Earnings manipulation behavior in the non-financial listed firms of Palestine: the implication of Beneish model

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Abstract
Purpose – The aim of this research is to detect the possibility of distortion of annual reports for non-financial listed firms at Palestine Exchange (PEX). It validates the effectiveness of Beneish model in detecting earnings management (EM) using panel regression estimates.
Design/methodology/approach – The methodology of this study is based on secondary data that were collected from the audited annual reports of non-financial listed firms for the period 2016–2022. Fixed-effects model and two steps generalized method of methods (GMM) estimator were used to conduct research findings.
Findings – The results validate the efficiency of Beneish model in detecting EM. The variables of sales overstating, accruals and leverage have leading items of earnings manipulation in case of Palestinian listed firms. However, collection period, gross margin, assets utilization, running expenses and firm size are not effective in predicting the distortion of financial reporting.
Practical implications – Corporate managers are suggested to control the leverage in order to reduce accrual EM and avoid making discretionary accruals (DA) choices to depress EM.
Originality/value – These findings contribute to the policy makers in Palestine by ensuring that financial reports accurately reflect the company's current situation and is free from earnings manipulation, which would have several research implications in theory and practice.
Keywords Beneish model, Earnings manipulation, Leverage, Discretionary accruals
Paper type Research paper

1. Introduction

Earnings management (EM) is one of the most significant aspects in falsifying accounting information (Svabova, 2021; Nguyen and Nguyen, 2016). This concept has an impact on transparency of financial reports by manipulating accounting numbers in a way that does not represent the company's true performance (Talab *et al.*, 2017). Lately, Schipper (1989) defined EM as the deliberate interference in the external financial reporting process for private gain. Moreover, Healy and Wahlen (1999) stated EM occurs when management directs their opinion to falsify financial reporting in order to deceive shareholders about the firm's real performance.

Accordingly, the conceptual framework of financial reporting emphasizes on the relevance of financial information (Al-Shattarat, 2021). Therefore, all aspects of accounting information quality, include investors, regulators and auditors, are a key value relevance (Barth *et al.*, 2001). Nevertheless, companies attempt to manipulate their reported profits to prevent earnings from losses or declines in order to improve their own incentives or bonus plans on a way from the accuracy of their accounting data (Habbash and Alghamdi, 2015). This action motives to intentional distortion in financial statements. Additionally, earnings manipulation is pernicious and entails outright fraud and misrepresentation (Dyreng *et al.*, 2020). EM occurs

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