

Identifying the Aggressive Financial Reporting of Firms¹

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Research Paper

INTRODUCTION

Aggressive financial reporting is the opposite of conservative financial reporting, which means using a low degree of conservatism in preparing financial statements. AFR is characterized as the diminished application of conservatism. Some firms are currently involved in aggressive financial reporting to conceal their adverse condition. In these types of reports, there is a tendency to spread the good news and keep the bad ones. An unreal image is shown. As the release of bad news runs the risk of corporate information users including creditors and shareholders sustaining considerable damage,

MATERIALS AND METHODS

The purpose of this survey, which was conducted by survey method, is to identify the aggressive financial reporting of firms.

To achieve the above goal, the indicators of this type of report were prepared by conducting interviews with experts in the accounting and auditing profession (senior auditors and financial managers of listed firms in the Tehran stock exchange with at least 5 years of work experience) and then the validity of the indicators were examined through a questionnaire and structural equation modeling and second-order confirmatory factor analysis in PLS software. The questionnaire was distributed among the Iranian Association of Financial Managers members. The number of questionnaires collected after removing incomplete questionnaires is 161.

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RESULTS AND DISCUSSION

Findings showed that aggressive financial reporting indicators (the existence of Misstatements, unresolved Misstatements in different years, lack of provisions, negative annual adjustments, Unusual changes in sales, Fraud, CEO Changes, executive compensation, Production of non-essential goods, and Monopoly firms) have sufficient validity.

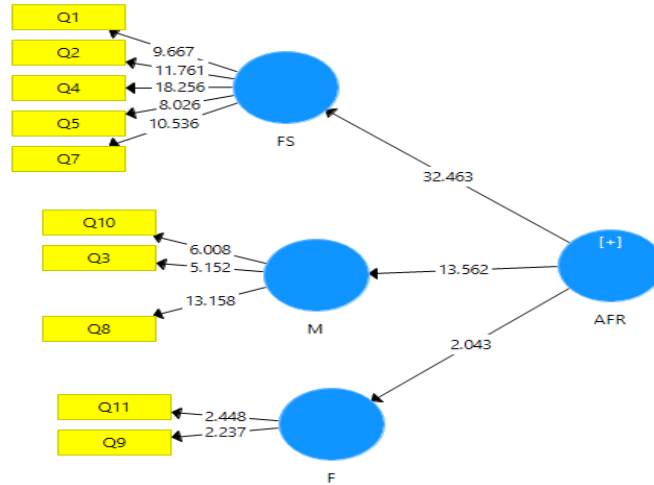


Figure 1. Z (t-values) before removing question 6 Figure 1. Z (t-values) after removing question 6

CONCLUSION

The final model (measurement, structural and general) also fits well.

Keyword: Aggressive financial reporting, Conservatism, earnings management.

JEL Classification: M41, M42.

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