

MANIPULATION OF FINANCIAL INFORMATION: AN EMPIRICAL STUDY ON ISTANBUL STOCK EXCHANGE (ISE) FIRMS

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ABSTRACT

It is admitted that financial information, as the bedrock of financial markets, can improve economic performance through several ways. However, manipulation of financial information, which is called by several terms such as earnings management, income smoothing, fraudulent financial reporting, creative accounting practices, aggressive accounting, accounting irregularities or account manipulation, prevents the allocation of resources into the most efficient areas in the economy. The former studies of the accounting literature define manipulation of financial information as an intervention in the financial reporting process with the intent of obtaining some personal and/or corporate gains by changing the financial information that will be disclosed to the external parties.

The objective of this dissertation is to explain the causes and objectives as well as the methods and the consequences of manipulation in financial reporting, and also to develop a model for revealing manipulative practices in financial reporting at Turkish companies. A revised version of the model that was developed by Beneish (1999) is used in order to estimate the manipulative practices in financial reporting at companies listed in the Istanbul Stock Exchange (ISE). We found that six out of nine explanatory variables in our model are significant and useful in revealing or estimating the existence of manipulative practices in financial reporting at ISE companies.

Key Words: Capital markets; financial information; manipulation; earnings management; creative accounting.

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