2020)
Changes in the regulations by local government authorities	Changes in the regulation increase the business uncertainty, which encourages EM.	Chen and Chen (2018).
Existence of excessive non-financial information	The existence of excessive non-financial information will distract the users of financial reports from the manipulated accruals	Cheng et al. (2021)
Timing of EM	Before big events such as IPO or CEO departure to hide bad news information.	Xu et al. (2017)

Motives. There are several motives for management to engage in EM. The most important motives are discussed here. Management compensation structure: This has been argued to be one of the main motives for EM (Barton, 2001; Dechow et al., 2010; Healy, 1985; Marantika et al., 2021). When at least a part of the management compensation is contingent on the firm's financial results or stock price performance, management has motives to engage in EM to report higher earnings. In addition, when management performance is compared with a benchmark, such as peer firms' performance, or past performance, managers have a motive to manage earnings upward to benefit from the boosted earnings numbers. Park (2019) studied the relationship between executive payment and EM when executive compensation was compared with that of peer firms and found that the likelihood of engaging in EM was significantly higher when the executive compensation was set based on the peer firm's financial performance and

compensation. Several other researchers also found a positive relationship between management's compensation contingent on earnings or stock prices and the management engagement in EM (Barton, 2001; Dechow et al., 2010; Healy, 1985; Marantika et al., 2021). The incoming Chief Executive Officers (CEO) also may use EM to blame their ancestor for weak performance and take advantage of the ability to show better performance in coming years. The research by Bornemann et al. (2015) presented support for this argument.

Reducing corporate political risk: Corporate political risk increases when outsiders such as unions and tax authorities are expected to take action against the firm because they think it is doing financially better than expected. For instance, unions may demand higher wages when they find that the firm makes considerable earnings higher than peer firms. Therefore, the union may use the reported earnings as a bargaining point. In this situation, management may use EM techniques to reduce earnings to mitigate the corporate political risk. For example, Almashaqbeh et al. (2018) found that firms used EM downward techniques to diminish the stated profits to avoid political risk, and Yu et al. (2017) found that earnings management increased when the minimum wage increased.

Meeting debt-equity ratio: Another frequently cited motive for EM is meeting the debt-equity ratio for debt contracts. It is expected that lenders, such banks, condition their lending on the firm's maintaining specific debt-equity ratios, certain profit margins, and similar financial constraints. In these situations, management is motivated to choose accounting methods that help maintain the debt-equity ratio imposed by the lenders. Several studies found that firms used EM techniques to meet the debt-equity ratio (Anagnostopoulou & Tsekrekos, 2017; Jang & Kim, 2017; Kim & Lee, 2015).

Operating cash flow and ROI: Researchers also found that EM techniques were more limited in firms with high operating cash flow. In other words, firms that had an elevated amount of operating cash flow had fewer accruals, which was the main tool that could be used to implement EM. Therefore, EM has been seen more often in firms with high levels of accruals and lower operating cash flow. Several studies presented research evidence supporting this argument (Andreas, 2017; DeFond & Subramanyam, 1998; Hastuti et al., 2018; Jang & Kim, 2017; Kim et al., 2011; Kim & Lee, 2015). Lee and Swenson (2011) and Sun and Rath (2012) also found that higher ROA negatively affected the usage of EM practices.

Earnings smoothing: This is another motive for EM where managers desire to avoid earnings boosts in one period as it could be used as a benchmark or expectation for future periods. Thus, they may use EM techniques to lower earnings in the period of earnings boost and move a part of the boost to the future periods. Makarem and Roberts (2020) investigated companies that used EM to avoid earnings boosts when the company's earnings outperformed prior years' earnings substantially. They found that when the companies' earnings were outperforming last year by the end of the third quarter, managers used EM to reduce their earnings and tried to smooth earnings over several years to avoid earnings boosts in one year. Makarem and Roberts (2020) argued that firms might push their earnings to the future periods when their interim financial statements showed an earnings boost because, according to the agency theory, management wanted to maximize its compensation over a more extended period. Additionally, a significant earnings boost may increase the benchmark for future bonuses. Therefore, management may affect downward earnings for the current year with an earnings boost to avoid higher earnings targets that may not be readily achievable (Park, 2019).

Opportunistic use of accounting standards: When a new accounting standard is being proposed, or a new accounting standard has just been introduced, firms may use EM techniques to take advantage of possible earnings smoothing. For example, Gonçalves et al. (2019) investigated the use of EM techniques by firms with a high level of Goodwill in their financial statement and found that management used EM techniques to reduce income by reassessing this account and adjust its balance down for income reduction purposes.

Distressed Financial Position: The firm's financial situation could also motivate firms to engage in EM. In this situation, financially distressed firms looking for more credit from lenders and suppliers are more likely to engage in EM. Cui et al. (2021) investigated the financially distressed firms and their likelihood of engaging in EM and found a positive relationship between higher financial uncertainty (financial distress for high-leverage firms and cash flow instability for high-growth firms) EM behavior in Chinese firms.

Leverage ratio: This is another motive for EM that incentivizes management to select accounting procedures to transfer profits from the upcoming period to the current cycle. Prior studies found that firms with a greater debt ratio were more likely to engage in EM. Thanh et al. (2020) and Mendoza et al. (2021) examined the effect of short-term debt on the possibility of EM by firms. Their results indicated that firms with a high level of short-term debt were more likely to manipulate their earnings upward to present a better financial picture. Similar outcomes were reported by Chen et al. (2019) that found that firms' EM engagement increased when creditors sent firms inquiry letters about their financials. Moghaddam and Abbaspour (2017) also found a positive and significant relationship between financial leverage and EM. According to Anagnostopoulou and Tsekrekos (2017), high leverage could draw serious inquiry from outside sources. Therefore, firms see EM as a necessary tool to meet their earnings targets and manage

earnings upward. Sercu et al. (2006) found that EM is mainly correlated to debt financing compared to trade-related debts. Studies by Kim and Lee (2015) and Jang and Kim (2017) likewise revealed a positive relationship between EM and higher debt ratios. However, some studies found a nonlinear relationship between liquidity ratio and the firm's engagement in EM (Thanh et al., 2020).

Book Clean up: Book cleanup, also called a big bath during distressed financial times, is another motive for EM. Big bath is the early recording of accrual-based losses and expenses during the distressed financial times to present higher earnings numbers in the subsequent periods. The reasoning behind the big bath is that losses are more acceptable to stockholders and other parties during financially distressed times. Therefore, this situation allows the management to engage in BBEM and not get blamed for high losses. Jordan and Clark (2004) investigated big bath EM during the 2002 economic downturns and found that firms recognized a high amount of impaired Goodwill losses at the top of already high operational losses as losses were more acceptable in that situation. Similar results were reported by Van de Poel et al. (2009) that firms recorded high Goodwill impairment losses when other losses were recognized. Zhang et al. (2015) also found that an excellent financial business environment limited the ability of commercial banks to use loan loss provisions for EM. These findings imply that EM occurs less during a good business environment and inversely occurs more often during troubled times. Habib et al. (2013) explored the firm's engagement in EM in the economic downturn throughout the financial crisis. The findings support those executives of distressed businesses engaged in manipulating their income downwards significantly during the financial crises. Downward manipulation of earnings was also reported by Ming Chia et al. (2007) for a sample of Singapore firms and by McDonnell et al. (2019), who found that when firms faced controversial challenges,

they engaged in earnings decreasing management techniques. Agustia et al. (2020) and Charitou et al. (2007) argued that the reason for the downward manipulation of earnings is the big bath.

Firm Size: Studies have found that the use of EM is different in large versus small firms. Prior research found that there was a negative relationship between the firm size and its EM, as larger firms were more prone to control and examining by regulatory agencies (Abad et al., 2016; Abbas et al., 2019; Aygun et al., 2014; Sun & Rath, 2012; Xie et al., 2003). Several researchers found that large firms were reluctant to use high scale EM techniques because there was more information available about large firms, and there were more external parties such as financial analysts, government bodies, and media that were monitoring the large firm's news. Therefore, they tend to be more cautious about managing their financial information. However, managers in smaller firms used EM techniques at a larger scale because of less available public information about smaller firms. A number of researchers found support for this argument (Anagnostopoulou & Tsekrekos, 2017; Jang & Kim, 2017; Kim & Lee, 2015). Gupta et al. (2018) and Qi et al. (2017) argued that large firms had more resources to adopt a better internal control system, which led to higher quality financial information and lower agency costs and information asymmetry.

ROA: A research conducted by Sun & Rath (2012), utilizing 4844 firms' observations in Australia, revealed that the firms with lower ROA had more tendency to manipulate discretionary accruals to present higher numbers for earnings. According to Lee and Swenson (2011), Canadian and Asian firms followed the same pattern of effect of ROA on EM in the USA. The authors found that the Canadian and Asian firms with higher ROA had a lower tendency to manipulate discretionary accruals. Sun and Rath (2012) found a similar result that ROA is negatively related to the discretionary accruals EM.

Cash flow: Dahler and Febrianto (2006) stated that operating cash flow is used to indicate management performance as it is used as a measurement of efficiency and practical usage of the resources by management in a firm. It indicates whether a firm can pay its debts, make new investments, and keep its operation running without relying on external financial sources (Nuraini, 2011). Prior studies have shown that firms with low operating cash flow attempted to manipulate discretionary accruals to show that they have used effective management techniques to run the corporation. This means that there was a negative relationship between operating cash flow and EM (Andreas, 2017; DeFond & Subramanyam, 1998; Hastuti et al., 2018; Hughes et al., 2010; Jang & Kim, 2017; Kim et al., 2011; Kim & Lee, 2015). Table 3 summarizes the motives for EM.

Table 3

Motives for EM

Motive	EM Action	Sample Studies
Compensation structure	Engaging in EM to meet or exceed the target when a type of benchmarking is used for their compensation	Park (2019)
Corporate political risk	Reducing earnings to hide good financial performance from unions, government agencies, and other external parties	Almashaqbeh et al. (2018)
Debt-equity ratio	Increasing earnings to meet the debt-equity ratio required by lenders	Sercu et al., 2006; Kim & Lee, 2015; Anagnostopoulou & Tsekrekos, 2017; Jang & Kim, 2017
Opportunistic goal	Reducing or increasing the number of accruals or using less public information available to achieve a specific opportunistic goal that is beneficial to managers	DeFond & Subramanyam, 1998; Sercu et al., 2006; Kim & Zhang, 2011; Kim & Lee, 2015; Anagnostopoulou & Tsekrekos, 2017; Andreas, 2017; Jang & Kim, 2017; Hastuti et al., 2018

Earnings smoothing	Avoiding earnings boosts in one period, not to set a high benchmark for the future period's performance measurement	Makarem & Roberts (2020)
Low or negative earnings	Taking advantage of potential changes in the accounting standards, such as a change in accounting for Goodwill to boost earnings in subsequent periods	Gonçalves et al. (2019)
Distressed financial situation	Engaging in various methods of EM during the higher financial uncertainty	Cui et al. (2021)
Leverage level	Engaging in EM to manage a higher level of debt	Sercu et al. (2006); Kim & Lee (2015); Anagnostopoulou & Tsekrekos (2017); Jang & Kim (2017); Mendoza et al. (2021)
Chief Executive Officer (CEO) duality	Engaging in EM when CEO is also chairman of the board	Park (2019)
Big bath accounting	Using accruals to record early accrual-based losses to show higher earnings numbers in subsequent periods as losses are more accepted by stockholders during the distressed financial times	Jordan & Clark (2004); Van de Poel et al. (2009).
ROI	Using income increasing accrual methods to show higher ROI	Sun & Rath (2012)
Cash Flow	Using income increasing accrual methods to show the effective use of resources	DeFond & Subramanyam, 1998; Hughes et al., 2010; Kim et al., 2011; Kim & Lee, 2015; Andreas, 2017; Jang & Kim, 2017; Hastuti et al., 2018
Firm size	Using income increasing accrual methods to show higher income when firm size is large	Xie et al., 2003; Sun & Rath, 2012; Aygun et al., 2014; Abad et al., 2016; Abbas et al., 2019

Impact of EM. Many studies confirm that EM is not costless to the firms, and managers should be cautious in engaging in EM and its negative consequences. EM could negatively

impact the quality of financial information, create short- or long-term losses for the business, and distort management planning and activities to improve companies' financial and non-financial situation. However, some studies found a positive impact of accrual EM on the companies. The impacts are discussed below.

Misrepresentation of financial information to the stakeholders – negative effect: EM is a distortion to earnings quality and defeats the purpose of faithful financial reporting that the FASB conceptual framework has set. Manipulation of earnings numbers and financial reports can have a destructive effect on presenting an accurate picture of the firm's financial position (Buchholz et al., 2020). In addition, EM is unethical and, if material, could be illegal.

Loss creation for the firms – negative effect: EM may lead to fraud in financial reporting that will cause the firm monetary losses, reputation loss, reduced access to credit resources, and even bankruptcy. Unethical accountants and managers have caused many losses for firms by heavy fines from regulatory organizations and led companies to bankruptcy, such as Enron, WorldCom, and OneTel (Ishaque, 2021; Van Akkeren & Buckby, 2017). Ramírez-Orellana et al. (2017) investigated the effect of EM on the bankruptcy of Pescanova's family business in Spain. They found that the abnormal increases in accruals related to credit sales and accounts receivable were evident in years before the firm's bankruptcy. Mangala and Dhanda (2018) argued that EM is the first step in fraud in financial reporting, and if it is not taken seriously, it can lead to a significant fraud that causes damages to the firms and their stakeholders. Perols and Lougee (2011) investigated the relationship between fraud and EM and found that most companies that committed financial reporting fraud had engaged in EM before the fraud in prior years. Howe (1999) also found that firms that engaged in EM were likely to engage in some forms of fraud in financial reporting because they eventually ran out of all manipulation techniques using actuals

and accounting choices. Ali and Kamardin (2018) found that firms were moving from accrual-based EM to real earning management as accounting standards became tougher and audit quality increased.

Distortion of management decisions – negative effect: These findings indicate that the informativeness of current earnings to foresee future cash flows decreases when firms engage in EM. Li (2019) found that EM deteriorated earnings quality and that the deterioration lowered the earnings ability to predict future cash flow. These findings show that EM engagement affects earnings quality and the informativeness of financial statements and affects the firm's ability to compete in the industry. Bereskin et al. (2018) examined the impact of EM on the firm's strategic decision-making and future performance. They found that firms engaged in EM, especially real EM, cut their research and development activities to boost their current earnings. These activities negatively impacted the firm's competitive advantages and future performance. Francis et al. (2004) noticed a positive connection between the accounting information and the cost of the equity. They defined earnings quality as an attribute that could be divided into accounting attributes and stock market attributes. Accounting attributes of financial reporting quality were accrual quality, predictability, and perseverance. Stock market attributes of financial reporting quality were value relevance, timeliness, and conservatism. The researchers found that manipulation of financial information disturbed all or some of these attributes.

Effect on earnings – positive effect: Machdar and Murwaningsari (2017) investigated the effect of EM on earnings quality and firms' performance and found that only real EM negatively affected earnings quality and firms' performance, but not all types of EMs. Also, Park (2017) investigated the effect of EM on short sellers' trade behavior and found that short sellers detected the earnings management, especially the real EM, and increased their short position for the firms.

Similarly, Abbas (2018) found that income-increasing and income-decreasing EM positively correlated with the bank value.

Methods for Detecting EM. Prior research has used various methods to detect the EM. These methods are the single account method, real transactions, specific accruals, earnings distribution, and total accruals. Modified Jone's model is widely used for the case of total accruals. Researchers investigated only one accounting method or event in single accrual to explore whether management had engaged in EM. Sample of these studies is presented by Aljifri (2007), who investigated the use of inventory account for EM; Skinner (1993), who investigated the use of management compensation plans for EM; and Franceschetti (2018), Omar et al. (2014), and Kighir et al. (2013), who investigated the use of depreciation methods for EM.

In real transactions, EM researchers investigated whether management used real transactions for EM. In real EM, managers may manipulate earnings through real financial transactions such as credit sales or expenses. For example, management may accelerate credit sales near the end of the year or offer higher credit limits to increase sales. The sample of these studies is conducted by Bartov (1993) and Roychowdhury et al. (2019). Wang (2015) also found that management is more likely to use real translation for the purpose of EM in countries with low regulatory environments.

For the case of specific accruals, researchers argue that some types of accruals are more common in certain industries. Thus, management is more likely to use those accruals for EM, as management judgment is needed in these situations. Therefore, these researchers chose those accruals to investigate whether management engaged in EM. Beaver and Engel (1996) presented examples of this research, who explored banks' loan loss provisions, and Petroni (1992), who investigated insurance companies' claim loss reserves. Other studies in this area include Ung et

al. (2018), who examined the effect of brokerage fees across ownership expropriation using five financial ratios Days' Sales in Receivables Index, Gross Margin Asset Quality Index, Sales Growth Index, and Depreciation Index.

For the case of the earnings distribution, researchers investigated whether firms engage in EM to avoid certain circumstances such as small losses or show continued earnings growth, even if the growth is minimal. In this situation, management may engage in EM to try to avoid the undesirable situation. The samples of these studies are Beatty et al. (1999), who concluded that firms manipulated their incomes to avoid losses and meet financial analysts' predictions; and Makarem et al. (2018), who stated that firms used EM techniques when they were about to report small losses.

In the case of total accrual, researchers investigated whether there was significant evidence of EM in general. One of the most common methods of studying EM is the modified Jone's model, which many researchers have used. This method investigates the overall evidence of EM in the research area of interest. Jones (1991) presented the preceding version of the model, which introduced a linear regression approach to examine EM through total accrual. Jone's model excluded revenue as an accrual that can be used for the purpose of EM. However, Dechow et al. (1995) improved the model by including revenue changes and called it the improved model of modified Jone's Model. As the modified Jones model was based on the time-series analysis of accruals to compute non-discretionary accruals, some researchers criticized the model for survival biases (DeFond & Jiambalvo 1994) and serially correlated residuals (Peasnell et al., 2000). Therefore, a cross-sectional form of the modified Jones (1991) was introduced by DeFond and Jiambalvo (1994) to avoid the problems associated with the time-series analysis. Samples of studies that use the cross-sectional modified Jone's model include research done by Elleuch

Hamza and Kortas (2019), who compared real transactions EM method with total accrual method using modified Jone's model and found that these two methods were substitutes and complementary tools. Other recent studies in this area include the research by Li and Nen-Chen (2019), who used this method to investigate the effect of EM on stock prices. However, the application of the modified Jones model has been criticized by Chen et al. (2018) for potential bias and incorrect conclusions when the model error term is used as discretionary accruals. To mitigate for the potential bias, Bigus and Hillebrand (2017), Strydom et al. (2017), García Lara et al. (2017), and Gull et al. (2018) used the moving sum of absolute discretionary accruals (MSDA) computed over three years before the date of research to assess earnings quality. In this case, the higher amount of absolute discretionary accruals was considered the sign of the lower earnings quality.

Types of EM. Two types of real EM and the accrual EM are discussed below, along with Cookie Jar Reserve and Signaling Method of accrual EM. Real EM is defined as when management controls and manages a transaction's timing to perform EM. Roychowdhury et al. (2019) and Gong et al. (2015) argued that managers manipulate the timing of the real activities such as production, financing, or sales, such as acceleration or deceleration of a specific product or temporarily reduction of prices of a particular product to achieve a specific goal and a favorable direction. For example, management may engage in EM when it produces products more than what the firms can sell in the regular business condition. The cost of the excess production will move to the Balance Sheet as part of the cost of the ending inventories, reducing the current year's expenses and thus, increasing the current year's earnings. In this example, management is not manipulating accruals but manipulating actual transactions to report higher earnings. Other examples of real EM include when management boosts sales by reducing sales

prices or giving excessive discounts, or reducing research and development expenses (Sutrisno, 2017). While some studies show a trade-off between the use of accrual-based EM and real EM, some other studies found that these two types of earnings management are complementary, and firms often use them together (Li, 2019). For example, Cai et al. (2015) found that firms with executives with audit backgrounds tended to move from accrual EM to real EM. Real EM can significantly affect the firm's performance and value, as actual transactions are used for manipulation that affects the company's resources and cash flow.

In contrast, when accruals are used for manipulation, it usually does not require the disposition of cash flow or the company's resources. For example, in the study of manufacturing firms listed on the Indonesia Stock Exchange from 2013 to 2017, Darmawan et al. (2019) found that the accrual-based EM had no effect on the firm's value, but real EM had a significant effect on the firm's value. Real EM can also increase the capital cost for the firm as creditors require a higher premium for firms that are suspicious of engaging in real EM. In an international study of the relationship between real EM and cost of debt, Al-Shattarat et al. (2018) found a significant relationship between real EM and cost of debt. The real EM is closer to accounting fraud than accrual-based accounting. Most accruals are reversible in nature, which means they reverse their effect over a period. However, manipulating real transactions can have a permanent negative effect (tax consequences) on the firm's performance. In a study of 65 firms, from 2001 to 2008, who reported fraudulent activities and the firms that did not, Ali et al. (2018) found that firms that committed fraud in their financial statement had more aggressive use of real EM in the four years before the fraud.

On the other hand, some studies found a positive effect for real EM on future performance in certain situations. For example, in a study of the UK firms from 2009 to 2015,

Al-Shattarat et al. (2018) found that firms that used real EM to meet the benchmarks, such as zero earnings or last year's earnings, obtained positive consequences for their future operating performance in subsequent years. These findings are supported by Taylor and Xu (2010), who found that firms that showed some signs of real EM did not indicate any significant decline in their subsequent operation and financial performance. These findings may indicate that management is careful in using real EM and considering such actions' cost and benefit. The management's ability to use real EM can be reduced by increasing monitoring activities such as quality audits, effective internal control systems, and sufficient independent board members. In a study of 1,056 observations between 2013 and 2016, Ghaleb et al. (2020) found that a significant internal audit function had a significant negative relationship with the firm's engagement in real EM. These findings indicate that managers may engage in EM when the firm's internal control system is weak. Khanh and Nguyen (2018) found that real EM was used in smaller firms as they had fewer monitory activities such as internal control systems. This supports the claim that the internal control and other examining systems effectively lower the management's ability to use real EM. Akintayo and Salman (2018) investigated the effect of audit independence on EM and found that audit independence also had a positive effect on reducing real EM. Khanh and Nguyen (2018) found that real EM was more likely in the firms with longer age, and Commerford et al. (2018) found that when auditors observed signs of real EM, they became more restrictive about management subjective estimates. Ownership structure was also found to be effective in diminishing real EM. The ownership structure is divided into three groups of management ownership, institutional ownership, and foreign ownership. Shayan-Nia et al. (2017) found that the existence of foreign investors had the most effect on mitigating the management's ability to use real EM.

Accrual EM can be performed by managers who use accounting techniques related to accruals to manage earnings. Accruals are business commitments that do not require cash flow transactions immediately, and their cash flow transactions will incur in the subsequent periods, such as credit sales, accounting estimates, and operational obligations. As accruals are part of every business and are not avoidable, they are classified into two types: discretionary accruals and non-discretionary accruals. Siekelova et al. (2020) explained that the accruals related to the regular operation are called non-discretionary accruals, not subject to manipulation. However, discretionary accruals are related to management choices of accounting policies. Siekelova et al. (2020) explained that management has discretion over choosing accounting policies that provide them with the opportunity of performing EM. Kumari and Pattanayak (2017) revealed that in public banks, the size of the board and the number of audit meetings had a negative association with EM. The firm's internal control was also negatively correlated with EM (Ji et al., 2017). It is also found that the quality of the internal control system is associated with a higher level of earnings quality and a lower possibility of EM.

Although real and accrual-based EM is different in terms of how they work and affect the reported earnings, firms may use both. Prior research presents support for this argument that the regular use of EM types may raise a red flag and be identifiable by the users of financial reports. Li and Yang (2017) found that firms used a combination of the two types of EM and maintained relatively stable accounting reliability.

Cookie Jar Reserve strategy: In this case, managers manipulate earnings aggressively by recognizing accrual and expenses in the years that the company has good financial outcomes to inflate earnings outcomes for the following year that they have uncertain financial results. This is done by managers reducing the expenses of the future year by overestimating the current year's

expenses to inflate the following year's earnings at the current year's expense (Chhabra, 2016). Estimating sales return and warranty can be used for this purpose (Sevin & Schroeder, 2005). Deferred revenue can be used as another type of cookie jar reserve as the management may use it as a method to build a reserve to postpone revenue of a good year to the next year (Caylor & Chambers, 2015)

Signaling effect: This is an optimistic view towards accrual EM. Although many studies have focused on opportunistic EM, where management uses EM techniques for its interest at the expense of the stakeholders' interest, some studies argue that not all accrual changes are the sign of wrong EM and opportunistic management behavior. These studies argue that the true changes in accruals could provide helpful information about the firms' business model updates and new strategies. Chan et al. (2001) argued that higher accrual is not necessarily a sign of EM and manipulation. They state that changes in accrual could be an indicator of the firm's new strategies and prospects and could have signaling applications for predicting future cash flow. In this view, researchers should be careful in treating any increase in accrual as an indicator of EM. Menicucci (2020) argued that managers' accounting choices and accrual changes could communicate private information about the firm's new products and markets, valuable to outsiders such as investors. In this case, the signaling effect of changes in accruals reported by financial statements is very informative and valuable in understanding and predicting the firm's future performance. The signaling can reduce the information asymmetry among management and stockholders, which is beneficial for market efficiency. Sun and Rath (2008), Connelly et al. (2011), and Saleh et al. (2020) also argued that managers change accounting methods and estimate to convey the internal information related to the companies’ activities. Abu-Serdaneh (2018) investigated the signaling

effect in the banking industry and found a positive signaling effect of the bank loan loss allowance, as the loan allowances had a positive relationship with the year-ahead earnings.

Related Studies in BBEM. This section discusses the BBEM cases by prior researchers. Income level and the BBEM: The positive relationship between BBEM and corporations' low income or losses is one of the cases studied in this area. Managers tend to show an increased level of losses when facing a low or negative amount of earnings and financial difficulties. This is done to show lower income (Ayedh et al., 2019; Gonçalves et al., 2019; Hope & Wang, 2018). In this case, managers may reevaluate assets to record impairment losses and increase the losses reported. Studies have shown a positive relationship between Goodwill impairment and big bath earnings management when facing negative earnings. Lazar (2019) studied German companies between the years 2009 and 2014 and found similar results that Goodwill impairment losses were recorded for opportunistic reasons of management, especially when faced with decreased earnings. Comparable results were found by Hassine and Jilani (2017), who studied a sample of 720 French firms from 2006 to 2012. Hasina and Jilani attributed the Goodwill impairment to the financial crisis and meeting the objective of the management for BBEM and income smoothing goals. Albersmann et al. (2020) studied 354 German firms from 2016 to 2013 and found similar results and indicated that the Goodwill impairment losses were positively correlated to the size of earnings losses. This suggests that if management meets or beats the analyst earnings, they use fewer impairment losses than if they do not meet the target. This is consistent with the studies done by Han et al. (2021), indicating that management was under pressure to meet or beat the analysts' forecasted earnings. The result of studies by Choi and Nam (2020) on Korean firms from 2011 to 2016 revealed that Goodwill impairment was related to both bad economic performance and the management income smoothing incentives. This means that depending on

the management objectives, the impairment of Goodwill is done to affect the stock prices and expected future cash flow. Deng (2019) studied the signaling effect of compensation commitment and the agency impact on Goodwill impairment. He found that the Goodwill impairment was directly related to management compensation tied to earnings, and the higher the proportion of unfulfilled management compensation, the higher the probability and the amount of Goodwill Impairment. Gros and Koch (2019) found a positive relationship between the impairment of Goodwill and the opportunistic behavior of management rather than informative intentions. The researchers also indicated a positive association between discretionary Goodwill impairment and management incentive of BBEM and governance mechanisms in European firms. Choi and Nam (2020) studied Korean companies and found that Goodwill impairment decisions were correlated with the management incentive of big bath earnings management to avoid showing losses, manage share prices, and expected future cash flows. The researchers also found that these companies exhibited outstanding market performance two years after reporting Goodwill's related impairment information because of the reversal of accruals. Rathke et al. (2019) investigated the big bath earnings management strategy in 226 Brazilian companies and the relationship between earnings management and the level of deferred taxes. The researchers found a positive relationship between the use of big bath earnings management by loss-making companies and the use of excessive deferred taxes. Similar results were found by Rathke et al. (2017) that firms used higher net deferred tax expenses to show higher levels of losses. Jung et al. (2018) found a significant negative relationship between the operating profit and unbilled receivables for companies that used big bath earnings management to reduce their earnings or increase their losses. Similar results were achieved by Kwon and Lee (2019) and Kwon and Lee (2019), who found unbilled receivables were used in big bath earnings management.

Economic crises: This is another area studied by prior researchers. The economic crisis is used to indicate that management may use BBEM for opportunistic reasons (Cheng et al., 2019). Management can use the economic crisis, such as the pandemic of 2020, to take a big bath and increase losses or lower earnings as all shareholders will think this reduction in income is due to downturn economic conditions and will not criticize management (Ozili, 2021). Oskouei and Sureshjani (2021) investigated the effects of the financial crisis of 2008 on earnings management activities of foreign firms that are listed in the United States as American Depository Receipts (ADRs). These firms followed GAAP and IFRS rules and reported under their guidelines. The researchers found that both types of firms following GAAP or IFRS used EM and found no difference in accrual-based earnings management used for them. Similar results were achieved by Mollik et al. (2020). The researchers studied the earnings management behavior of Australian firms and found that they engaged in significantly higher earnings management during the global financial crisis than those of the pre-crisis period. Hao et al. (2019) also found that Chinese firms severely manipulated earnings downward during the financial crisis of 2008 to qualify for the Chinese stimulus programs and funds. This was detected mainly for firms that were not state-owned and were not audited by the big four auditing firms. Similarly, through empirical studies of 1189 Malaysian companies from 2005 to 2006 and the comparison studies in 2008 and 2009, Ayedh et al. (2019) found that management used income decreasing methods during the crises consistent with the BBEM. De Oliveira Leite et al. (2020) studied 11,523 observations from 1996 to 2014 from 117 countries. The researchers concluded that for-profit microfinance organizations used more BBEM techniques than their not-for-profit counterparts, including during distress. In addition, they found that for-profit organizations used impairment loan loss provisions in almost 0.8% of assets for BBEM purposes. Kjærland et al. (2021) investigated the

relationship between the oil price drop of 2014 and big bath earnings management behavior of the companies listed on the Oslo Stock Exchange. The results showed a significant increase in big bath earnings management following the price drop. Similar results were found by Miranda-Lopez and Valdovinos-Hernandez (2019), who stated that Mexican companies used significant increases in income smoothing techniques during the global economic crisis of Mexico.

CEO characteristics and turnover: Prior studies of BBEM also include CEO characteristics and turnover. Buchholz et al. (2020) studied narcissistic traits of CEOs and their relationship to accrual-based earnings management. The authors found that narcissistic management manipulated earnings more related to a specific period, especially at the time of CEO turnover where the new CEO could make the previous one responsible for poor performance and bargain for higher compensation. Lazar (2019) and Albersmann et al. (2020) found a positive association between the use of BBEM and CEO turnover. Cheng et al. (2021) studied earnings management around forced CEO turnover for publicly traded stocks, closely held stocks, and mutual. U.S. property-casualty insurance and found closely held stock companies used big bath earnings management. However, there was no support for the big bath hypothesis for other organizational forms. The researcher indicated that independent, large size boards and corporate governance were less associated with manipulating income.

Financing needs: Many researchers have studied the external financing needs of companies and their relationship to unexpected accruals. Ponce et al. (2021) concluded that manipulating accruals was related to external financing needs and the sustainable growth of companies. The result was achieved by studying 143 Turkish manufacturing firms listed on the Istanbul Stock Exchange between 2015 and 2019. Similarly, Hassine and Jilani (2017) found that firms with higher leverage had an incentive to record a higher level of Goodwill impairment

losses in response to renegotiating debt policies. Prior studies by Hassine and Jilani (2017) also suggested that Goodwill impairment was associated with avoiding expensive debt covenant violations. After studying 1233 samples of Chinese A-share listed firms between 2007 and 2017, Deng found a more substantial effect on impairment of Goodwill from earnings and debt covenant pressure than with the performance commitment requirements. Dudycz and Praźników (2020) found that when the management wanted to reduce the debt to asset ratio for financing purposes, they used impairment losses of assets to mark down the asset value to the estimated market value to reduce the ratio of debt to asset.

Prior studies have found some inconsistent results in BBEM research. For example, the following researchers found mixed results about the relationship between determinants of BBEM. Cao et al. (2018) used a sample of 182 Malaysian companies that reversed impairment charges and compared it to a matched sample of companies that chose not to do that. The authors suggested that the reversal of an impairment does not indicate the management's intention to manipulate the earnings. However, they found that companies with high levels of accumulated and abnormal accruals, the last change in top management, and weak corporate governance reversed previously recorded impairments to avoid earnings decline in the current year. Theiss et al. (2019) found no relationship between the use of BBEM and the CEO turnover. The researchers studied 254 companies from 2009 to 2014 in Brazil and found no evidence that senior management changes correlated to discretionary accruals. Riyadi et al. (2018) compared the big bath earnings management behavior of routine and non-routine turnover of CEOs in Indonesian companies between 2004 and 2014. The authors found no difference in big bath earnings management for routine compared to non-routine CEO changes. Geertsema et al. (2020) investigated the behavior of real earnings management around CEO turnover in the United

States. They found that new CEOs used real earnings management as supposed to accrual earnings management, especially in firms with a low level of institutional ownership. Al-Mughrabi (2021) found that the financial crisis did not affect the large Jordanian non-financial listed firms to engage in more significant accrual earnings management. The researcher concluded this result by studying a sample of 71 companies from Jordan during the economic-financial crisis during 2005 and 2012. However, the researcher indicated that leverage and lower operating cash flow were related to discretionary accruals. Alexandrova and Udovichenko (2019) found mixed results detecting the use of big bath earnings management during the crisis year of 2018 and 2019. The researchers found that the quality of assets, gross margin, and industry belonging were more positively correlated with big bath earnings management.

Although many researchers attributed the negative effect of earnings management on financial reporting, many others found that firm value increases because of accrual earnings management both through income increasing and income decreasing methods (Abbas, 2018). Abbas and Ayub (2019) studied earnings management behavior for Pakistani companies during 2003 and 2017 and found a positive relationship between the use of earnings management and the value of the firms. Similarly, Baik et al. (2020) investigated their effect on stakeholders' managerial ability and management income smoothing techniques. According to them, high-ability managers who engaged in an intentional smoothing of income improved future operating performances, which benefited both the management and the shareholders. Ghorbani et al. (2020) collected data from a sample of 144 firms listed in the Tehran Stock Exchange for 10 years from 2007 to 2016 and found no relationship between the big bath and lack of liquidity, operational failure, and bankruptcy. The researchers stated that the firms' focus during

insolvency problems was not to use the big bath but to fulfill obligations to resolve the insolvency issue.

Many researchers have suggested numerous ways to mitigate and reduce the BBEM used in companies. BBEM can be weakened by a more transparent information environment such as audit quality and disclosure rating (Han et al., 2021). Hao et al. (2019) found similar results that high-quality audit and state-owned companies in China have fewer problems related to big bath earnings management. Mollik et al. (2020) indicated that audit committee independence had a mitigating effect on big bath earnings management behavior, but the accounting expertise of the members did not constrain earnings management. In addition, the authors found that being audited by big 4 auditing companies limited earnings management during pre-crisis, although it had no effect during the crisis. Finally, Cai et al. (2019) investigated the role of CEO religion and earnings management. The authors found that religious CEOs are significantly less associated with accrual and real earnings management actions, primarily when their compensation was based on equity, and the firm faced higher operating cash flow volatility.

Summary of the Literature Review

This study's literature review provided a detailed discussion of the business practices, problems, theories, and variables in EM. In addition, since this research focuses on BBEM during the pandemic, detail prior research related to BBEM cases is reviewed. Also, the inconsistencies in the results of the preceding studies are explained. Lastly, prior researchers' findings related to the ways to reduce the practice of BBEM are discussed.

Summary of Section 1 and Transition

In Section 1, the following topics were discussed: the background of the problem, nature of the study, theoretical framework, the definition of terms, assumptions, limitations,

delimitations, the significance of this study and its contribution to the literature and its relation to the Biblical view. The next section will present quantitative research using a fixed design and data collection using the Mergent Online database. A quantitative sample of public companies' financial records in the travel and leisure industry has been used to determine the magnitude of manipulation of financial statements by determining the amount of discretionary accruals before the pandemic, calculating the one during the pandemic, and computing the change. Then, statistical analysis is performed, and the test results is discussed, and opportunities for further research is explained. It is described that the limitation of this research may not make it applicable to all industries or periods other than the leisure and travel industry during the pandemic of 2020.

Section 2: The Project

This research examined the potential use of big bath earnings management (BBEM) by managers throughout the pandemic in 2020, causing in the falsification of financial statements and substantial financial costs in the leisure and travel industries.

Purpose Statement

The purpose of this study was to explore whether management used BBEM techniques for opportunistic reasons during the pandemic of 2020 where they, as leaders, should have helped lift the pressure of the crisis off peoples' shoulders.

Role of the Researcher

The cross-sectional version of Modified Jone's model was used to study EM during the pandemic. For this purpose, fixed design-quantitative methods, specifically, a causal-comparative design, was utilized. In addition, numerical data for the leisure and travel industries companies was collected before and during the pandemic, using Compustat and Mergent Online databases. The section follows by explaining the steps taken for this research.

Step 1: Current assets, cash, and cash equivalents, current liabilities, short-term debt, depreciation, and amortization expense amount for each company in the travel and leisure industry was collected for the years 2015-2020 and used to calculate the changes in each account. Then the changes were plugged into the total accrual formula of modified by Jone's model to calculate the total accruals for each company for 2015-2020.

$$\mathbf{TAC_t = \Delta CA_t - \Delta Cash - \Delta CL_t + \Delta CLD_t - DEP_t} \qquad \mathbf{(1)}$$

Where:

TACt = Total accruals in year t.

ΔCAt = Change in current assets in year t.

ΔCash = Change in cash and cash equivalents in year t,

ΔCLt = Change in current liabilities in year t.

ΔCLDt = change in short-term debt included in current liabilities in year t.

DEPt = depreciation and amortization expense in year t.

Step 2: In this step, model 2 was used to calculate the discretionary accrual. The property, plant, and equipment (PPE) amount of 2015- 2020 was collected, and the changes in revenues and accounts receivable for each year, from 2015 to 2020, is calculated.

$$\frac{\mathbf{TACC_t}}{\mathbf{A_{t-1}}} = \beta_0 \frac{1}{\mathbf{A_{t-1}}} + \beta_1 \frac{(\Delta \mathbf{REV_t} - \Delta \mathbf{REC_t})}{\mathbf{A_{t-1}}} \beta_2 + \frac{\mathbf{PPE_t}}{\mathbf{A_{t-1}}} + €_t \qquad \mathbf{(2)}$$

Where:

TACC = Total accruals in year t−1.

ΔREVt = Revenues in year t less revenues in year t−1.

ΔRECt = Net receivables in year t less net receivables in year t−1.

PPEt = Property plant and equipment in year t.

At−1 = Total assets in year t−1.

β0, β1, β2 = Estimated parameters.

$€_t$ = Residuals / Discretionary accruals in year t.

Step 3: A regression analysis was conducted for 2015- 2020 in which the dependent variable was the scaled total accrual for the year, and the independent variables were the numerical changes in the revenues and receivables and PPE for the respective years. This regression analysis provided the coefficients (β_i) for each independent variable in the model 2, and provided the residual value, the discretionary accrual, for each year.

Step 4: Before interpreting the regression, analysis and using the residuals, discretionary accruals, all regression assumptions were checked. A linear relationship, multicollinearity, independency of residuals, homoscedasticity, normal distribution, and Cook's test was verified.

Step 5: After ensuring that the assumptions were met the absolute value of the residuals, the discretionary accrual (DACC), was calculated and used to test the hypotheses one to three, explained below in the hypothesis testing part of this research.

$$\mathbf{DACC_t} = |\mathbf{DACC_t}| \qquad \mathbf{(3)}$$

Where:

$\mathbf{DACC_t}$ = Discretionary Accruals at year t.

$|\mathbf{DACC_t}|$ = Absolute value of discretionary Accruals at year t.

Research Methodology

A research methodology is an important part of any research as it explains the choice of research design and why it was chosen and how it fits into the objective of the study to provide valid and reliable results. Research design provides a structure and guide that researcher can utilize to conduct research. Type, purpose and the subject of the study will determine the best forms of research design which could be a fixed, mixed, and flexible. In the following section, the fixed design and its appropriateness for this study along with research method is discussed.

Discussion of the Fixed Design

In a fixed design, the purpose of the study, theories, research questions, research methods, and sampling method should be identified before data are collected (Kampenes et al., 2008). This study was conducted with a fixed design using quantitative methods; specifically, a causal-comparative design was used. A quantitative study is considered a formal objective process to explain the variables and find their relationship (Burns & Grove, 2010). Positivist

mainly does a quantitative study, and post-positivist researchers assume that there is a single truth, and the researcher aims to find the truth by hypothesis testing utilizing empirical scientific research methods (Davies & Fisher, 2018). According to Guba & Lincoln (2005), empirical studies that use close observation or manipulation of natural phenomena create reliable knowledge required from a positivist researcher. The analysis was explained to show how various variables interact and eventually cause an outcome. Researchers may utilize different statistical prediction tools to test these explanations, and multiple regression analysis and hypothesis testing are used for this quantitative study. This is different from the qualitative-non-numerical research that the researcher aims to explore insights in each situation, seeks answers to a question, or tries to understand a research problem mostly related to social context, issues, values, opinions, and behaviors of a specific population (Levitt et al., 2017). Compared to quantitative studies, qualitative studies are typically more done in a natural setting and are inductive. The sampling is purposive and flexible, as the study permits more adaptability between the researcher and the participants. Questions in qualitative studies are primarily open-ended, and participants use their own words to elaborate and explain their responses in detail in a less formal manner than in quantitative research (Gopaldas, 2016).

The positivist research paradigm supports fixed designs. In a fixed design, the researcher knows the theory used in research, and the theory specifies what research design and variables should be used to conduct the study (Sarantakos, 2005). This type of research emphasizes the causal relationship between the dependent and independent variables through variable measurement and hypothesis testing (Marczyk et al., 2005). Positivists aim to predict and determine an empirical correlation between variables in a controlled setting, and they use various methods to ensure that their studies are reliable such as objectivity and precision tests (Ulin et al.,

2004). Therefore, the positivism paradigm needs a methodology that uses data collection techniques to gather numeric data to present proof in numerical format (Sarantakos, 2005).

The theory used in this research is the Positive Accounting Theory (PAT) and Agency Theory. This paper specifically explores the causal relationship between negative results and the extent of accrual manipulation for travel and leisure industries during the pandemic. Therefore, a fixed design was used through which the industries' numerical accrual data were collected and analyzed to produce the conclusion of this study.

Discussion of the Chosen Method

Researchers have used several methods to study the manipulation of earnings by management. Management use either actual or real accounts to manipulate earnings. The method used in this paper is modified Jone's model to study EM in general during the pandemic. Most methods used to detect EM focus on identifying a specific account or accounting method that was used by management. However, this study was not about using a particular account or accounting method during the pandemic for EM. Instead, it was about whether firms manipulated their earnings during the pandemic. Thus, using cross-sectional version of the Modified Jone’s was appropriate as this model provides more data for analysis (DeFond & Jiambalvo, 1994). First, the travel and leisure industries' numerical data were collected before and during the pandemic. After, based on the Jones model, the amount of discretionary accruals and non-discretionary accruals was identified. Then hypothesis testing and multiple regression analysis was done to determine the significance of discretionary accrual manipulation during the pandemic compared to the one pre-pandemic period. Below the various methods used to detect EM are discussed.

Modified Jone's Model (also called total accruals). This method has two stages. In stage one, the coefficient of a time-series regression model is developed to estimate total accrual for the year of the study. In stage two, discretionary accrual is computed by calculating the difference between total accruals and estimated accruals. Jone's model included revenue as a non-discretionary account, which may not be the case. Therefore, Dechow et al. (1995) improved the model by including revenue changes. The improved model was called modified Jone's model. The modified Jones model has also been criticized for some time-series technical problems in estimating the regression model for expected accruals, such as survival biases arising (DeFond & Jiambalvo, 1994) and serially correlated residuals (Peasnell et al., 2000). Therefore, DeFond and Jiambalvo (1994) improved the model by using a cross-sectional form of the modified Jone's (1991) for stage one calculation. Recent studies have used the modified Jone's model to study EM in various situations. For example, Elleuch Hamza and Kortas (2019) compared the real transactions EM method with the total accrual method using modified Jone's model by using Tunisian firms and found that firms used these two methods as substitutes and complementary tools. Liu (2019) used this method to study the effect of EM on investors' trading. Sehrawat et al. (2019) used it in a study of the effect of corporate governance on EM, and Li and Nen-Chen (2019) used it in a study of the effect of EM on stock prices.

Summary of Research Methodology

Fixed research design and Modified Jone's model was used to conduct this study. A quantitative sample of public companies' financial records in the travel and leisure industries was used to determine the magnitude of use of EM in 2020 by comparing the amount of discretionary accruals before the pandemic to the one during the pandemic and computing the change. Hypothetically, there should not have been a significant change between the amount of actuals

before and during the pandemic. However, the statistical testing determined the degree of this significance and whether DACC was used for EM purposes.

Participants

Participants of a study were the subjects that were the target of observation of the researcher. In a quantitative study, participants should have the same population characteristics and be randomly selected since this type of research requires drawing an inference to the population from studying the participants. Thus, the sample size of participants was an essential factor in quantitative research to be able to rely on the generalized results.

For this study, the participants were all American public companies in the leisure and travel industries. Since the Compustat and Mergent Online databases contained these industries' firms reported financial results, they were used to extract the data from. Furthermore, the data were collected based on the North American Industry Classification System (NAICS) codes.

Population and Sampling

The general population is explained below. In addition, sample, sampling methods, sample size, and sample frame are discussed. The goal of this research was to study the sample of the companies in the leisure and travel industries and explore the potential use of EM practices and draw inference from the results.

Discussion of Population

Population refers to an extensive collection of subjects with similar characteristics, such as gender, income, or geographic location, which a study is related to. Two types of population exist in statistical analysis: target population and accessible population. Target population refers to the entire group of the subject that the researcher will generalize the conclusion to. An

accessible population is a population that the researcher can collect the samples from (Porter, 1999). All data belonging to a population have the same specific characteristics.

A population should be well defined and specify the data included and excluded. It is important to describe the eligibility and acceptable characteristics of the population. The inclusion criteria determined the subjects that were eligible to participate in the study and could be included in the population. The exclusion criteria specify the characteristics that determine the data that should be excluded from a study (Banerjee & Chaudhury, 2010; Majid, 2018). For example, in a study of firms in the travel and leisure industry, the time frame of the data and the geographic location should be defined so that the study results are generalized to the correct population. Also, for this study, only public companies in the United States were included.

Populations may have any size, such as the population of bluebirds in North America, which may be too large, unknown, or difficult to obtain. However, a population may be small and known, such as the population of hospitalized cancer patients under the age of 10 in a city. Sometimes, a researcher needs to anticipate the number of subjects in a population who are eligible to participate and are accessible for study. The researcher's judgment, in this case, will determine whether the proposed study can be physically conducted (Porter, 1999). Other times, the population may be too large, or the number of elements in a population may be unknown. In these cases, if the researcher aims to draw an inference about the population, a representative sample is needed.

Discussion of Sampling

Because most of the time it is not possible to collect data from all subjects in a population, a researcher should choose a method to collect a representative sample. Two methods of random sampling and non-random sampling could be used. Random sampling will

allow a researcher to select random samples and draw a statistical inference about the entire population. Non-random sampling, on the other hand, is convenient and allows the researcher to collect the data easily, although the sample may not represent the whole population.

Types of Sampling. Random sampling and non-random sampling methods are broadly used in research. Four types of random sampling are simple random sampling, systematic sampling, stratified sampling, and cluster sampling. A simple random sampling involves the whole population to be included in the sampling frame, and every member of the population has an equal probability of being chosen to be in the sample. Many tools could be used to generate random numbers for this purpose, such as Excel. In systematic sampling, every subject is given a number, and samples are chosen in regular intervals. This is an easier way of sampling. In stratified sampling, the population is divided into subgroups that may have distinctive characteristics. This allows a researcher to develop a more specific inference regarding each of these subgroups in the population. To do this, a researcher should first divide a population into smaller groups, strata, based on common characteristics such as income or gender. Then random sampling or systematic sampling methods can be used to collect samples from each subgroup. In cluster sampling, the researcher divides the population into subgroups, but instead of choosing samples from each subgroup, the whole subgroups will be chosen as samples. However, if the samples or clusters are extensive, subjects from each cluster will be chosen based on random or systematic sampling. Since clusters have their unique characteristics and are quite different, drawing an inference that is representative of the whole population is difficult.

Non-random/probability sampling involves selecting samples based on non-random criteria which means that each subject in the population may not have the same chance to be included in the sample. Although this type of sampling might be easier to collect, it has a higher

risk of sampling bias. This means that the inferences drawn from the samples may have a weaker relationship to the population as a whole. This type of sampling is mainly used in qualitative research, where the goal of the research is not to test any hypothesis or draw inferences about the population but to understand a phenomenon. Convenience sampling, voluntary response sampling, purposive sampling, quota sampling, consecutive sampling, and snowball sampling are the non-random sampling methods used widely. Convenience sampling refers to choosing subjects that are more accessible to the researcher. This means that the sample may not be representative of the entire population. Voluntary response sample refers to the subjects contacting the researcher and wanting to be included as research samples. This type of sampling also may not represent the whole population and be biased. Purposive sampling refers to a method in which the researcher chooses the samples as they may be most beneficial for the study. Therefore, the researcher would be able to obtain detailed knowledge about a specific subject matter. In quota sampling, the researcher chooses subjects based on their specific characteristics that may represent an entire population, such as choosing female subjects in a study that gender is the focus of the study. Consecutive sampling involves a researcher studying a subject or a group of people and moving on to studying another subject or group of people if necessary. In a snowball sampling, the researcher selects the samples based on the participants in the study. The more the participants, the more access the researcher has to the other subjects.

In addition, many quantitative studies use secondary data already collected by a third party and accessible through the Internet or other databases, according to Olabode et al. (2019). The researcher should ensure the validity and reliability of secondary data. Secondary data could be internal or external. Internal data and information come from the management under

observation, and external information is related to the published external data or non-governmental statistical information.

The data for this research was secondary data that was already collected and available through the Compustat and Mergent Online databases. These databases are reliable and contain financial information of public and private companies in the United States and other countries. There are many ways to collect data from this database, including using NAICS or the primary SIC codes. The information used for this study is external financial reporting data submitted to SEC, verified and audited by certified public accountants, and published by the corporations. This data collection method is considered appropriate for this research as financial statements of corporations are considered public information, and this public data were available through the Compustat and Mergent Online database. Therefore, these databases were used to extract the public companies' financial data in the travel and leisure industries. All the companies, except those with missing variables, were used for this quantitative study,

Sampling Frame. The sampling frame is a list of subjects within a population from which a researcher can collect the samples from and it would be identical to the target population if it included all the population elements. However, because identifying entire population elements may be too time-consuming, expensive, and sometimes impossible, the sampling frame will differ from the target population. This is called sampling frame error. Therefore, when researchers collect samples from sampling frames and draw inferences about the population, they state the degree of confidence, such as 95%, that their inferences are valid and represent the population parameter. For this study, the sampling frame came from the Compustat and Mergent Online databases. This frame is appropriate as the databases contained all the information of public firms needed for this research.

Sample Size. A sample is a manageable subset of a population with smaller population size and the same characteristics. In a quantitative study, a researcher measures the variables of the sample and uses statistical inference to generalize the findings to the population. Determining the sample size is one of the most important aspects of statistical analysis because if the sample size is too small, it will not represent the population correctly, and if it is too large, it may increase the cost and time to conduct research. Therefore, a sufficient number of samples should be determined considering the time, cost, and convenience of sample collection. Confidence level and confidence interval are key factors that should be considered when determining sample size. The confidence interval tells the researcher how certain the research results reflect what is expected to be found. Confidence level shows the probability that a population parameter falls within a specific interval. Therefore, the larger the sample size, the smaller the confidence interval, and the more confident a researcher can be that the result of the study represents the population. Standard deviation and population size are the other factors affecting the sample size. Generally, a 95% confidence level with a margin of error of 5% will provide a sample size of 385, which is adequate to draw assumptions for almost any population size (Majid, 2018).

Desired Sample and Sample Size. For this study, the population was all the travel and leisure industries companies using the NAICS codes indicated in Appendix A. The Compustat database contained about 400 American public companies in the travel and leisure industries. Since all the extracted companies' financial data were included in the study, except the companies with missing data, the number of samples for this study was remarkably close to the number of the companies in the population. Therefore, this sample was a good representative as it was close to the number of subjects in the population. In addition, this research used all the companies in these industries from which to draw inferences.

Summary of Population and Sampling

Population general participants, sample, sampling method, sample size, and sample frame were discussed above. For this study, secondary type data were used, and the population was the American firms in the travel and leisure industries, and all the firms with no missing data participated in this research. Outliers were eliminated. Compustat and Mergent Online databases were used to collect the data using the North American Industry Classification System (NAICS) codes.

Data Collection and Organizations

Data collection refers to collecting data and information from various sources to answer a research question. Researchers may employ different approaches to gather data through observation, secondary data, personal interviews, questionnaires, or surveys. In a quantitative study, secondary data might be collected. This information is already available from various sources such as government publications, public records, or statistical documentations. Organization data refers to the process of organizing the raw data and classifying them into different categories. Organizing data helps a researcher arrange the data understandably, categorizing it into frequency distribution or graphic presentations. Below, the specific plan for data collection and organization for this research is discussed.

Data Collection Plan

The specific variables used for this study in the modified Jone's model were current assets, cash, and cash equivalent, total assets, current liabilities, short-term debt, depreciation, revenue, accounts receivables, property plant, and equipment. In addition, the effect of executive compensation and political costs on discretionary accruals was examined. Executive compensation was used as a proxy for executive compensation, following Park (2019) and Heron

(2016). Political cost proxies used by researchers vary as each has used a more appropriate proxy for the study. For instance, Yip et al. (2011) and Moratis and Van Egmond (2018) used corporate social responsibility as a proxy as the researcher aimed to investigate the relation between the political cost and corporate social responsibility. On the other hand, Yang and Tang (2021) used air pollution as a proxy for political costs and found that firms with higher air pollution were more associated with income-decreasing accruals, and policy uncertainty was used as a proxy for political costs by Yung and Root (2019).

In this research, the operating expense account was used as a proxy for political cost as firms that were mainly affected by the pandemic and were unable to pay for their expenses were the ones that could qualify for the government aids. Therefore, it was predicted that this proxy would have a positive relationship with the BBEM.

Instruments

Secondary data from Compustat and Mergent Online databases was used for this study. Compustat through Fairfield University was utilized to extract all the data from 2015-2020 except executive compensations, and the Mergent Online database was used to extract the executive compensations for 2018 and 2019, and 2020. Mergent Online is available through both Fairfield University and Liberty University.

Data Organization Plan

The data collected contained the SIC, CUSIP, and the Ticker symbols of the companies. Since Fairfield University does not have a subscription to the executive Compensation database, the Mergent Online database was used to gather the executive compensation data using the Ticker symbol of the firms whose data were collected through Compustat. Then both datasets were combined as they were from the same firms. Companies with missing data were excluded

from the study. This is an appropriate method of data organization, as NAICS codes and the Ticker symbols were unique identifiers of the firms and were used to collect and organize data from Compustat and Mergent Online databases.

Summary of Data Collection and Organization

The data were collected using the NAICS from Compustat and Mergent Online databases. The data from the Compustat and the Mergent online were merged and organized. Total 1443 data from Compustat were used for Jone's estimation model, and only the companies that contain all the data, including the compensation records, were used for the hypothesis testing of this research, model 4. First, regression assumptions were checked, and Outliers were excluded. The next step involved data analysis.

Data Analysis

After the data were gathered, it was analyzed to reject or not reject the null hypothesis stated. SPSS 27 was used for data analysis. After identifying the dependent and independent variables, regression analysis was used. In the meantime, using SPSS, regression assumptions such as cooks test, multicollinearity, and normal distribution of residuals were checked to ensure the regression assumptions were met. Outliers were excluded from the study.

The Variables

A list of variables along with their types is presented on page 39.

Descriptive Statistics

A wide range of descriptive statistics were used, including mean, median, mode, standard deviation, variance, range, Q1, and Q3. In addition, histograms and stem and leaf plots were used for each variable.

Hypothesis Testing

Model four was used to test hypotheses, and the procedures to test them are discussed below.

Hypothesis 1:

H0: There is no relationship between EM and the pandemic.

H1: There is a significant relationship between EM and the pandemic.

$$|DACC_t| = \theta_0 + \theta_1 Pan_t + \theta_2 PR_t + \theta_3 BP_t \quad (4)$$

Where:

$|DACC_t|$ = Absolute value of the discretionary accrual at time t.

Pan_t = Pandemic year.

PR_t = Political risk, which is related to the possibility of receiving or losing government financial assistance during the pandemics such as payroll protection plan (PPP) and others. Total operating expenses was used as a proxy for political cost, as the higher amount of this cost was associated with more considerable financial assistance from the government.

BP_t= Executive compensation amount was used as a proxy for the executive compensation.

The first hypothesis addressed the RQ1, which asked: how did the pandemic of 2020 affect EM behavior by corporations within the leisure and travel industries? The variables used for this analysis are the year of pandemic, as the independent variable, compared to previous years of 2018 and 2019, when the worlds' health and economic situations were not in crisis. The dependent variable was |DACC|. If the p-value of the coefficient for the pandemic in 2020 was significant, the result supports hypothesis 1, meaning that there was a significant relationship between the pandemic and the EM. This means that the companies used discretionary accruals during the pandemic of 2020, which resulted in rejecting the null hypothesis.

Hypothesis 2 and the related RQ2 are as follows:

Hypothesis 2:

H0: There is no relationship between the firm's executive compensation and EM during the pandemic.

H1: There is a significant relationship between the firm's executive compensation and EM during the pandemic.

Hypotheses two addressed the RQ2, which asked: How did executive compensation affect EM behavior during pandemic 2020 in the leisure and the travel industry? Executive compensation is one of the factors that may affect the EM as the executive compensation is usually tied to the firms' income. Studies of DACC will lead to detection of EM as management has control over DACC and could use techniques to increase or decrease this amount to show a higher or lower level of income in 2020 (Barton, 2001; Dechow et al., 2010; Healy, 1985; Marantika et al., 2021). Therefore, the effect of executive compensation on |DACC| of 2020 was tested. The variables used for this analysis were the interaction of the executive compensation and the year as the independent variable and the |DACC| as the dependent variable. Executive compensation of 2020 was compared to the compensation amounts of 2018 and 2019. If the p-value of the coefficient of the executive compensation in 2020 was significant, then compensation had a positive effect on practicing EM in 2020. However, if the coefficient of the executive compensation in 2020 was not significant, then the executive compensation did not affect the use of discretionary accruals and EM.

Hypothesis 3 and the related RQ3 are as follows:

Hypothesis 3:

H0: There is no relationship between the political cost and EM during the pandemic.

H1: There is a significant relationship between the political cost and EM during the pandemic.

Hypotheses three addressed the RQ3, which asked: How does political cost affect EM behavior during pandemic 2020 in the leisure and travel industry? The political cost is considered as an essential factor affecting the use of EM (Almashaqbeh et al., 2018; Byard et al., 2007). Corporations tend to select policies to minimize the political costs. The corporate political policies during the pandemic may have included the possibility of overstating operating expenses to receive higher government financial aids. Therefore, it was predicted that the political cost would significantly affect the use of discretionary accrual during the pandemic. Operating expense was used as a proxy for the political cost and was the independent variable. The regression analysis showed the relation between the political cost and the |DACC|. If the results showed a significant relationship between the two, it would indicate that political cost had a significant effect on the use of DACC and EM in 2020. On the other hand, if no significant relation was found between the discretionary accruals and operating expenses during the pandemic, the political cost had no effect on the EM and the use of DACC in 2020.

For this study, the population was all the travel and leisure industries companies using the NAICS codes. The Compustat database contains 434 American public companies in the travel and leisure industries. However, 108 firms had compensation data in the Mergent Online database. Therefore, 434 companies from 2015-2020 were used for testing the modified Jone's model, and the data of 108 firms from 2018-2020 were used to test model 4. This sample size was about 324 firms (108*3) as cross-sectional data were used. After removing the outliers, about 254 firms were left to conduct the T-test for model four. Since 254 data were a good sample size, it represented the population as it was large enough for this purpose.

Hypotheses Testing Alternatives

If the requirement of the normal distribution were not met for multiple regression analysis, a Nonparametric test in SPSS could have been conducted to test model 4. For example, a Wilcoxon S-R test could have been used instead of a T-test. The sign test is another nonparametric test. However, since it compares the medians instead of means, the Wilcoxon signed-ranks test would have been a better option for this research.

Summary of Data Analysis

The data were analyzed using the SPSS 27 through regression analysis to determine the effect of the pandemic, executive compensation, and political costs on the use of DACC during the pandemic of 2020. The executive compensation amount was used as a proxy for executive compensation, and operational expense was used for political costs. Various descriptive statistics were utilized, such as mean, standard deviation, and quartiles. The alternate test would have been the Wilcoxon S-R test if the requirement of the normal distribution were not met.

Reliability and Validity

Researchers should demonstrate the validity and reliability of their research projects to demonstrate the quality of their research findings. The validity and reliability measures for quantitative studies are classified into three types of measures: internal validity measures, external validity measures, and reliability measures. Internal validity means whether the study is really measuring and studying what it claims to measure and study (Bleijenbergh et al., 2011). External validity means whether the study results can be generalized to a larger population (Calder et al., 1982). The issue of external validity requires a careful sampling and research design. Reliability means whether we obtain the same results if we repeat the study with different samples. Therefore, it is essential to specify how the data are collected and how the analysis is

done. Presenting the entire research process ensure the reliability to be considered high (Flintermann, 2014).

Reliability

The data for this research was gathered from Compustat and Mergent Online databases. These reliable and reputable databases collect the firms' financial information based on what the firms have reported to external users and the Security and Exchange Commission (SEC). The data analysis was done using SPSS, which is also reputable and reliable. Firms with missing data and outliers were excluded from the study, and the regression assumptions were checked as well. Since all the companies whose compensation data were available were used in this study, the reliability is considered high.

Validity

This study was supposed to measure the effect of the pandemic on the use of EM practices in firms belonging to the travel and leisure industries. The hypothesis one measured this. In addition, the research measured the level of significance of the executive compensation and operating expenses on EM techniques during the pandemic of 2020. Hypothesis two measured the effect of compensation, and hypothesis three measured the effect of operating expense on EM for 2020. Therefore, this study evaluated what it intended to assess through the multiple regression analysis, increasing this research's internal validity.

Furthermore, external validity and generalizing the results to the whole population was ensured since the Compustat contained 443 firms with the NAICS codes belonging to the travel and leisure industries, from which 103 firms were included in the study as they contained the executive compensation data. This means that the sample of companies that included all the data had good size and could represent the entire population. Since the sample was substantial and a

cross-sectional study increased the number of observations to about 300 data, the result of this study is externally valid and generalizable to the population of the firms in these industries.

Summary of Reliability and Validity

Reliability and validity are important aspects of any research. Reliability ensures that the data are collected from a reliable source, and if another researcher does this research, the same conclusion will be found. Compustat and the Mergent Online databases are reliable and repeatable; therefore, the reliability is considered high in the data collection of this study. Also, regression analysis was conducted using the SPSS to attain the final conclusion. If another researcher conducts this research, the same results will be achieved.

Internal validity refers to the study measuring what is intended to be measured. For example, this study measured the effect of the pandemic, executive compensation, and the political costs on EM practices in companies belonging to the travel and leisure industries using hypothesis testing and T-test. External validity refers to the generalizability of the sample. Since the sample was substantial and a cross-sectional study was performed using about 300 data, the result of this study is valid and generalizable to the population of the firms in the travel and leisure industries.

Summary of Section 2 and Transition

Section 2 of this research discussed the research methodology, quantitative fixed design, and modified Jones model. Data were collected through Compustat and Mergent Online databases for the American travel and Leisure Industries from 2015 to 2020. All data were used in this research except the ones with missing information and outliers. Variables used in the modified Jone's model and model four of this research was collected, and multiple regression analysis was used for hypothesis testing. In addition, the reliability and validity of the research

was ensured. Section 3 presents the results, indicating whether BBEM was done using discretionary accruals in the travel and Leisure Industries during the pandemic of 2020.

Section 3: Application to Professional Practice

This section of the research presents the study results by discussing the hypothesis testing and how the testing relates to prior studies and the problem being studied. Also, the application to professional practice is explained by discussing the potential strategies that could be implemented to reduce the probability of using EM techniques for opportunistic reasons resulting in improved, more reliable, and valid financial statements. A biblical perspective follows the section.

Overview of the Study

This study examined the potential use of BBEM techniques in the leisure and travel industries during the pandemic of 2020. Section 3 discusses a detailed explanation of the hypotheses testing results, including descriptive statistics and alternative testing. In addition, the relationship between the performed hypothesis testing and several elements such as the research questions and the theoretical framework is explained. Finally, the section concludes by presenting statistical evidence that BBEM was used in the travel and leisure industries during the pandemic of 2020.

Presentation of the Findings

The result is presented by depicting the SPSS tables for every step of the hypothesis testing. This includes Jone's model testing, pretest analysis, regression assumption analysis, and regression analysis result for three developed hypotheses. Also, alternative testing is explained, and the result of the studies through SPSS tables are illustrated. Before conducting the hypothesis testing, the modified Jones model was used to separate discretionary from non-discretionary accruals. The estimation period for this purpose is 2015-2020, and the following steps were taken for this purpose:

Step 1: all the variables of the modified Jone's model of current assets, cash, and cash equivalents, current liabilities, short-term debt, depreciation, and amortization expense amounts for each company in the travel and leisure industry were collected for the years 2015-2020. Then changes in the account were calculated and plugged into the total accrual formula of model 1, modified Jone's model, to calculate the total accruals for each company for 2015-2020.

$$\mathbf{TAC_t = \Delta CA_t - \Delta Cash - \Delta CL_t + \Delta CLD_t - DEP_t} \qquad \mathbf{(1)}$$

Where:

TAC_t = Total accruals in year t.

ΔCA_t = Change in current assets in year t.

$\Delta Cash$ = Change in cash and cash equivalents in year t,

ΔCL_t = Change in current liabilities in year t.

ΔCLD_t = change in short-term debt included in current liabilities in year t.

DEP_t = depreciation and amortization expense in year t.

Step 2: Model 2 was used to calculate the scaled total accrual in this step. The property, plant, and equipment (PPE) data of 2015- 2020 was collected, and the changes in revenues and accounts receivable for each year were calculated. Then, all the variables were plugged into model two to calculate the scaled values for total accruals.

$$\frac{\mathbf{TACC_t}}{\mathbf{A_{t-1}}} = \beta_0 \frac{\mathbf{1}}{\mathbf{A_{t-1}}} + \beta_1 \frac{\mathbf{(\Delta REV_t - \Delta REC_t)}}{\mathbf{A_{t-1}}} + \beta_2 \frac{\mathbf{PPE_t}}{\mathbf{A_{t-1}}} + \varepsilon_t \qquad \mathbf{(2)}$$

Where:

$TACC_t$ = Total accruals in year t.

ΔREV_t = Revenues in year t less revenues in year t.

ΔREC_t = Net receivables in year t less net receivables in year t.

PPE_t = Property plant and equipment in year t.

A_{t-1} = Total assets in year t−1.

β0, β1, β2 = Estimated parameters.

ε_t = Residuals / Discretionary accruals in year t.

Regression analysis for model two was used to estimate discretionary accruals, where the dependent variable is total accrual, and the independent variables are the three terms as follows:

$1/ A_{t-1}$ = Term 1

$(\Delta REV_t - \Delta REC_t) / A_{t-1}$ = Term 2

PPE_t / A_{t-1} = Term 3

Table 4 depicts the terms 1, 2, and 3 from the SPSS.

Table 4

Terms/Variables

Variables Entered/Removed[a,b]		
1	Term3, Term2, Term1[c]	Enter

a. Dependent Variable: TACC divided by LagTA
b. Linear Regression through the Origin
c. All requested variables entered.

The values of ε_t, which are the discretionary accrual values, were calculated by SPSS when conducting the regression analysis for model 2. In the meantime, the regression assumptions were checked. First, multicollinearity was verified, showing the VIF of below ten, and the Tolerance of above 0.2. As presented below, the VIF for term 1 was 1.067, for term two was 1.025, and for term three was 1.057. The Tolerance for term one was .937, for term two was .975, and for term three is .946. This means that there was no significant multicollinearity issues between the variables. Table 5 shows the multicollinearity statistics.

Table 5

Collinearity Statistics

Coefficients[a,b]

Model		Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
		B	Std. Error	Beta	t	Sig.	Tolerance	VIF
1	Term1	-.709	.073	-.211	-9.764	.000	.937	1.067
	Term2	-.043	.010	-.090	-4.251	.000	.975	1.025
	Term3	-.045	.002	-.509	-23.675	.000	.946	1.057

a. Dependent Variable: TACC_div_LagTA

b. Linear Regression through the Origin

Then Durbin-Watson test was checked to confirm the independence of the residuals. This test should be close to two. This value for selected years of the study was 1.878, ensuring that the residuals are independent. Table 6 shows the Durbin-Watson results.

Table 6

Durbin-Watson Results

Model Summary[c,d]

Model	R	R Square[b]	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.599[a]	.359	.358	.077	1.878

a. Predictors: Term3, Term2, Term1

b. For regression through the origin (the no-intercept model), R Square measures the proportion of the variability in the dependent variable about the origin explained by regression. This Cannot be compared to R Square for models which include an intercept.

c. Dependent Variable: TACC_div_LagTA

d. Linear Regression through the Origin

Then, the Cook's test was performed to ensure no influential cases biasing the model. In SPSS, it was set to be below or equal to 1, so all the outliers were excluded from this study. As presented below, the Cook's test had a minimum value of 0 and a maximum of .942. Therefore, no outliers were included in this study. Table 7 shows Cook's test results.

Table 7

Cook's Test

Residuals Statistics[a,b]

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	-.37	.07	-.05	.031	1466
Std. Predicted Value	-10.291	3.999	.000	1.000	1466
Standard Error of Predicted Value	.000	.033	.003	.002	1466
Adjusted Predicted Value	-.38	.10	-.05	.031	1466
Residual	-.663	.557	-.007	.076	1466
Std. Residual	-8.640	7.256	-.096	.995	1466
Stud. Residual	-8.641	7.294	-.096	1.000	1466
Deleted Residual	-.663	.563	-.007	.077	1466
Stud. Deleted Residual	-8.867	7.428	-.096	1.008	1466
Mahal. Distance	.000	271.282	3.000	11.544	1466
Cook's Distance	.000	.942	.004	.040	1466
Centered Leverage Value	.000	.185	.002	.008	1466

a. Dependent Variable: TACC_div_LagTA
b. Linear Regression through the Origin

After ensuring that the regression assumptions were met, the results of the analysis of ANOVA showed model two as a significant model at a p-value of 0. In this test, the dependent variable was total accrual, and the independent variables were the term one, two, and three identified above. Table 8 shows the result of the ANOVA test.

Table 8

ANOVA

ANOVA[a,b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4.830	3	1.610	273.440	.000[c]
	Residual	8.613	1463	.006		
	Total	13.443[d]	1466			

a. Dependent Variable: TACC_div_LagTA

b. Linear Regression through the Origin

c. Predictors: Term3, Term2, Term1

d. This total sum of squares is not corrected for the constant because the constant is zero for regression through the origin.

Regression analysis showed that the p-values of terms one, two, and three as significant and equal to 0. This means that the independent variables in model two significantly affected the dependent variable. Table 9 shows the p-value significance level.

Table 9

Coefficient Values and Significance Level

Coefficients[a,b]

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	Term1	-.709	.073	-.211	-9.764	.000
	Term2	-.043	.010	-.090	-4.251	.000
	Term3	-.045	.002	-.509	-23.675	.000

a. Dependent Variable: TACC_div_LagTA

b. Linear Regression through the Origin

This concluded the separation of DACC from non DACC using modified Jone's. Next, the pretest analysis was conducted.

Descriptive Statistics, Pretest

For this study, the means of the variables during and pre-pandemic periods were analyzed. The t-test for equality of means between the year of pandemic and pre-pandemic period for the variables of interaction between compensation and year, the interaction between political cost and year, and DACC was significant. This indicated that the means for these three variables were significantly lower in the pandemic year of 2020 compared to the means in the pre-pandemic period of 2018 and 2019. For this t-test, the year 2020 was coded as one, as pandemic period, and the average means of 2018 and 2019 were calculated and coded as two, as pre-pandemic period. Table 10 shows that the means of three variables are reduced in 2020. The mean of DACC for the year 2019 was .03879, and it was reduced to -.00398 in 2020. The mean of Interaction Between Compensation and Year for the year 2019 was 31.10, and it was reduced to 6.16 in 2020. The mean of Interaction Between Operating Expenses and Year for the year 2019 was 1.77, and it was reduced to .52 in 2020. Then a t-test was conducted to investigate whether the reduction of means in 2020 was significant. Table 11 depicts the t-test results and shows that the means are significantly reduced from the pre-pandemic period to the pandemic year of 2020, indicating the possible application of BBEM. The p-value for the DACC was 0, for the Interaction Between Compensation and Year was .3, and for the Interaction Between Operating Expenses and Year was 0, for when equal variances were not assumed.

Table 10

Group Statistics

	Year 2020=1 and Mean of 2019+2018=2	N	Mean	Std. Deviation	Std. Error Mean
DACC	1	264	-.00398	.093511	.005755
	2	568	.03879	.053374	.002240
Interaction Between Compensation & Year	1	77	6.16	9.096	1.037
	2	177	31.10	153.058	11.505
Interaction Between Operating Expenses & Year	1	264	.52	.593	.037
	2	568	1.77	1.936	.081

Table 11

T-test for Equality of Means

Independent Samples Test										
		Levene's Test for Equality of Variances		t-test for Equality of Means						
									95% Confidence Interval of the Difference	
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	Lower	Upper
DACC	Equal variances assumed	15.940	.000	-8.360	830	.000	-.042769	.005116	-.052811	-.032728
	Equal variances not assumed			-6.926	345.008	.000	-.042769	.006176	-.054916	-.030623
Interaction Between Compensation & Year	Equal variances assumed	2.920	.089	-1.427	252	.155	-24.938	17.475	-59.355	9.478
	Equal variances not assumed			-2.159	178.842	.032	-24.938	11.551	-47.732	-2.144
Interaction Between Operating Expenses & Year	Equal variances assumed	148.526	.000	-10.286	830	.000	-1.252	.122	-1.491	-1.013
	Equal variances not assumed			-14.063	752.950	.000	-1.252	.089	-1.427	-1.077

Hypothesis Testing

Appropriateness of the data based upon the pretests performed: A pretest indicates the probability of a situation in the study. This research aimed to investigate the occurrence and magnitude of BBEM in the leisure and travel industries within the pandemic of 2020. The preliminary results of analyzing the pretest and descriptive statistics of the variables of this study indicated the possible existence of BBEM during 2020. BBEM occurs if discretionary accruals are reduced in a year, causing the earnings to decline for opportunistic reasons. The study model indicated that DACC was dependent on the interaction between compensation and year and the interaction between political costs and year. Based on the descriptive statistics, there was a reduction in the means of interaction between compensation and year, the interaction between political costs and year, and the DACC in 2020 from 2019. This may have suggested that the discretionary accruals were reduced in 2020 to reduce the earnings to take advantage of the pandemic crisis. Also, the data for each variable was large enough to represent the population in 2020. Therefore, the pretest analysis confirmed the probability of BBEM in 2020.

The next step was to check the regression assumptions before conducting regression analysis. Multicollinearity was checked, showing the VIF of below ten, and the Tolerance of above 0.2. The VIF for Interaction Between Compensation and Year was 1.066, Interaction Between Operating Expenses and Year was 2.408, and the pandemic year was 2.374. The Tolerance for Interaction Between Compensation and Year was .938, for Interaction Between Operating Expenses and Year was .415, and for the pandemic was .421. Table 12 shows the multicollinearity between the variables.

Table 12

Collinearity Statistics

Model		t	Sig.	Collinearity Statistics	
				Tolerance	VIF
1	Interaction Between Compensation &Year	.532	.595	.938	1.066
	Interaction Between Operating Expenses &Year	1.991	.048	.415	2.408
	Coded Year 2020=1,2019=2,2018=3,2017=4,2016=5,2015=6	5.250	.000	.421	2.374

a. Dependent Variable: Absolute DACC

b. Linear Regression through the Origin

c. Selecting only cases for which Data Year - Fiscal >= 2018

To ensure the independence of the residuals, the Durbin-Watson test, which should be close to two, was checked. This value for selected years of the study was 1.905. Therefore, the residuals were independent. Table 13 shows the Durbin-Watson results.

Table 13

Durbin-Watson Results

Model Summary

Model	R Data Year - Fiscal >= 2018 (Selected)	R Square[b]	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.562[a]	.316	.308	.0419661	1.905

a. Predictors: Coded Year, 2020=1, 2019=2,2018=3,2017=4,2016=5,2015=6, Interaction Between Compensation &Year, Interaction Between Operating Expenses & Year

b. For regression through the origin (the no-intercept model), R Square measures the proportion of the variability in the dependent variable about the origin explained by the regression. This cannot be compared to R Square for models which include an intercept.

c. Unless noted otherwise, statistics are based only on cases for which Data Year - Fiscal >= 2018.

d. Dependent Variable: ABSDACC

e. Linear Regression through the origin

Next, the Cook's test was checked to ensure no influential cases biasing the model. Therefore, Cooke's test is set to be below or equal to 1 in SPSS, and any outliers with Cook's values below zero or above one was removed from the analysis. Table 14 shows Cook's test results. The maximum value of the Cook's test was .141, and the minimum value was 0, indicating that no outliers were included in this study.

Table 14

Cook's Test

Residuals Statistics					
	Data Year - Fiscal >= 2018 (Selected)				
	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	.009745	.064675	.025730	.0119470	254
Std. Predicted Value	-1.338	3.260	.000	1.000	254
Standard Error of Predicted Value	.001	.041	.003	.003	254
Adjusted Predicted Value	.009709	.091499	.025882	.0125126	254
Residual	-.0543265	.4540949	.0055974	.0414219	254
Std. Residual	-1.295	10.821	.133	.987	254
Stud. Residual	-1.364	10.826	.132	.989	254
Deleted Residual	-.0602929	.4545633	.0054448	.0416709	254
Stud. Deleted Residual	-1.366	14.799	.150	1.182	254
Mahal. Distance	.204	245.506	3.000	15.516	254
Cook's Distance	.000	.141	.002	.011	254
Centered Leverage Value	.001	.967	.012	.061	254

a. Dependent Variable: ABSDACC
b. Linear Regression through the origin

Test and Post-hoc Tests: After modified Jones's model predicted and separated DACC from non DACC, hypothesis testing was performed by conducting a multiple regression analysis of 254 leisure and travel industries data from 2018 to 2020 through SPSS 27. For this analysis, discretionary accrual was the dependent variable, and the year of pandemic, the interaction

between compensation and year, and interaction between operating expense and year were the independent variable. The following model was used for the regression analysis:

$$|DACC_t| = \theta_1 Pan_t + \theta_2 PR_t + \theta_3 EC_t \quad (3)$$

Pan = Year of pandemic

PR = Political risk, with the proxy of interaction between operating expense and the year

EC = Executive compensation, with the proxy of interaction between EC and the year

The results of the regression analysis were as follows:

The analysis of ANOVA indicated that the general model was significant at a p-value of 0. Table 15 shows the result of the ANOVA test.

Table 15

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.204	3	.068	38.660	.000[d]
	Residual	.442	251	.002		
	Total	.646[e]	254			

a. Dependent Variable: ABSDACC
b. Linear Regression through the origin
c. Selecting only cases for which Data Year - Fiscal >= 2018
d. Predictors: Coded Year, 2020=1, 2019=2,2018=3,2017=4,2016=5,2015=6, Interaction Between Compensation & Year, Interaction Between Operating Expenses & Year
e. This total sum of squares is not corrected for the constant because the constant is zero for regression through the origin.

Through regression analysis, the p-value of the coefficient of the pandemic was significant and equal to 0, and the p-value of the coefficient of political risk was significant and equal to .048. However, the p-value of the coefficient of the executive compensation was not significant and equal to .595. This means that both the year of pandemic and the political risk had significant relationships with the DACC. However, executive compensation did not significantly affect the use of DACC during 2020. Table 16 provides the coefficient values.

Table 16

Coefficient Values

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	Interaction Between Compensation & Year	1.111E-5	.000	.029	.532	.595
	Interaction Between Operating Expenses & Year	.003	.002	.161	1.991	.048
	Coded Year, 2020=1, 2019=2,2018=3,2017=4,2016=5,2015=6	.010	.002	.422	5.250	.000

a. Dependent Variable: ABSDACC
b. Linear Regression through the Origin
c. Selecting only cases for which Data Year - Fiscal >= 2018

The pandemic year was coded as 2020=1, 2019=2, and 2018=3. Table 17 shows the coding system which was used in hypothesis testing. The year of the pandemic of 2020 was compared to the pre-pandemic period of 2018 and 2019.

Table 17

Variables

Variables Entered/Removed

Model	Variables Entered	Variables Removed	Method
1	Coded Year, 2020=1, 2019=2,2018=3,2017=4,2016=5,2015=6, Interaction Between Compensation & Year, Interaction Between Operating Expenses & Year[d]	.	Enter

a. Dependent Variable: ABSDACC
b. Linear Regression through the Origin
c. Models are based only on cases for which Data Year - Fiscal >= 2018
d. All requested variables entered.

Referring to the coefficient in Table 13, the sign for the coefficient of interaction between operating expense and year was positive, meaning a positive relationship between the BBEM and this variable. Therefore, considering a positive coefficient, as the number of years changed from 3 (2018) to 1 (2020), the DACC decreases. So, the DACC was lower in 2020 than in pre-pandemic periods. This means that the political risk variable positively affected the use of BBEM in 2020.

The same analogy is valid for the effect of the year of the pandemic on DACC. The sign of the coefficient of the pandemic year was positive, meaning that it had a positive relationship with the BBEM. Since the pandemic year was coded as 2020=1, 2019=2, and 2018=3, as the number of years changed from 3 to 1, the DACC decreases. So, the DACC was lower in 2020 compared to 2019 and the one in 2018. This means that the year of the pandemic had a positive effect on the use of BBEM techniques in 2020.

Alternative Tests: Alternative tests were performed to ensure that the results were valid within the size of the firms and the industry level following Jone's (2011) Model. For size analysis, the aim was to investigate whether small and large firms used DACC in 2020 significantly at distinct levels. First, the mean of the firms' total assets in these industries was calculated to be $6,590. The firms were then categorized into large and small firms at the cutoff point of the mean of total assets of $6,590. Therefore, firms with a total asset value of more than $6,590 were categorized as large and coded as one, and firms with a total asset value of less than $6,590 were categorized as small and coded as two in SPSS. Then the mean of discretionary accruals for small and large firms were calculated, and the level of significance of the difference was tested using a t-test. The results showed that the p-value of this t-test was not significant, meaning that both small and large firms used BBEM at the same level. This is true since the

government assistance programs were developed for both small and large firms. Therefore, both size firms used DACC to reduce earnings to take advantage of the assistance programs. Table 18 shows the grouping of the firms, and Table 19 indicates the p-value of .981.

Table 18

Group Statistics

	Codes for Small and Large Firms	N	Mean	Std. Deviation	Std. Error Mean
ABSDACC	1.0	196	.048400	.0826086	.0059006
	2.0	68	.048144	.0729408	.0088454

Table 19

T-test Results

Independent Samples Test										
		Levene's Test for Equality of Variances		t-test for Equality of Means						
									95% Confidence Interval of the Difference	
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	Lower	Upper
ABSDACC	Equal variances assumed	.045	.831	.023	262	.982	.00025	.01129	-.02198	.0224943
	Equal variances not assumed			.024	130.986	.981	.00025	.01063	-.02077	.0212900

Another alternative test was performed, which was related to the industry. This test aimed to investigate whether there was a significant difference between the industries of airlines, hotels, and entertainment in using DACC in 2020. The three industries were coded as entertainment=1, hotels= 2, and airline= 3. Table 20 shows the descriptive statistics of the three segments of the industries. Since we had more than two categories to compare, one-way ANOVA was used for comparison purposes. The analysis of ANOVA indicated no significant difference between these levels of industry's usage of DACC in 2020 with a p-value of .219.

This is true because the government assistance programs were offered to all leisure and travel industries segments. Therefore, the alternative testing confirmed the regression analysis results and shed some light on how firms' size and specific industries used BBEM techniques. Table 21 shows the results of the ANOVA.

Table 20

The Three Industries Descriptive Statistics

ABSDACC

					95% Confidence Interval for Mean			
	N	Mean	Std. Deviation	Std. Error	Lower Bound	Upper Bound	Minimum	Maximum
1	32	.064145	.1049941	.0185605	.026291	.102000	.0008	.4653
2	70	.035961	.0515718	.0061640	.023664	.048258	.0013	.3023
3	162	.050557	.0842362	.0066182	.037487	.063627	.0001	.6629
Total	264	.048334	.0800946	.0049295	.038628	.058040	.0001	.6629

Table 21

ANOVA Results

ABSDACC - ANNOVA

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	.020	2	.010	1.527	.219
Within Groups	1.668	261	.006		
Total	1.687	263			

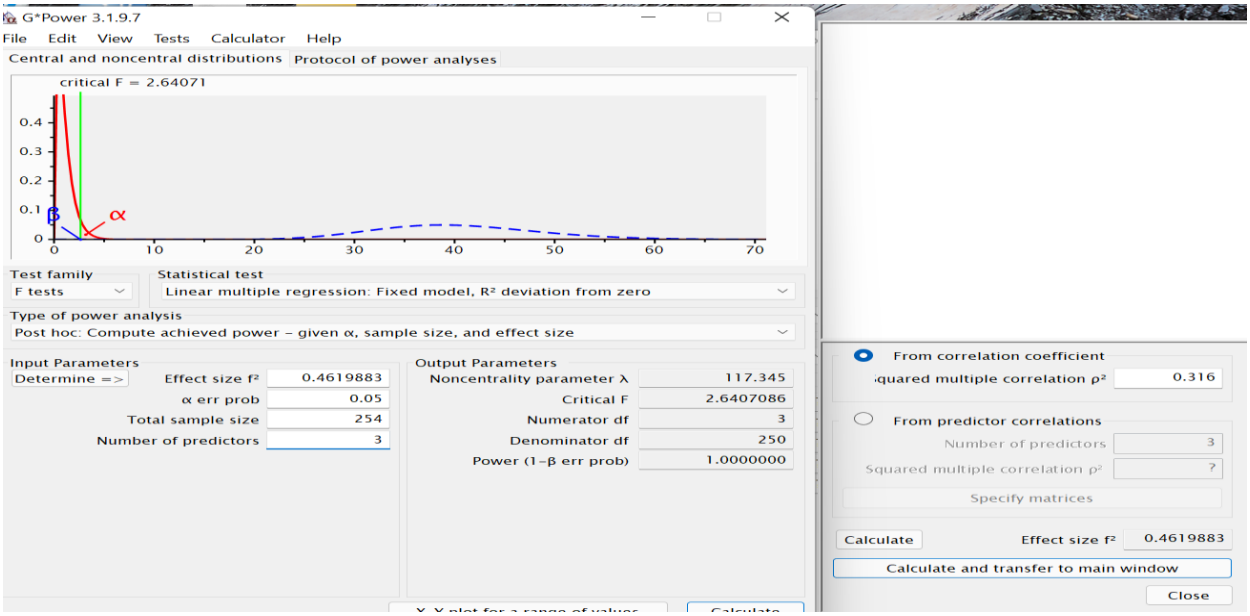
Type I and Type II error: The outcomes of statistical analyses are prone to Type I and Type II errors. Type I error means rejecting a true null hypothesis, and Type II error refers to failing to reject a wrong null hypothesis. The probability of type I error is the level of significance, α, set by the researcher, while the probability of type II error is β.

In this research, the level of significance was 5%. So, there was a 5% chance that the null hypothesis was rejected incorrectly. Type II error was calculated using the G Power tool. This tool uses the R^2 to determine the effect size. It also uses the number of samples and the number of study predictors to calculate the power of a hypothesis test. The power is one minus the probability of a Type II error, β, and indicates that a researcher makes the right decision and correctly rejects the null hypothesis when it is incorrect.

For this study, the power was calculated to be one using the G Power tool. This means that there was a 99.99% chance that the right decision was made to reject a wrong null hypothesis. Figure 1 shows the G Power tool results.

Figure 7

G power – Type 2 Error



Summary of Hypotheses Testing: in this part of the study, descriptive statistics were used to indicate whether this study would respond to the hypothesis testing. The mean of all the independent variables, executive compensation, operating expense as a proxy for political risk and DACC, were calculated for 2019 and 2020, and it was noted that the means of these variables decreased from the year 2019 to 2020, indicating that discretionary accruals might have been manipulated downwards for opportunistic management reasons. In the subsequent step, hypothesis testing, and regression analysis were conducted using SPSS 27. The result of the study indicated that political risk and the year of the pandemic had a significant positive effect on the use of discretionary accruals during the pandemic of 2020. Finally, type 1 and type 2 errors were calculated, and they both showed that the result of the hypothesis testing of the model was reliable since both errors had very slim probabilities.

Relationship of the Findings

Relationship Between the Finding and the Research Questions: The regression analysis results addressed the three research questions in this study. RQ1 asked: how did the pandemic of 2020 affect EM behavior by corporations within the leisure and travel industries? Since based on multiple regression analysis, the coefficient of the year of the pandemic was positive, and its p-value was significant at .0, there was a significant positive relationship between the pandemic and the BBEM, meaning that companies in the leisure and travel industries used DACC during the pandemic of 2020.

RQ2 asks: how did executive compensation affect EM behavior during pandemic 2020 in the leisure and the travel industry? Based on multiple regression analysis, the p-value of the coefficient of this variable was above 5%. Therefore, no significant relationship was found between executive compensation and the use of DACC during the pandemic of 2020.

RQ3 asks: how do political risks affect EM behavior during pandemic 2020 in the leisure and travel industry? Since based on multiple regression analysis, the coefficient of the political risk was positive, and its p-value was significant at .04, there was a significant positive relationship between the political risk and the use of BBEM, meaning that companies in the leisure and travel industries used DACC during the pandemic of 2020 to avoid the risk of losing government assistance programs offered to the industry.

Relationship Between the Finding and the Elements in the Theoretical Framework: The findings of this study related to the theories, actors, and variables in the theoretical framework. Both positive accounting theory and agency theory were used for this study. Positive accounting theory is a well-known theory in accounting. According to Watts and Zimmerman (1986), management is interested in managing earnings to serve its own purposes. When choosing

accounting practices, executive compensation, debt covenants, and political costs are the three influential proxies. According to Sunder (1997), a firm is a chain of various contracts, and accountants are integral to the contacts specified in writing, monitoring, and enforcing them. Therefore, accounting methods used in companies will affect the cost of the contracts and the level of cash flows to the contracting parties. This provides incentives to the accountants and management to influence accounting practices to control three proxies of the executive compensation, debt-equity ratio, and political costs (Watts & Zimmerman, 1986). Executive compensations create an incentive for the management to favor accounting practices to increase current periods' earnings. The debt-equity ratio provides an incentive for the management to select accounting methods to transfer earnings from the upcoming period to the current period. Political costs create an incentive for the management to transfer the current period's earnings to the upcoming period. During the pandemics, the government offered numerous financial support plans to companies, including the Financial Assistance to Companies and Governments ($500 billion). This may have created an incentive for the companies to show higher amounts of losses to be able to benefit from the government assistance program. This theory is also related to this study as it describes the incentives for unethical accountants to manage and manipulate financial information and earnings to manage their own bonuses the year after the pandemic.

Another well-known theory in business is the Agency theory. Agency theory is involved with the financial contract that is established between organization management and the owner of the company. Management is separated from the owners, and owners delegate authority to the management to make the best operational and financial decisions. However, information asymmetry is a characteristic of this theory, and it occurs when the agent possesses more material knowledge than the principle. According to Richardson (2000), the higher the

information asymmetry, the higher the EM. Moral hazard and adverse selection are the two other characteristics of the agency theory that cause the agency costs when the agent acts self-interestedly (Smith & Warner, 1979). Moral hazard relates to the possible lack of agents' efforts in performing the delegated jobs and the fact that it is hard for the principal to determine the level of efforts that the agent has used. Adverse selection refers to the situation in which the agents who have more knowledge than the principal may choose to select actions that would benefit them the most at the principal's expense. This theory explains that unethical accountants and managers take advantage of the information asymmetry phenomena in their agent-principal relationship and act towards their own best self-interest instead of acting towards the best interest of their principles. The managers' adverse selections cause the financial statements to be misrepresented, and when material misstatement occurs and is caught, the company could have severe financial losses related to fines from regulatory agencies.

There are many actors involved and stakeholders who are affected by EM. Accountants and managers such as Chief Financial Officer (CFO) and Chief Executive Officer (CEO) are important EM actors. According to Habib (2004), accountants and managers could manage earnings for their personal benefits as Generally Accepted Accounting Principles (GAAP) gives them the discretion over choosing among various accepted practices. According to Achilles et al. (2013), when earnings are below analysts' forecast, management chooses accounting methods to increase the earnings to reach their targets.

Financial Accounting Standards Board (FASB) is another actor in EM. According to Habib (2004), GAAP rules set by FASB give management a wide range of discretion in choosing various practices in accounting such as inventory methods, expensing versus capitalizing Research and Development (R & N), depreciation policy, and allowance for bad debts expense.

These choices have enabled the accountants to select methods for opportunistic reasons. The impact of EM is immense for stakeholders such as investors, vendors, and lenders as the information presented to them are managed and may not be an accurate representation of the financial and operational activities of the corporation. A study performed by Habib (2004) discovered that EM negatively affected the quality of the information provided to stakeholders. Degeorge et al. (1999) stated that management ranks meeting three levels of targets in order: first, they try to meet the income level target. Then, they manage earnings changes as mostly they are expected to have a steady increase of income in each accounting cycle. Finally, they meet the analyst forecast target. These collective EM actions mislead the stakeholders and affect their decision-making negatively.

Several variables were used for this research. Variables in the modified Jones model to separate discretionary from non-discretionary accruals were utilized. These variables are explained below:

- Accounts Receivable, which are claims against others, after applicable reserves, collectible in money, generally within one year
- Executive compensations
- Cash and short-Term Investments
- Current asset, which represents assets that will be used within one year
- Current Liability that represents liabilities due within one year
- Depreciation which is non-cash charges for obsolescence of and wears and tears on the long-term asset
- Discretionary accrual which are the accruals that management has control over

- Non-discretionary accruals which are the accruals that management does not have control over
- The year of the Pandemic of 2020
- Property, Plant, and Equipment
- Revenue
- Total discretionary and non-discretionary accruals,
- Debt in current liabilities
- The total amount of short-term notes and the current portion of long-term debt (debt due in one year)
- Political costs, which are the operating Expenses - Cost of Goods Sold (COGS)
- Total assets which are the current assets plus net property, plant, and equipment plus other noncurrent assets, including intangible assets, deferred items, investments, and advances

Dependent variables are the ones that be contingent on the behaviors of the independent variables and are discretionary accrual for this study. Managers have control over the choices to adopt accounting standards to estimate accruals like accounts payable, accounts receivable, and inventories. Therefore, earnings can be affected by the chosen standard and be reported as higher or lower depending on the management motives (Beneish et al., 2012; Dechow et al., 2010).

Independent variables behave independently and affect the dependent variable and may be changed to determine their effect in the dependent variables. For this research and hypothesis testing, the independent variables are executive compensations, political costs, and the year of pandemic. The effect of these independent variables is measured on the dependent variable of DACC.

In this research, the relationship between the use of DACC and three variables of political cost, year of pandemic, and management compensation were tested to investigate the possibility and magnitude of the use of the BBEM during the pandemic of 2020. Based on the findings, the political risk and the year of the pandemic had a positive and significant effect on DACC, whereas executive compensation did not.

Relationship Between the Finding and the Literature: Prior studies found a positive relationship between the political costs and the use of BBEM, especially when sensitivity to these costs were high (Byard et al., 2007; Moratis & Van Egmond, 2018; Yang & Tang, 2021; Yip et al., 2011; Yung & Root, 2019). Almashaqbeh et al. (2018) found that companies use BBEM techniques to reduce their profit to avoid political risks. Yu et al. (2017) also found that BBEM increased when companies increased their minimum wages.

According to Kim (2021), South Korean firms are more likely to use accrual-based earnings management during the presidential election period to avoid political risks and use real earnings management during the non-election period. Research conducted by Ebrahimi et al. (2021) confirmed that firms with high-level political risks engage in a higher accrual-based earnings management. The researcher concluded that riskier firms are more inclined to use real earnings management instead of accrual basis earnings management as real earnings management is more challenging to detect. In addition, a nonlinear - U-shaped relationship is discovered between earnings management and political costs. This means that executives engage in earnings management when external monitoring is limited, and the cost of political risk is high. As the political risk exposure increases, management reduces earnings management until political risk riches an optimal level. After the optimal level, management manipulates earnings

regardless of increased external monitoring because of the incentives, such as meeting an earnings benchmark.

This study's findings align with the results found by prior researchers as it indicates that political risks positively affect the use of discretionary accruals during the pandemic of 2020 since the management face the risk of losing the government assistance programs if showing a high amount of earnings. Therefore, they use discretionary accruals to show a lower income to become eligible for the assistance program and avoid this political cost.

This study also found a positive relationship between the year of pandemic and financial and economic crisis it created and the use of BBEM during 2020. Management tends to show higher losses when facing financial crises and difficulties (Ayedh et al., 2019; Gonçalves et al., 2019; Hope & Wang, 2018). This is done through various methods of manipulating earnings, such as using Goodwill impairment techniques (Albersmann et al., 2020; Ayedh et al., 2019; Deng, 2019; De Oliveira Leite et al., 2020; Gros & Koch, 2019; Hao et al., 2019; Hassine & Jilani, 2017; Kjærland et al., 2021; Lazar, 2019; Miranda-Lopez & Valdovinos-Hernandez, 2019). Other methods are also used to reduce earnings when facing financial crises (Jung et al., 2018; Kwon & Lee, 2019; Rathke et al., 2017, 2019).

According to Oskouei and Sureshjani (2021), several factors affect earnings management, including financial crisis and management ability. Based on this study, managers with higher abilities mostly use accrual earnings management when facing a crisis. This means that manager ability and economic and financial crises have a negative effect on the use of real earnings management.

Viana and Lourenço (2022) investigated the relationship between earnings management and economic crisis within developing countries such as Brazil. Based on this study, economic

conditions such as high level of inflation, instability of the stock market, and low-quality regulations are positively related to the higher level of earnings management in Brazilian companies. Therefore, this study's results align with the results of prior studies since the pandemic of 2020 created an economic downturn and financial crisis for firms and positively affected the use of earnings management.

This research did not find a significant relationship between executive compensation and the BBEM during the pandemic of 2020. Prior studies found that when management compensation is contingent on a firm's financial results, executives manipulate income to increase their compensation (Barton, 2001; Dechow et al., 2010; Healy, 1985; Marantika et al., 2021). Sari et al. (2022) studied the relationship between management compensation and earnings management practices. In this research, 183 manufacturing Indonesian firms were studied for 2017 through 2019. Multiple regression analysis revealed that management compensation and bonus plan positively affect the use of earnings management. However, company ownership reduces the probability of using Earnings management.

Martadinata (2022) indicated that management's personal characteristics and bonus plan can influence the managers' decision to act ethically. For example, managers who love money and have variable compensation and bonus plans are more inclined to perform earnings management, and managers with idealistic values have a lower tendency to perform earnings management. However, when management love for money, bonus plan, and idealism values are combined, they manipulate earnings regardless of the level of the idealism. However, the result of this study did not discover any significant correlation among executive compensation and the use of BBEM during the pandemic of 2020.

Relationship Between the Finding and the Problem Being Studied: The specific problem to be addressed is the potential use of BBEM within the pandemic of 2020, resulting in the misrepresentation of the leisure and travel industry's financial statements. The result of this study was directly related to the problem as the statistical analysis determined that the political risks in the year of pandemic positively and significantly affected the use of the BBEM during the pandemic of 2020 since the regression analysis showed that both the year of pandemic and the political cost had significant p values.

Summary of the Findings

This study was about BBEM and the leisure and travel industries during the pandemic of 2020 and aimed to find the possibility and the magnitude of the use of DACC during that period. Compustat and Mergent Online databases were used to extract the data using the NAICS codes. SPAA 27 was used for statistical analysis for 254 data from 2018-2020. This study found a significant positive relationship between the BBEM and the political risk and the year of pandemic. This is aligned with and supported prior studies. Prior studies indicate that EC plans affect the use of EM. However, the result of this study found no significant relationship between the use of BBEM technique and the executive compensation plans during the pandemic of 2020 for the leisure and travel industries.

Application to Professional Practice

This section of the paper explains the application of the research related to professional practice. A detailed discussion of how the results of this study can improve general business practice is made. In addition, the potential application of strategies that firms can use to leverage the study's findings is explained. Finally, the section follows by providing recommendations for future studies.

Improving General Business Practice

This study investigated whether corporations in the travel and leisure industries engaged in big bath earnings management during the pandemic of 2020 to exaggerate their costs. The results show that corporations manipulated their earnings downward to overstate their losses. This result has several applications to improve general business practice from various aspects.

Improving Quality of Financial Statements: Financial statements are expected to present an accurate picture of the firm's financial performance as the users rely on published statements to make sound financial decisions (Kaawaase et al., 2021). However, the result of this study shows that corporate executives opportunistically choose accounting methods to serve their interests. Therefore, the results indicate a great need to improve the quality of financial statements. One improvement could be requiring executives to disclose the reasoning behind their choices of accounting methods and especially explain the nature of changes in accruals that affect earnings. Such disclosure may prevent executives from opportunistically choosing accounting methods and accrual manipulations.

Independence of Board Members and Audit Committee: According to Chen et al. (2015) and Mollik et al. (2020), firms with more independent board members and more efficient corporate governance have a lower tendency to manipulate financial statements. In addition, ensuring the independence of the audit committee and directors will reduce the EM as independent managers will see no benefit in manipulating the financial records (Hasan et al., 2020; Jatiningrum et al., 2020; Susanto & Pradipta, 2020).

Adoption of International Accounting Standards (IAS): According to Zhang et al. (2013), IAS adoption is negatively related to earnings management This is due to market globalization which has created a great demand for accuracy and harmonization of financial reporting across

borders (Barth et al., 2012; He et al., 2012). In addition, adopting the IAS is studied to provide a reliable framework in financial reporting (Almarayeh et al., 2020; Qawqzeh et al., 2020).

Improving Financial Accounting Standards: Accounting standards allow some degree of management judgment to choose the methods and accounting estimations that present an accurate picture of the firm's financial results. However, this study shows that executives misuse this flexibility for opportunistic purposes and choose methods to manipulate earnings. Therefore, accounting standard-setting bodies, such as FASB, need to limit the management choices of accounting methods and estimations. Also, management should be required to disclose their choices of accounting methods and estimations in the financial statement.

Improving the Efficiency of Government Assistantship Programs: The government provided unprecedented financial assistance to corporations during the pandemic to help the firms pay their employees and other operating costs. Most financial assistance was provided based on the firm's operating expenses. However, this study shows that corporations overstated those expenses through accruals. Therefore, the result of this study suggests that government agencies should use better criteria to determine the eligibility of the firms for financial assistance, such as using the number of employees, if a similar crisis happens in the future.

Improving the Audit of Financial Statements: Auditors examine financial statements to assure that the company has applied accounting methods correctly and that the statements are presented accurately and faithfully. However, the results of this research should help audit firms understand the opportunistic behavior of executives and enable auditors to develop more extensive audit plans to investigate the legitimacy of chosen accounting methods and the nature of changes in accruals. If opportunistic accounting methods and accruals are detected and identified, they should be reported.

Effective legal system: effective legal systems would negatively affect earnings management by corporations (Hao et al., 2019; Memis & Cetenak, 2012). So, corporate executives should be held accountable for their actions, especially during health crises.

Potential Application Strategies

Based on the results of this study, both the economic crisis and political costs had significant effects on the use of discretionary accruals to conduct BBEM during the pandemic of 2020. Furthermore, prior studies by Kim and Yasuda (2021) indicated that economic policy uncertainty is negatively associated with earnings management, meaning that executives tend to reduce earnings using BBEM methods when there is little room to improve economic activities and operations. Therefore, these results could be used by the board of directors and audit committee of the firms to work together and ensure enhancing the firms' ethical systems and implementing strategies to reduce the probabilities of EM.

Identifying and Assessing Financial Reporting Risks: Board of directors must be well-versed and involved with all major issues that impact the firm. One of the board's responsibilities is to identify risks and to take actions to fulfill its fiduciary obligations. The results of this study and its information could help a firm's board of directors in two ways: first, identifying sensitive periods that may create incentives for management and executives to manipulate earnings, and second, understanding how managers go about conducting EM. Economic crisis that brings financial difficulties for firms should be considered risky periods for which extensive reporting analysis must be made to ensure the accuracy and reliability of the presented financial statement. The board of directors should demand the audit committees to thoroughly monitor and examine reported financial records' accuracy during these times. Monitoring firms' financial statements through external regulatory agencies that might confirm any illegal financial reporting issues

could irreversibly harm the companies and lead the firms to bankruptcy. Therefore, the board of directors should be proactive to avoid these risks.

Audit Committee's Investigation of Accounts: the audit committee is responsible for overseeing internal auditors, appointing external auditors, and evaluating both auditors' performances. The committees also oversee firms' policies for ethical procedures and confirm the reliability and accuracy of financial statements. Therefore, the result of this research is beneficial to the committees since establishing and monitoring an effective internal control system to prevent and detect financial fraud and material misstatements is one of the audit committee's responsibilities. Since the result of this study shows that financial crisis periods and political costs have created incentives for management to manipulate earnings during such critical periods, where the risk of EM is high, audit committees should have the auditors investigate potential red flags listed below, to ensure prevention and detection of fraud or substantial misstatement:

- Unexplained accounting changes when firms perform poorly
- Earnings boosting activities such as recording profit through sales of assets
- Unusual changes in the accounts receivable in an accounting cycle
- Unusual increases in sales revenue by relaxing credit sales
- The increased discrepancy between cash flow from operations and the profit
- Unusual write-offs of assets
- Unusual last quarter adjustments

Although there may be valid explanations for any one of the above activities, carefully examining these records by internal auditors and demanding transparent disclosure from

executives will reduce the probability of earnings management as the risk of getting caught will be increased by these investigations.

Crisis Management and Moral Strengthening Strategies: This study shows that executives manipulate earnings for opportunistic goals when encountering challenging situations such as economic downturn and uncertainty and facing political risks. This is considering that top management and business leaders are expected to serve the community and set exemplary actions during an economic and health crisis. For example, Bauman (2011) argued that managing a corporation during a pandemic requires "rational decision making guided by an ethical approach." However, the result of this study indicates otherwise and presents evidence against the general belief that executives took ethical actions during the pandemic of 2020. Earnings manipulation activities stem from possessing weak and inferior ethical beliefs. Therefore, an important strategy that corporations could implement to reduce EM is strengthening the firms' ethical corporate culture and governance. This should be executed exceptionally during the economic crisis. Establishing ethical behavior foundations through continuous management training, encouraging ethical and reliable financial and operational atmosphere, and promoting transparent reporting culture are vital strategies that any firm should execute to reduce the possibility of corporate corruption and earning manipulations. According to Filabi and Bulgarella (2018), encouraging a transparent information environment can weaken the EM as a company's culture will influence all aspects of a firm's activities and reporting.

Summary of Application and Professional Practice

In this part of the paper, the application and implementation of the research related to the business were discussed. It was described how this paper's findings could improve general

business practices. Also, possible strategies that firms could take to reduce EM were explained. The following section focuses on the recommendation for further studies.

Recommendations for Further Study

The current study was about the existence of BBEM during the pandemic of 2020. DACC was considered a dependent variable, and three independent variables were executive compensation, political costs (operating expenses were used as a proxy for this variable), and the pandemic year. The findings showed that the motives of political cost and the year of the pandemic positively affected the use of discretionary accruals to manage earnings downwards. However, there was no significant effect from the executive compensation variable on discretionary accruals and BBEM during the pandemic of 2020. The focus of this study was on travel and leisure industries since the pandemic negatively affected these industries the most throughout 2020. The research compared the pandemic year of 2020 to the pre-pandemic years of 2018 and 2019.

Further studies can be implemented by using other variables such as ROI or debt to equity ratio as independent predictors of whether earnings management or BBEM was conducted in 2020. Executive compensation records for the leisure and travel industries are limited compared to the data available of the operating expenses using the Mergent Online database. Since the results of this study did not detect any significant relationship between the compensation plan and the use of BBEM during 2020 for the leisure and travel industries, further studies could be conducted using this predictor and EM during the pandemic of 2020 for other industries with more executive compensation records. A higher number of data may lead to a research result of a significant relationship between the EM and the executive compensation plan.

Reflections

This section discusses the reflections from this research. First, the ways this research project has provided for personal and professional growth are explained. Then the section continues with a discussion of biblical perspective and integration of Christian worldviews.

Personal and Professional Growth

This study was developed from the researcher's many years of experience in accounting and consulting practices for manufacturing and service firms and directly observing and interacting with the CEOs and CFOs facing financial difficulties and dealing with the pressure of increasing the firms' share values consistently. It was noted that many executives tend to manage earnings to achieve specific goals. Corporate management would manage earnings upwards or down words depending on the financial situation. Provision of death covenants, executive compensation structure, avoiding corporate political risks, meeting lenders' requirements for the debt-to-equity ratio, and earning smoothing goals were among the many reasons earnings were managed. As a result of earnings management, financial statements provided to the stakeholders do not accurately represent the firms operating on financial activities and results. Aside from providing inaccurate information to shareholders, the accounting profession observed the executives' avoidance and ignorance towards their fiduciary and ethical responsibilities. Accounting and many other professions, such as medicine and law, have specific ethical rules that all professionals, including leaders of corporations and executives, should follow and abide by. However, it has been observed that management is inclined to prioritize achieving specific opportunistic goals than following the profession's ethical codes of conduct.

During a crisis such as the pandemic of 2020, leaders are expected to help reduce and lift the pressure off society's shoulders. However, the finding of this study detected BBEM within

the leisure and travel industries during such a critical period. Therefore, the finding of this research is compelling and recommends the stakeholders to conduct their investigation before completely trusting presented financial statements and considering situations such as economic crisis as one of the critical firm's motives that financial statements may not be representative of a company's operations.

Although there are many prior works of literature related to earnings management studies, personally investigating this issue using numerical data of the firms in the travel and leisure industries and conducting a detailed scientific, statistical analysis to detect BBEM has been very fulfilling. Acquiring the skills of integrating theoretical knowledge with developing new hypotheses, gathering numerical information from various data sources, combining them, and statistically analyzing the data has been greatly helpful in learning to conduct scientific research in the future professionally. This has also been tremendously beneficial in staying ahead of the new research trends and recent happenings in businesses and corporations. In addition, adding to the literature and presenting the finding of this research that has been consistent with prior studies has been very rewarding both academically and personally.

Biblical Perspective

In accounting, ethical issues are among the essential aspects of the profession. Stakeholders should be able to trust financial information provided to them by the management to make better informed financial decisions. However, manipulating financial statements misled all people, including employees, lower-level managers, investors, creditors, and regulatory agencies. Internal users such as employees and lower-level management are negatively affected as planning for improvement and implementing advancement strategies of a firm's operations should be based on the company's actual performance. Nevertheless, if the actual performance is

distorted and misleading and inaccurate information is provided, necessary enhancements or corrections in the system will not be employed, resulting in a firm's long-term operational and financial failures. The ethical code of conduct of the accounting profession forbids unethical actions, which is consistent with what the Lord wants for all His people.

God condemns dishonesty and guides humans to act within the guideline of integrity regardless of what job is being done, as honesty is the foundation of everything to do, including work. "Better is a poor person who walks in his integrity than one who is crooked in speech and is a fool. Proverbs" (Proverbs 28:6). "You shall not have in your bag two kinds of weights, a large and a small. You shall not have in your house two kinds of measures, a large and a small" (Deuteronomy 25:13-16). "A full and fair weight you shall have, a full and fair measure you shall have, that your days may belong in the land that the LORD your God is giving you" (Deuteronomy 25:13).

God discourages manipulation, lying, deceiving behaviors, and harming others for personal gains. "Woe to him who builds his palace by unrighteousness, his upper rooms by injustice, making his people work for nothing, not paying them for their labor" (Jeremiah 22:13). The Lord will not accept worship that is not accompanied by ethical behaviors and states that right beliefs are expressed through right actions. To be a better person, one must understand how to help others and represent the true image of God which is the goal of a faithful life. "The integrity of the upright will guide them, But the crookedness of the treacherous will destroy them" (Proverbs 11:3).

Many Biblical concepts and frameworks have always been principles of living ethical lives. As God is the ultimate good, all humans are required to mirror ultimate goodness. Values such as love of yourself, and others and honesty are some of the frameworks from the Bible. In

today's modern economy, business professionals may mainly focus on the material aspects of the jobs. However, ethical beliefs and professionalism go hand-in-hand as one moral and ethical beliefs will affect the outcome of their jobs.

Businesses should have an end goal of serving people. Only through this viewpoint can one display the love of God and neighbors, leading to honesty and ethical behaviors and mirroring God, Who is the ultimate honesty and beauty. According to Keller and Alsdorf (2012), work on earth continues the Lord's work in further developing and creating the world. This means that doing business should not only satisfy human needs materialistically but also cultivate and serve the community. It should certainly not be taking advantage of others and misleading people either. "In you, they have taken bribes to shed blood; you have taken interest and profits, and you have injured your neighbors for gain by oppression, and you have forgotten Me," declares the Lord God" (Ezekiel 22:12). "Wealth obtained by fraud dwindles, But the one who gathers by labor increases it" (Proverbs 13:11). Therefore, the Lord encourages integrity in every aspect of human life including work.

Summary of Reflections

In this part of the research, the reflection is discussed. A detailed explanation of how this study contributed to personal and professional growth is made. The section concludes by discussing the biblical perspective, which indicates that ethical values are not only the accounting profession's requirement code of conduct but also God's fundamental values.

Summary of Section 3

Section 3 presented the result of the study and explained the application to professional practice. This research indicated that the BBEM was detected during the pandemic of 2020 by the leisure and travel industries firms. Furthermore, the year of the pandemic and the political

cost had a positive relationship with BBEM during that period, while there was no significant relationship between the executive compensation plan and the BBEM. It is also explained that this study will improve general business practice by improving executives' morals during crises, improving the quality of financial statements, improving financial accounting standards, improving the efficiency of government assistantship programs, and improving the audit of financial statements. Furthermore, firms could use many strategies to reduce the probability of EM by promoting a transparent and reliable operational and informational disclosure environment, adopting the IAS, and ensuring high-quality audits. The section followed by providing an explanation of the effect of this research on professional and personal growth and biblical perspective, and God mandating humans to act ethically to reflect a true image of the Lord on earth.

Summary and Study Conclusions

This research was about detecting the BBEM during the pandemic of 2020 for the leisure and travel industries. Financial data of 254 firms were extracted from the Compustat and Mergant Online databases, and the data were combined for analysis using SPSS 27. First, Modified Jones Model was utilized to separate discretionary and non-discretionary accruals for the year of the pandemic and 2019 and 2018. After discretionary accruals were used as a dependent variable, the three independent variables of pandemic year, political risk (costs), and executive compensation plan were used as independent variables. Then, multiple regression analysis and T-tests were conducted to test for the significant difference between the discretionary accruals from the pandemic to the prior years of 2019 and 2018. This study shows that the year of the pandemic and the political cost had a significant positive relationship with the use of BBEM during the pandemic, which is consistent with prior studies. However, there was

no significant relationship detected between the executive compensation plan and discretionary accrual for the leisure and travel industries during the pandemic of 2020. Finally, alternative t-test and ANOVA tests were conducted for firm size and sub-industries type of airline, accommodations, and entertainment. The results showed no significant difference in the use of BBEM for the size and the type of sub-industries, which means that all firms in the leisure and travel industries used DACC to downward earnings in 2020 regardless of the firm's size and the subindustries.

A limited number of executive compensation plan data were found through the Mergent Online database for the leisure and travel industries for 2020. Therefore, further studies can be conducted using the same variables for different industries where they might be more available data for the executive compensation plan. Consistent with prior studies, a higher number of data may lead to a significant relationship between discretionary accruals and executive compensation plans. In addition, further study could be conducted using other independent variables and their relationship to discretionary accrual for the pandemic of 2020.

The study results can be used to improve general business practices to advise accounting standards bodies to limit the management discretions in choosing opportunistic accounting standards. In addition, mandating a detailed report and disclosure of why accounting standards were changed from one accounting period to another and the related effects on the earnings may also limit the EM in corporations.

Several specific strategies are suggested to mitigate the probability of EM in companies, such as continuous ethical training for management. In addition, promoting a transparent and reliable financial and operational disclosure environment, ensuring the independence of the audit committee, and comprehensive audit using reputable audit firms are recommended.

The study concludes by presenting the biblical perspective and God's wishes for all humans to serve humanity, community, and act ethically to portray a true image of God. This perspective is what the accounting code of conduct is related to since financial reporting is expected to reflect the true picture of a company's financial situation to be helpful to the users to make sound financial decisions. Therefore, earnings management that distorts financial reporting is considered unethical and against the code of conduct of accounting and also a forbidden act by the Lord.

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Appendix A: Definitions of Terms, Variables, and Abbreviations

Term/Variables	Definitions
Accountant	A skilled person who knows how to record and report financial transactions.
Accounting	The process of recording, analyzing, and summarizing, and analyzing the financial transactions of a company as well as producing reports and financial information at any point in time.
Accounts payable	The amounts that a company owes within one accounting cycle.
Accounts Receivable	The amounts that are owed to the company because of sales transactions.
Accrual	Expenses or revenues are incurred but not recorded yet.
Accrual basis accounting	The process in which financial transactions should be recorded as they occur rather than paid for.
Accrued expense	Expenses accrued but not paid for yet.
Asset	The objects of value that a company owns and can use over time.
Auditors	Certified public accountant professionals who review financial records of a corporation and sign off on the financial statements to indicate that there is no material misstatement in the records and that financial statements are provided according to generally accepted accounting principles.
Big bath EM (BBEM)	A technique used by management to manipulate the income downwards.
Executive compensation	Bonus payment arrangements of management tied to income
Cash	Money or convertible to money
Cash flow	Inflow and outflow of cash due to expenses and revenues generated by a company in a certain time.
Certified Public Accountant (CPA)	An accounting expert who passed a CPA test by the American Institute of certified public accountants and has the authority and ability to audit corporations and public companies and sign off on the financial statements.
Cost of goods sold (GOGS)	Cost of the items sold
CFO	Certified Financial Officer
CEO	Certified Executive Officer
Current asset	Assets with useful life are less than a year.
Current Liability	Liabilities payable within a year
Depreciation	Allocation of the cost of the asset over its useful life.
Discretionary accruals (DACC)	A part of accrual that management has complete discretion over to estimate as managers are free to choose accounting standards related to that accrual such as inventories, accounts payable, accounts receivable, and depreciation. These chosen standards can directly affect the amount of reported income and are guided by the U.S. Generally Accepted Accounting Principles (GAAP) and International Financial Reporting Standards (IFRS). Management

	can manipulate the reported income, either upward or downward, depending on the accounting standards used.
Earnings management (EM)	Earnings management -The choice of accounting policies or actions that can affect earnings to achieve a specific objective, such as showing better profits, better performance, or better liquidity positions. Earnings are managed sometimes when management's compensations are tied to the reported earnings.
Expense	The amount a company has spent to operate the business.
FASB	Financial Accounting Standard Board
FIFO	First in first out method of inventory flow.
Fixed asset (Property, Plant, and Equipment)	The assets that the company owns and can use for a long period (more than one year).
GAAP	Generally accepted accounting principles which specifies the principles, and standards of the accounting profession.
Liability	The debt of the company.
LIFO	Last in first out method of inventory flow.
Liquidity	How quickly a business can convert its assets to cash.
Loss	Excess of expenses over revenues within a period.
Materiality	The importance of a transaction or information. Omission or error in material transactions or information could affect the decision-making by the stakeholders.
Net income	Profit earned after expenses is subtracted from the company's revenues for a certain period.
Non-discretionary accruals	The expenses that the company has incurred, and it is obligated to pay but has not paid yet, such as utility bills and wages to be paid.
Pandemic	Pandemic of 2020
Political costs	Cost of losing government incentives
Positivism	A branch of a research paradigm that states that logical fact exists through the laws of cause and effect regardless of individuals' personal belief and thoughts and that reality could be approximated impartially using the most advanced objective method.
Profit	Financial gain received after expenses are subtracted from the revenues within a certain period.
Property, Plant and Equipment (PPE)	Long term assets with more than the one-year useful life
Research paradigm	Worldview about conducting research constructivism.
R&D	Research and development
Revenue	Amount of money generated by a business over a period by selling goods and services
Total Accruals	The addition of discretionary and non-discretionary accruals.

Appendix B: NACIS Codes

NACIS codes	Description
48	Transportation
71	Arts, Entertainment, and Recreation
72	Accommodation and Food Services