

A Sector-Wise Study on Detecting Earnings Management in India

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Abstract : Earnings management has been present from times immemorial. The recent downfall of giant enterprises like Enron, Satyam and WorldCom has brought a lot of focus on the study and detection of earnings management. The present study is an attempt to study earnings management in one of the fastest emerging economy - India. The study makes an attempt to understand earnings management in different sectors of the economy. The paper first tests a hypothesis to check whether different sectors of India are engaged in earnings management or not. In the later section the paper aims to study the level of earnings management in 6 popular sectors of India: IT&BPO, Retail, Telecom, Biotech, Hotels and coffee. To measure earnings management two popular techniques of detecting earnings management has been employed: Modified Jones Model and Beneish M Score. A total of 332 companies were studied. Publicly available data from Capitaline database has been used. The paper also classifies the top and bottom five performers on the basis of sales turnover in each sector and identifies whether they manage their earnings or not.

Keywords : earnings management, India, modified Jones model, Beneish M score

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