

# **EARNINGS MANAGEMENT ASSOCIATED WITH MANAGEMENT EARNINGS FORECAST DISCLOSURE: A SIGNALING PERSPECTIVE**

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## **ABSTRACT**

This study characterizes firms that release management earnings forecasts and examines whether managers of forecasting firms tend to exercise accounting discretion in order to move reported income toward the forecasted figure. The motivation for the study stems from the paucity of the analytical or empirical research examining the motivation of management forecast and the subsequent income manipulation from the signaling context. Results with sample firms indicate that managers tend to release earnings forecasts if they have a greater incentive to signal, to the market, their ability to predict future economic changes to the market. The forecasting firms are shown to use income-increasing accounting discretion to manipulate reported earnings towards their forecasts. However, no evidence is found that the firms use accounting discretion to manipulate earnings downward. For a further characterization of forecasting firms, additional investigations are performed for variables outside of the signaling framework. The results show that earnings variability differentially affects forecasting firms in manipulating reported earnings.