



THE LONDON SCHOOL
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POLITICAL SCIENCE ■

Department of Accounting

“Accounting conservatism and the limits to earnings management”

Dr Juan Manuel Garcia Lara
Carlos III University of Madrid

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Abstract

We study the association between conservatism and both accrual and real earnings management. Conservatism facilitates the monitoring of managerial accounting choices, potentially limiting the opportunities for accruals-based earnings management. To the extent that managers face constraints to manipulate accruals, we expect that they may shift to potentially more costly real earnings management practices, which they may, in fact, prefer (Graham, Harvey and Rajgopal 2005). Using a large US sample for the period 1991-2010 we find a negative association between conservatism and measures of accruals manipulation, and a positive association between conservatism and real earnings management. We also find that more conservative firms have less probabilities of being suspect of having engaged in earnings management (of any type) to achieve earnings benchmarks.