

# **Impact of firm-specific parameters on earnings management in listed companies of Sri Lanka**

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## **Abstract**

In the current turbulent economic environment, much attention has been paid to manipulations in financial statements. Therefore, earnings management practices have to be captured wisely and there might be influences to have such practices in business organizations. This study aims to examine the impact of firm-specific parameters on earnings management in the companies listed in the Colombo Stock Exchange (CSE). For this purpose, a sample of 155 companies was chosen from a total of 289 companies listed in the CSE, excluding financial companies, companies with 31<sup>st</sup> December financial year-ends and companies with incomplete data. Data were obtained from secondary sources for the period of three years from 2017 to 2019, and as a result, 455 firm-year observations were included in the study. Several firm-specific parameters were considered as the independent variables of the study, namely Firm Size, Age, Leverage, Profitability, Growth and Cash flow from Operation. Earnings management, which is the dependent variable of this study, was measured by using the Modified Jones' Model (1995). In addition, governance is included in the study as a control variable. The methods such as descriptive analysis, correlation analysis, Ordinary Least Square (OLS) and panel regression analysis were used. The results of the study revealed that the Firm Size and Age have a significant impact on earnings management in Sri Lankan listed companies. However, the impact of leverage, growth, profitability and cash flow from operations on earnings management was found to be insignificant. As a control variable, governance also appears to be insignificant for Earnings management in Sri Lankan listed companies. This study contributes to the body of knowledge with a different perspective through the listed companies in Sri Lanka.

**Keywords:** *Colombo Stock Exchange, earnings management, firm specific parameters, listed companies.*