
Study on the association between earnings management and value relevance based on the reporting method used for operating cash flows

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Abstract

This paper analyses the association between earnings management and value relevance of accounting information, for a number of 556 observations from a sample of 65 companies listed on the Bucharest Stock Exchange during a 10 year period: 2006-2015. Sampled companies are classified according to the method used for the reporting of operating cash flows. Findings confirm that entities using the indirect method have a higher level of discretionary accruals and are more tempted to opportunistically increase their earnings. As far as value relevance is concerned, results show that participants on the Romanian capital market place more weight on the information reported by entities experiencing higher levels of discretionary accruals.

Keywords: accounting quality, earnings management, value relevance, cash flows

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