EARNINGS MANAGEMENT AND ACCRUAL QUALITY: A SYSTEMATIC LITERATURE REVIEW USING THE ADO MODEL

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Abstract: ***This study reviews the evolving research on Earnings Management (EM) and Accrual Quality (AQ) using the ADO framework. Based on 762 Scopus articles (2015-2026) and a mixed bibliometric-qualitative approach, it identifies a shift toward emerging markets and from accrual-based to real earnings management. Key drivers include capital market pressures and corporate governance, with outcomes such as increased information asymmetry, higher capital costs, and greater stock price crash risk. The study offers a unified conceptual knowledge map.***

• Keywords: *earnings management, accrual quality, systematic literature review, ADO model, bibliographic analysis.*

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1. Introduction

Earnings Management (EM) and Accrual Quality (AQ) are central constructs in financial reporting research, as they determine the transparency and reliability of information in capital markets. EM refers to the deliberate intervention of managers in financial reporting to obtain private benefits (Schipper, 1989), typically through subjective judgment in accounting choices or transaction structuring to mislead stakeholders about firm performance (Healy & Wahlen, 1999). To capture this behavior, studies commonly use AQ, since accruals are a key tool for earnings manipulation (Dechow et al., 2010). Accruals consist of non-discretionary and discretionary components; a higher level of discretionary accruals (i.e., lower AQ) signals potential manipulation and divergence between accounting earnings and actual cash flows. The implications of EM and AQ are closely linked to information asymmetry in Agency Theory. Low AQ reduces the "truthful and fair" representation of financial reports, enabling managers to conceal risks or underperformance (Dechow et al., 2010). This leads to mispricing, higher adverse selection risk, and increased cost of capital. More recently, firms have adopted more sophisticated strategies by combining accrual-based earnings management (AEM) and real earnings management (REM) to meet short-term objectives. Despite extensive research, the literature remains fragmented and lacks a unified "knowledge map," especially as focus shifts toward emerging markets (Matenda et al., (2025). Moreover, traditional models struggle to explain the influence of newer factors such as ESG and digital transformation on AQ. To address these gaps, this study employs a Systematic Literature Review (SLR) combined with bibliometric analysis to map the evolution of EM and AQ from 2015 to 2025. It adopts the Axiom-Decision-Outcome (ADO) framework, a robust approach for synthesizing complex financial research (Aggarwal et al., 2024), to clarify EM mechanisms, strategic decisions, and their economic consequences. Therefore, this study aims to answer the following five research questions (RQs):

RQ1: How has the literature on EM and AQ evolved in terms of publication trends, geographic shifts, and subject groups from 2015 to 2026?

RQ2: What are the key antecedent factors that promote or restrict EM and influence AQ?

RQ3: What key strategic decisions do business managers make regarding EM, particularly concerning the trade-offs between AEM and REM?

RQ4: What are the main outcomes of EM and AQ for business performance, particularly regarding the cost of capital and enterprise value?

RQ5: What are the identified gaps and future research directions?

2. Research methodology

This study uses the PRISMA (Preferred Reporting Items for Systematic Reviews and Meta-Analyses) framework to ensure that the screening and selection process of relevant literature is thorough, objective, and reliable.

2.1. Identification

In the initial identification phase, a comprehensive database search was conducted in the Scopus database on March 20, 2026.

The search sequence applied to the Title, Abstract, and Keywords (TITLE-ABS-KEY) included:

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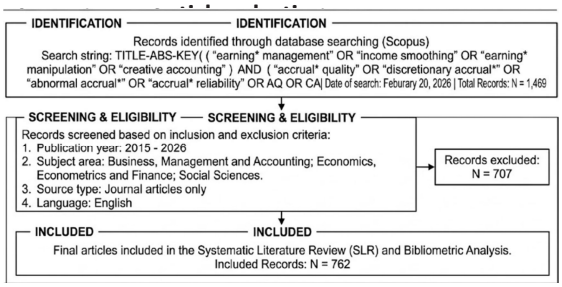
((“earning* management” OR “income smoothing” OR “earning* manipulation” OR “creative accounting”) AND (“accrual* quality” OR “discretionary accrual*” OR “abnormal accrual*” OR “accrual* reliability” OR AQ OR CAQ)). This comprehensive query initially yielded a total of 1,469 documents.

Figure 1: Illustrates the sequential stages of the



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2.2. Screening and Selection Criteria

To ensure the relevance and quality of the documents considered, strict inclusion and exclusion criteria were established. Preliminary results were filtered by publication year, retaining only articles published between 2015 and early of 2026. Furthermore, the sample was refined to include only documents from three main fields: Business, Management and Accounting; Economics, Econometrics and Finance; and Social Sciences. Finally, selection was limited to peer-reviewed journal articles in English, effectively excluding other source types such as books, conference proceedings, or non-English texts. This rigorous screening phase resulted in the exclusion of 707 records.

2.3. Included

After applying the defined constraints, the final dataset yielded 762 high-quality journal articles. This final sample formed the basis for the subsequent systematic bibliographic mapping and ADO framework analysis.

3. Analysis and synthesis

Following a rigorous screening process based on the PRISMA protocol, 762 selected research papers were systematically analyzed and synthesized. To provide a comprehensive understanding of the literature related to Earnings Management (EM) and Accumulated Quality (AQ), this section is structured into two main analytical streams. The first stream uses bibliographic analysis to outline the intellectual structure and build a comprehensive knowledge map of the thematic development of this field. The second stream conducts in-depth content analysis using the Axiom, Decision, and Outcome (ADO) theoretical framework to systematically classify and clarify the opportunistic decision-making behavior of business managers.

3.1. Theories used in literature

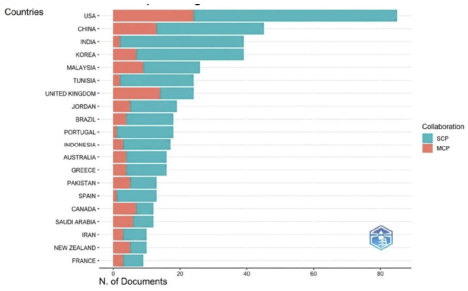
The theoretical frameworks for earnings management and accrual quality are primarily based on Agency Theory, Positive Accounting Theory (PAT), and Signaling Theory, which together explain the opportunistic and information-driven motivations behind managerial accounting choices. Furthermore, contemporary literature incorporates additional perspectives such as Management Theory, Prospect Theory, and Transaction Cost Theory to provide a multifaceted understanding of both rational and behavioral factors influencing financial reporting decisions.

3.2. Corresponding author’s countries

Figure 2 shows that the United States leads in publications (85), followed by China (45), India (39), and South Korea (39). Other notable contributors include Malaysia (26), Tunisia (24), and the United Kingdom (24), while several countries such as Jordan, Brazil, Portugal, Indonesia, and Australia have fewer than 20 publications.

Regarding collaboration patterns, the United States and China dominate mainly through domestic research (61 and 32 SCPs, respectively), whereas the United Kingdom and Canada exhibit high international collaboration rates (58.3% MCPs). In contrast, countries like India, Portugal, and Tunisia show very low levels of international co-authorship. Overall, global research output is geographically diverse, but international collaboration remains uneven.

Figure 2. Corresponding author’s countries



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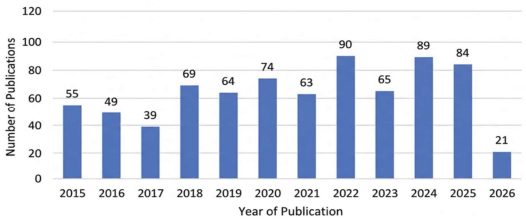
3.3. Year of publication

Figure 3. Number of Publications per year between 2015 and 2026 (20/2/2026)



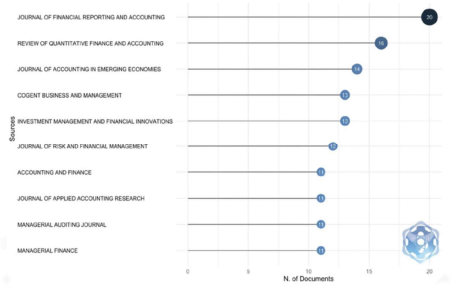
Source(s): Authors’ compilation

Figure 3 illustrates the annual scientific output of leading countries from 2015 to early of 2026. The United States consistently dominates, surging from 27 publications in 2015 to 258 in 2026. China also shows a similar upward trend, reaching 127 publications in 2026. This exponential growth demonstrates the increasingly strong concentration of the global academic community in this field.

3.4. Top journals

Figure 4 illustrates a bibliographic review of the sources highlights the distinct concentration of research on earnings management and accrual accounting quality in leading accounting and finance publications. The Journal of Financial Reporting and Accounting leads with 20 entries, followed by the Journal of Quantitative Financial and Accounting Evaluation (16) and the Journal of Accounting in Emerging Economies (14). This uneven distribution, in which the top five journals together represent the majority of output, confirms the maturity of the field and its reliance on rigorous, specializedforums thereby reinforcing the validity of a systematic evaluation based on the ADO model.

Figure 4. Most relevent sources



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3.5. Antecedent, decision and outcome (ADO) model

This section synthesizes existing literature using the Axiom, Decision, and Outcome (ADO) theoretical framework. By analyzing empirical studies into these three constituent parts, this review outlines the motivational factors driving managers to manipulate earnings, the strategic accounting choices they make, and the ultimate economic consequences for the company and stakeholders.

3.5.1. Antecedents

Earnings management (EM) is driven by financial, governance, and macroeconomic factors. Financially, managers manipulate earnings to meet forecasts, avoid losses, and improve outcomes in transactions such as IPOs and SEOs (Cohen & Zarowin, 2010). Financial distress and debt covenant pressures also incentivize EM to prevent default. From a governance perspective, strong board independence, institutional ownership, and audit committee expertise help constrain EM, while family ownership, CEO duality, and equity-based compensation tend to intensify it. At the macro level, economic shocks, business cycles, and political instability further shape the extent and direction of EM, particularly in emerging markets.

3.5.2. Decisions

This section details the specific tools and mechanisms that business managers choose to manipulate financial reporting, based on the factors mentioned above. Accrual-Based Earnings Management (AEM): Managers often exploit the flexibility and accounting discretion inherent in Generally Accepted Accounting Principles (GAAP) and IFRS to manipulate discretionary accruals. These accounting decisions revolve around strategies to increase earnings such as accelerating revenue and deferring expenses to project strong financial performance, or strategies to decrease earnings, particularly "big bath" accounting, to record large losses in a period during restructuring or periods of crisis uncertainty.

Realized Earnings Management (REM): Unlike AEM, REM involves intentionally altering actual operating activities to achieve financial objectives. Common REM tactics include offering excessive price discounts or lenient credit terms to artificially boost short-term sales, overproducing inventory to offset fixed costs and reduce the cost of goods sold, and drastically cutting critical discretionary spending such as research and development (R&D) and advertising.

Strategic trade-offs between AEM and REM: Managers do not use these tools in isolation; instead, they flexibly alternate between AEM and REM based on relative costs and constraints. Under close regulatory oversight or when supervised by high-quality external auditors (Big 4 firms), managers tend to shift from AEM to REM, as REM is more difficult for auditors and regulators to detect. However, while REM helps managers avoid immediate scrutiny, it has serious adverse effects on a company's operational efficiency, competitive advantage, and long-term cash flow.

3.5.3. Outcomes

Earnings management (EM) negatively affects financial reporting quality, capital markets, and stakeholders. It reduces transparency and reliability of financial reports (Healy & Wahlen, 1999), increases information asymmetry, and intensifies agency conflicts (Cerqueira & Pereira, 2015). By obscuring true performance, EM weakens reporting quality and distorts stakeholders' decision-making (Waweru & Prot, 2018). This lack of transparency also leads to market misvaluation. Investors often misinterpret discretionary accruals, causing overvaluation of firms with high accruals, which later reverse and result in

negative future returns, known as accrual anomalies (Sloan, 1996). Although EM may bring short-term benefits, it harms long-term performance. Real earnings management (REM), such as cutting R&D or overproduction, reduces future cash flows and competitiveness. Additionally, information hoarding increases the risk of stock price crashes and financial distress when negative news is eventually disclosed.

4. Discussion

This study delves into five research questions to explain recent trends in EM and AQ. To answer the first research question, the study examines directory mapping. Next, insights from ADO analysis shed light on the antecedents, decisions, and outcomes of earnings manipulation.

4.1. Thematic and Geographical Evolution of EM and AQ

Regarding research question RQ1, bibliographic analysis reveals a geographical shift in EM and AQ research from developed countries to emerging markets such as China, India, Vietnam, Jordan, and Malaysia. Thematically, the focus has shifted from traditional accounting models to the integration of environmental, social, and governance (ESG) factors and corporate governance.

4.2. Factors Leading to Earnings Management

Regarding research question 2, managers manipulate earnings to meet targets, avoid losses (Tran & Duong, 2020) and maximize valuations in stock offerings (Cohen & Zarowin, 2010). While concentrated family ownership in emerging economies exacerbates this opportunistic behavior (Khan & Kamal, 2022) effective audit committees and high-quality Big 4 audit firms would significantly limit this behavior (Almarayeh et al., 2020)

4.3. Managerial Decisions on EM Strategies

For research question RQ3, managers choose between accrual-based earnings management (AEM) and real-time earnings management (REM) strategies to manipulate financial statements. AEM exploits accounting flexibility through arbitrary accruals, widely illustrated in the modified Jones model. Conversely, REM involves altering operational activities, such as reducing research and development (R&D) costs. More importantly, research literature highlights the dynamic strategic trade-offs between these mechanisms. Under close regulatory scrutiny, such as following the Sarbanes-Oxley Act (SOX), or when audited by high-quality Big 4 firms, regulators replace AEM with REM. While REM is more difficult to detect for auditors and regulators, it severely damages future operating cash flows and the long-term value of a company.

4.4. Outcomes of EM on Corporate Performance

Regarding research question RQ4, the research paper emphasizes that earnings management (EM) causes serious negative economic consequences by exacerbating information asymmetry and mispricing in the market. In terms of information asymmetry and value relevance, opportunistic earnings management significantly reduces the transparency and reliability of financial reporting. This lack of transparency increases agency costs, as insiders exploit their informational advantages, thus undermining stakeholders' ability to optimally allocate resources.

Furthermore, in relation to accounting irregularities and collapse risk, this lack of transparency leads to systematic mispricing. Investors often fail to anticipate the reversal of arbitrary accounting entries, resulting in overvaluation in the short term, followed by poor stock performance in the long term - a phenomenon known as accounting anomalies. More importantly, when managers use EM to aggressively hoard negative information, the sudden release of this accumulated bad news significantly increases the likelihood of a severe stock price crash and future financial difficulties.

4.5. Identified Gaps in the Literature

Addressing RQ5, the literature reveals several key gaps for future research (Aggarwal et al., 2024). First, although EM and AQ have been widely studied, most research focuses on developed economies and traditional financial models, leaving a significant gap in emerging markets where institutional contexts differ substantially (Khan & Kamal, 2022; Matenda et al., 2025). Second, a major thematic gap concerns non-financial factors. While recent studies highlight the role of ESG in reducing reporting opacity (Firmansyah et al., 2026), the mechanisms through which ESG affects discretionary accruals remain underexplored. In addition, there is limited empirical evidence on how digital transformation and new technologies influence the monitoring and reliability of AQ (Aggarwal et al., 2024). Addressing these gaps is essential for advancing future research.

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