

The Effect of Earnings Management Based on Discretionary Accruals on the Cost of Equity Capital of Listed Companies with the Control of Firm Size, Financial Leverage, and Growth Opportunities



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Abstract: The purpose of this study was to investigate the effect of earnings management based on discretionary accruals on the cost of equity capital in listed companies, while controlling for the effects of firm size, financial leverage, and growth opportunities as control variables. The statistical population consisted of companies listed on the stock exchange, and after applying conventional screening criteria (excluding financial firms, firms with changes in fiscal year-end, and firms with insufficient data), a sample of 128 companies (896 firm-year observations) was selected for the period 2017–2023. Earnings management through discretionary accruals was measured using the Modified Jones Model, while the cost of equity capital was estimated using the Gordon Growth Model/dividend growth approach (and earnings-based models in the robustness test). Panel regression analysis was employed to test the research hypotheses. The results indicated that the coefficient of discretionary accruals was positive and statistically significant ($t = 3.12$, $\beta = 0.041$, $p < .01$). This finding suggests that an increase in accrual-based earnings management leads to a higher cost of equity capital. Furthermore, firm size had a negative and significant effect on the cost of capital ($\beta = -0.018$, $p < .05$), whereas financial leverage demonstrated a positive and significant effect ($\beta = 0.067$, $p < .01$). Growth opportunities also exhibited a positive effect ($\beta = 0.012$, $p < .10$). The explanatory power of the model was assessed as acceptable (Adjusted $R^2 = 0.29$). The findings confirm that accrual-based earnings management can increase informational risk and investor uncertainty, thereby increasing shareholders' required rate of return (cost of capital).

Keywords: Earnings management; discretionary accruals; cost of equity capital; firm size; financial leverage; growth opportunities; panel regression.

1. Introduction

Financial reporting quality and the credibility of accounting information have long been recognized as fundamental determinants of the efficiency of capital markets and the optimal allocation of financial resources. In modern financial environments, investors, creditors, and other stakeholders rely heavily on accounting disclosures to evaluate firm performance, estimate future cash flows, and determine the level of risk associated with investment decisions. Consequently, any reduction in the reliability or transparency of financial reporting may increase information asymmetry, intensify uncertainty, and ultimately affect firms' financing costs. Among the most significant issues influencing the quality of financial reporting is earnings management,

particularly accrual-based earnings management, through which managers manipulate accounting figures within the flexibility permitted by accounting standards in order to achieve specific contractual, political, or market-related objectives [1, 2].

Earnings management has become one of the most debated topics in accounting and corporate finance literature because of its direct implications for investor confidence, market efficiency, and firm valuation. Although managers may justify earnings management as a mechanism for signaling private information or stabilizing earnings volatility, opportunistic managerial behavior can distort the true economic condition of firms and mislead capital market participants. Prior studies have shown that managers often manipulate discretionary accruals to avoid losses, meet earnings forecasts, reduce political costs, maintain debt covenants, or influence stock prices during critical financial periods [3, 4]. In this regard, discretionary accruals are considered one of the most common proxies for detecting accrual-based earnings management because they reflect managerial discretion in financial reporting decisions [5].

The existence of earnings management practices can substantially increase information risk in capital markets. Information risk refers to the probability that financial information disclosed by firms is inaccurate, biased, or incomplete, thereby reducing the ability of investors to estimate future firm performance accurately. When investors perceive higher levels of information risk, they demand greater expected returns as compensation for bearing additional uncertainty. This process leads to an increase in the cost of equity capital, which represents the return required by shareholders for investing in a company's stock [6, 7]. Consequently, firms with lower financial reporting quality and greater levels of earnings manipulation may face higher financing costs and reduced access to external capital markets.

The relationship between earnings management and the cost of equity capital has attracted increasing attention in both developed and emerging capital markets. Empirical evidence generally suggests that poor earnings quality and aggressive accounting practices increase investors' perceptions of risk and reduce market confidence in reported earnings [8, 9]. Financial reporting transparency plays a central role in reducing information asymmetry between managers and investors, and firms with more transparent reporting mechanisms are typically rewarded with lower financing costs and improved market valuation [10, 11]. In contrast, companies engaging in opportunistic earnings management often experience greater monitoring costs, lower investor trust, and higher expected rates of return demanded by capital providers.

In recent years, several studies have examined the determinants and consequences of earnings management from different perspectives. Research has highlighted the importance of ownership structure, corporate governance mechanisms, audit quality, and board characteristics in constraining managerial opportunism and improving reporting quality [12-14]. Strong governance structures and effective audit committees can reduce managers' ability to manipulate earnings and improve the credibility of financial statements. Similarly, auditor industry specialization and institutional ownership have been found to moderate the relationship between earnings management and financing costs [15, 16]. These findings indicate that both internal governance mechanisms and external monitoring systems play essential roles in shaping financial reporting quality and investor perceptions.

Another important factor associated with earnings management is financial leverage. Firms with high leverage levels often face greater pressure to comply with debt covenants and maintain favorable relationships with creditors, thereby creating incentives for managers to manipulate accounting earnings [17, 18]. Debt financing can intensify agency conflicts between shareholders and creditors because managers may attempt to present a more favorable financial position in order to reduce borrowing constraints or avoid covenant violations. Empirical

studies conducted in different institutional settings have shown a positive association between leverage and accrual-based earnings management [16, 19]. Furthermore, leverage itself is often associated with higher financial risk, which can directly increase the cost of equity capital due to the greater uncertainty perceived by investors.

Financial distress also represents a major determinant of earnings management behavior. Firms experiencing financial difficulties may attempt to manipulate earnings to conceal poor performance, delay bankruptcy risk, or maintain investor confidence [20, 21]. Such practices can temporarily improve reported financial performance but may ultimately undermine the credibility of accounting information and increase the risk premium demanded by investors. In emerging economies, where capital markets may be characterized by lower transparency and weaker enforcement mechanisms, the consequences of earnings manipulation can be even more pronounced. The literature suggests that firms facing financial distress are more likely to engage in opportunistic accounting practices, thereby increasing informational uncertainty in financial markets [22].

The quality of accounting information is also influenced by institutional and regulatory factors. Adoption of international financial reporting standards, improvements in disclosure quality, and stronger investor protection mechanisms can reduce managerial discretion and enhance financial transparency [23, 24]. High-quality disclosure environments improve the comparability and reliability of financial statements, thereby lowering information asymmetry and facilitating more efficient pricing of securities. Conversely, weak regulatory systems and insufficient investor protection may encourage earnings manipulation and reduce market confidence in financial reports [8].

In addition to governance and regulatory mechanisms, firm-specific characteristics may significantly affect both earnings management and financing costs. Firm size is one of the most important control variables frequently examined in accounting and finance studies. Larger firms generally benefit from greater analyst coverage, stronger monitoring mechanisms, higher disclosure quality, and broader access to capital markets, which collectively reduce information asymmetry and financing costs [25]. Large companies are also subject to greater scrutiny by regulators, auditors, and institutional investors, limiting managers' opportunities for aggressive earnings management. Therefore, firm size is often expected to have a negative relationship with the cost of equity capital.

Growth opportunities constitute another important determinant of financing decisions and investor expectations. Firms with strong growth prospects typically require substantial external financing to support expansion activities and strategic investments. However, growth-oriented firms may also exhibit greater earnings volatility and uncertainty regarding future cash flows, leading investors to demand higher expected returns [26]. In some cases, managers of high-growth firms may engage in earnings management to maintain market expectations or secure favorable financing conditions. Therefore, examining growth opportunities alongside discretionary accruals can provide a more comprehensive understanding of the determinants of the cost of equity capital.

The banking and hospitality sectors have also received considerable attention in the earnings management literature due to their unique operational and reporting characteristics. Studies have shown that banks may engage in earnings management practices to stabilize earnings, manage regulatory capital, or improve performance indicators [27, 28]. Similarly, the hospitality industry has been identified as particularly vulnerable to earnings manipulation because of demand uncertainty and sensitivity to economic fluctuations [2]. These findings demonstrate that the motivations and consequences of earnings management may vary across industries and institutional environments.

Another emerging area of research concerns the interaction between sustainability reporting, governance quality, and financial reporting transparency. Sustainability disclosures and integrated reporting practices may reduce information asymmetry and improve investor confidence by providing broader non-financial information regarding corporate performance and risk management [29]. Likewise, transfer pricing practices and corporate governance quality have been linked to earnings management behavior in multinational and emerging market firms [30]. These developments highlight the growing complexity of financial reporting environments and the increasing importance of transparency in modern capital markets.

The role of audit quality and financial information quality has become increasingly important in mitigating opportunistic reporting behavior. High-quality auditing reduces managers' ability to manipulate accounting figures and enhances investor confidence in financial statements [14]. Furthermore, firms with stronger reporting quality tend to exhibit more stable capital structures and lower financing costs because investors perceive them as less risky and more transparent [11]. Consequently, understanding the mechanisms through which earnings management affects financing costs remains a critical issue for both researchers and policymakers.

Despite the growing body of international literature on earnings management and financing costs, evidence from emerging markets remains relatively limited and inconclusive. Emerging capital markets often exhibit weaker governance systems, lower disclosure quality, and greater information asymmetry compared to developed economies. Therefore, the impact of discretionary accruals on the cost of equity capital may be more significant in such environments [31]. In the context of Iran, the Tehran Stock Exchange represents an important setting for examining these relationships due to the structural characteristics of the market, economic volatility, financing constraints, and the evolving regulatory environment. Prior Iranian studies have emphasized the importance of information risk and financial reporting quality in shaping investor behavior and stock returns [6, 10]. However, limited research has comprehensively investigated the effect of accrual-based earnings management on the cost of equity capital while simultaneously controlling for firm size, leverage, and growth opportunities.

Moreover, the increasing complexity of financial markets and intensified competition among firms have heightened managerial incentives to manipulate reported earnings. Managers may attempt to present stable and favorable financial performance in order to attract investors, reduce financing costs, or maintain market reputation [32, 33]. However, capital market participants are becoming increasingly aware of opportunistic accounting practices, and sophisticated investors may interpret aggressive accrual manipulation as a signal of elevated informational risk. Consequently, earnings management may ultimately produce adverse long-term effects on firms' financing conditions and market valuation.

Given the theoretical and empirical importance of this issue, investigating the relationship between discretionary accrual-based earnings management and the cost of equity capital can provide valuable insights for investors, regulators, auditors, and corporate managers. Understanding this relationship may help improve financial reporting practices, strengthen investor protection mechanisms, and enhance capital market efficiency. Therefore, the present study aims to investigate the effect of earnings management based on discretionary accruals on the cost of equity capital of companies listed on the Tehran Stock Exchange while controlling for firm size, financial leverage, and growth opportunities.

2. Methodology

This study was applied in terms of objective and quantitative in terms of methodological approach. In addition, the research employed a correlational design using panel data regression analysis to investigate the effect of

earnings management based on discretionary accruals on the cost of equity capital of companies listed on the Tehran Stock Exchange. The statistical population consisted of all non-financial companies listed on the Tehran Stock Exchange during the period from 2017 to 2023. To increase the comparability and reliability of the findings, several screening criteria were applied. Accordingly, financial institutions, banks, insurance companies, investment firms, and holding companies were excluded because of the specific nature of their financial reporting structures and regulatory environments. Furthermore, companies with changes in fiscal year-end during the study period, companies with incomplete financial information, firms suspended from trading for prolonged periods, and companies lacking continuous activity throughout the research period were removed from the sample. After applying these criteria, a final sample of 128 companies, representing 896 firm-year observations, was selected through a systematic elimination method. The required financial data were extracted from audited annual financial statements, explanatory notes accompanying the financial reports, and official databases affiliated with the Tehran Stock Exchange and the Codal information system.

The present study relied on archival financial data and documentary sources for data collection. Financial information related to the sample companies was gathered from audited financial statements, including balance sheets, income statements, statements of cash flows, and accompanying notes disclosed through the Codal database and the official publications of the Tehran Stock Exchange. Earnings management based on discretionary accruals was measured using the Modified Jones Model developed by Dechow et al., which is one of the most widely used approaches for estimating discretionary accruals in accounting and finance research. In this model, total accruals were first calculated and then decomposed into discretionary and non-discretionary components. The discretionary component of accruals was considered as a proxy for accrual-based earnings management. The dependent variable, namely the cost of equity capital, was estimated primarily using the Gordon Growth Model based on dividend growth expectations. In order to enhance the robustness of the results, earnings-based valuation models were also employed as alternative estimation approaches. Firm size was measured through the natural logarithm of total assets, financial leverage was calculated as the ratio of total debt to total assets, and growth opportunities were measured using the market-to-book value ratio. The operational definitions of all variables were developed in accordance with prior empirical studies in accounting and financial management literature to ensure the validity and comparability of the findings.

Data analysis was conducted using panel data econometric techniques. Initially, descriptive statistics including mean, standard deviation, minimum values, and maximum values were computed to provide an overview of the research variables and to assess the distributional characteristics of the data. Subsequently, correlation analysis was performed to examine the preliminary relationships among the variables and to identify potential multicollinearity issues. In the inferential stage, panel regression analysis was employed to test the research hypotheses. Prior to model estimation, the F-Limer test was used to determine the suitability of pooled versus panel estimation, and the Hausman test was applied to select between fixed-effects and random-effects models. Diagnostic tests were also conducted to assess the assumptions of regression analysis, including tests for heteroscedasticity, autocorrelation, and multicollinearity. The regression models were estimated after ensuring that the assumptions of panel regression were satisfied. The significance of the coefficients was evaluated using t-statistics and probability values, while the overall explanatory power of the models was assessed using the adjusted coefficient of determination (Adjusted R²) and F-statistics. All statistical analyses were performed using EViews and SPSS software packages, and the significance level for hypothesis testing was set at 0.05.

3. Findings and Results

The descriptive statistics of the research variables are presented in Table 1. As shown, the mean value of the cost of equity capital was 0.241 with a standard deviation of 0.082, indicating a moderate level of dispersion among the sampled firms. The discretionary accruals variable had a mean of 0.003 and a standard deviation of 0.064, suggesting that the sample firms exhibited relatively low but varying levels of accrual-based earnings management during the study period. The average firm size was 13.94, while the mean financial leverage ratio was 0.58, indicating that debt financing constituted a considerable proportion of firms' capital structures. Furthermore, the mean value of growth opportunities was 1.61, reflecting acceptable growth potential among the selected companies.

Table 1. Descriptive Statistics of Research Variables

Variable	Mean	Median	Minimum	Maximum	Standard Deviation
Cost of Equity Capital	0.241	0.229	0.11	0.49	0.082
Discretionary Accruals	0.003	0.001	-0.21	0.25	0.064
Firm Size	13.94	13.88	11.90	17.10	1.02
Financial Leverage	0.58	0.57	0.19	0.88	0.14
Growth Opportunities	1.61	1.44	0.72	3.94	0.59

Table 2 presents the correlation matrix among the study variables. The results indicate that discretionary accruals had a positive correlation with the cost of equity capital ($r = 0.31$), suggesting that higher levels of earnings management were associated with higher financing costs. Firm size demonstrated a negative correlation with the cost of equity capital ($r = -0.28$), implying that larger firms generally experienced lower costs of equity financing. Financial leverage showed the strongest positive correlation with the cost of equity capital ($r = 0.37$), whereas growth opportunities also exhibited a positive relationship with the dependent variable ($r = 0.21$). The correlations among independent variables were moderate and below critical thresholds, indicating the absence of severe multicollinearity problems.

Table 2. Correlation Matrix of Variables

Variable	1	2	3	4	5
1. Cost of Equity Capital	1				
2. Discretionary Accruals	0.31	1			
3. Firm Size	-0.28	-0.09	1		
4. Financial Leverage	0.37	0.12	-0.41	1	
5. Growth Opportunities	0.21	0.05	-0.19	0.17	1

To further assess the presence of multicollinearity among the explanatory variables, variance inflation factor (VIF) statistics were calculated, and the results are reported in Table 3. The VIF values ranged from 1.33 to 2.04, all of which were significantly below the critical threshold of 10. These findings confirm that multicollinearity was not a serious concern in the regression model and that the independent variables could be simultaneously included in the panel regression analysis without threatening the reliability of the estimated coefficients.

Table 3. Multicollinearity Test Results

Variable	VIF
Discretionary Accruals	1.42
Firm Size	1.78
Financial Leverage	2.04
Growth Opportunities	1.33

The results of the panel regression analysis are reported in Table 4. The coefficient of discretionary accruals was positive and statistically significant ($\beta = 0.041$, $t = 3.21$, $p = 0.001$), indicating that an increase in accrual-based earnings management significantly increased the cost of equity capital. This finding supports the main hypothesis of the study and suggests that investors perceive earnings management practices as a source of informational risk and uncertainty, thereby requiring higher expected returns. Firm size had a negative and significant effect on the cost of equity capital ($\beta = -0.018$, $t = -2.54$, $p = 0.012$), implying that larger firms benefited from lower financing costs due to greater transparency, stability, and market credibility. Financial leverage demonstrated a positive and highly significant relationship with the cost of equity capital ($\beta = 0.067$, $t = 4.18$, $p < 0.001$), indicating that firms with higher debt ratios were exposed to greater financial risk and consequently higher expected returns demanded by shareholders. In addition, growth opportunities showed a positive effect on the cost of equity capital ($\beta = 0.013$, $t = 1.88$, $p = 0.061$), which was marginally significant at the 10% level. The adjusted coefficient of determination (Adjusted $R^2 = 0.29$) revealed that approximately 29% of the variation in the cost of equity capital was explained by the independent and control variables included in the model.

Table 4. Panel Regression Results

Variable	Coefficient	t-Statistic	Significance Level
Discretionary Accruals	0.041	3.21	0.001
Firm Size	-0.018	-2.54	0.012
Financial Leverage	0.067	4.18	0.000
Growth Opportunities	0.013	1.88	0.061
Constant	0.392	5.10	0.000
Adjusted R^2	0.29		

4. Discussion and Conclusion

The present study investigated the effect of accrual-based earnings management on the cost of equity capital in companies listed on the Tehran Stock Exchange while controlling for firm size, financial leverage, and growth opportunities. The findings demonstrated that discretionary accruals had a positive and statistically significant effect on the cost of equity capital, indicating that firms engaging in higher levels of accrual-based earnings management faced higher financing costs from shareholders. This result suggests that investors perceive earnings manipulation practices as a source of informational uncertainty and financial reporting risk, thereby demanding higher expected returns as compensation for bearing additional risk. The findings support the theoretical arguments of information asymmetry and agency theory, which posit that opportunistic managerial behavior reduces the credibility of accounting information and weakens investor confidence in financial statements.

The positive relationship identified between discretionary accruals and the cost of equity capital is consistent with previous empirical evidence emphasizing the adverse consequences of earnings management on investor perceptions and market valuation. Prior studies have argued that lower earnings quality and aggressive accounting practices increase uncertainty regarding future cash flows and impair the reliability of financial reporting, ultimately raising firms' financing costs [6, 7]. Similarly, Imperatore and Trombetta highlighted that weak investor protection and manipulative accounting practices intensify market concerns regarding financial transparency, leading investors to incorporate additional risk premiums into their required returns [8]. The findings of the present study also align with the conclusions of Arianpoor and Farzaneh, who reported that earnings management negatively affects market confidence and increases the cost of capital, particularly in environments characterized by weaker monitoring systems and lower institutional transparency [15].

One possible explanation for this finding is that discretionary accruals reduce the predictive ability of accounting earnings and weaken the informational content of financial reports. Investors generally rely on accounting earnings as a key indicator of future firm performance and cash-generating capacity. When managers manipulate accruals to alter reported earnings, the quality and reliability of financial information deteriorate, making it more difficult for investors to accurately assess firm value and future profitability. Under such conditions, investors demand higher returns to compensate for increased information risk and uncertainty. This interpretation is consistent with the findings of Lisboa et al., who emphasized that high-quality financial reporting reduces financing costs by improving the transparency and credibility of accounting information [11]. Likewise, Mehrabanpour et al. argued that greater disclosure quality and financial statement comparability reduce informational asymmetry and facilitate more efficient capital allocation decisions [10].

The results also revealed that firm size had a negative and significant effect on the cost of equity capital. This finding indicates that larger firms generally experience lower financing costs compared to smaller firms. One explanation for this relationship is that larger firms are typically associated with stronger governance systems, greater analyst coverage, broader investor recognition, and more extensive disclosure practices. These characteristics reduce informational asymmetry and enhance investor confidence in financial reporting. In addition, larger firms often possess greater operational stability and easier access to external financing sources, which further reduces perceived investment risk. The result is consistent with the arguments presented by Giudici and Vismara, who noted that larger firms tend to benefit from lower information uncertainty and stronger reputational capital in financial markets [25]. Similarly, Yeboah and Pais demonstrated that firms operating in more transparent reporting environments and exhibiting higher accounting quality generally face lower financing costs [23].

Another important finding of the study was the positive and significant effect of financial leverage on the cost of equity capital. Firms with higher debt ratios were found to experience higher costs of equity financing, suggesting that leverage increases perceived financial risk among investors. This finding is theoretically consistent with capital structure theory, according to which higher debt levels elevate the probability of financial distress and increase uncertainty regarding future cash flows. Consequently, shareholders demand higher expected returns to compensate for the additional financial risk associated with highly leveraged firms. The result is consistent with previous studies indicating that leverage intensifies managerial incentives for earnings manipulation and increases agency conflicts between shareholders and creditors [17, 18]. Muhtaseb et al. also found that leverage is positively associated with accrual-based earnings management because managers attempt to present favorable financial performance in order to comply with debt covenants and maintain borrowing capacity [16].

The relationship between leverage and earnings management can be interpreted through debt covenant theory. Firms with substantial financial obligations may face pressure to meet contractual debt requirements and avoid covenant violations. Under such conditions, managers may manipulate earnings upward through discretionary accruals to portray stronger financial performance and reduce the likelihood of creditor intervention. However, sophisticated investors may recognize such practices as signals of heightened financial risk, thereby increasing the cost of equity capital. Gürünlü similarly reported that debt financing can strengthen managerial incentives to engage in earnings management, especially in firms facing high financing pressures [19]. Khan et al. also emphasized that capital structure decisions significantly influence the extent of earnings manipulation activities and investors' perceptions of firm risk [3].

The findings further demonstrated that growth opportunities had a positive effect on the cost of equity capital, although the significance level was weaker compared to the other explanatory variables. This result suggests that

firms with greater growth potential may face higher financing costs because investors perceive future earnings and cash flows as more uncertain. High-growth firms often require substantial external financing to support expansion projects and strategic investments. However, these firms may also exhibit greater earnings volatility and operational uncertainty, leading investors to demand higher expected returns. This finding is consistent with the conclusions of Ganguli and Deb, who argued that firms with ambitious growth strategies may experience higher financing pressures and increased information uncertainty [26]. Similarly, Agustina and Malau noted that growth-oriented firms may be more likely to engage in earnings management in order to maintain favorable market expectations and attract financing resources [22].

The present findings also reinforce the importance of corporate governance and auditing mechanisms in reducing opportunistic financial reporting behavior. Although governance variables were not directly examined in the regression model, prior studies suggest that effective governance structures can limit managerial discretion and improve earnings quality. Algrady et al. emphasized that audit committee characteristics significantly influence the quality of financial information and reduce the likelihood of manipulative accounting practices [14]. Similarly, Alves found that board independence and governance quality positively affect earnings quality and financial reporting credibility [13]. The positive relationship observed between discretionary accruals and financing costs in the present study indirectly supports these arguments by demonstrating that lower reporting quality is penalized by investors through higher required returns.

Furthermore, the findings are compatible with studies examining the role of ownership structure and institutional monitoring in constraining earnings management behavior. Attia et al. reported that institutional investors and effective ownership structures reduce opportunistic accrual manipulation and improve firm performance [33]. Likewise, Oyebamiji found that stronger ownership monitoring enhances earnings quality and increases investor confidence in financial reporting [12]. These studies collectively suggest that external monitoring mechanisms can mitigate the adverse effects of earnings management on market valuation and financing costs.

The results of the present study are particularly important in the context of emerging markets such as Iran, where information asymmetry, financing constraints, and market inefficiencies may intensify the consequences of financial reporting manipulation. Emerging economies often exhibit weaker enforcement mechanisms, lower transparency, and less mature governance systems compared to developed capital markets. Under such circumstances, investors may place greater emphasis on financial reporting quality when evaluating investment risk. The findings therefore support the argument that improving accounting transparency and limiting opportunistic earnings management practices can contribute to greater capital market efficiency and lower financing costs for firms. This interpretation aligns with the findings of Tessema, who argued that improved audit quality and reduced information asymmetry strengthen investor confidence and enhance market efficiency [28].

The study also contributes to the broader literature on financial reporting quality by highlighting the economic consequences of discretionary accruals. While some managers may view earnings management as a short-term strategy for maintaining investor confidence or achieving contractual objectives, the findings indicate that capital market participants ultimately perceive such practices negatively. Investors appear capable of interpreting abnormal accrual behavior as an indicator of increased information risk, thereby incorporating additional risk premiums into equity valuation. This outcome demonstrates that aggressive accounting practices may provide temporary reporting benefits but produce unfavorable long-term financing consequences. Similar conclusions were reported by Kusuma, who emphasized that creative accounting practices and income smoothing reduce the transparency and reliability of financial statements [5]. Gonçalves et al. likewise concluded that earnings

management practices undermine the credibility of financial reporting and negatively affect stakeholder trust across industries [2].

Overall, the findings of the present study provide strong empirical evidence that accrual-based earnings management significantly increases the cost of equity capital in listed firms. The results underscore the importance of transparent financial reporting, effective governance systems, and high-quality accounting standards in reducing information asymmetry and improving investor confidence. By limiting opportunistic accounting behavior and enhancing disclosure quality, firms may reduce financing costs and strengthen their long-term market position.

One limitation of the present study is that it focused exclusively on non-financial companies listed on the Tehran Stock Exchange, which may restrict the generalizability of the findings to financial institutions or firms operating in other economic environments. Additionally, the study concentrated primarily on accrual-based earnings management and did not examine real earnings management techniques, which may also influence the cost of equity capital. Another limitation relates to the use of archival financial data, as accounting information may be affected by reporting biases or regulatory differences across firms and industries.

Future research may extend the present study by examining the simultaneous effects of accrual-based and real earnings management on financing costs and firm value. Researchers may also investigate the moderating role of corporate governance mechanisms, audit quality, ownership concentration, or institutional investor monitoring in the relationship between earnings management and the cost of equity capital. Comparative studies across different industries or international capital markets could further improve understanding of how institutional environments influence the economic consequences of earnings manipulation. In addition, future studies may employ dynamic panel models or behavioral finance approaches to explore how investor psychology and market sentiment interact with financial reporting quality.

From a practical perspective, the findings suggest that managers should prioritize transparent and high-quality financial reporting practices in order to reduce investor uncertainty and minimize financing costs. Regulatory authorities and stock market supervisors should strengthen disclosure requirements and monitoring systems to limit opportunistic accounting behavior and improve market confidence. Investors and financial analysts should also pay greater attention to discretionary accrual indicators when evaluating firm risk and estimating expected returns. Moreover, companies may benefit from strengthening governance structures, improving audit quality, and enhancing disclosure transparency to reduce information asymmetry and achieve more favorable financing conditions in capital markets.

Authors' Contributions

Authors equally contributed to this article.

Ethical Considerations

All procedures performed in this study were under the ethical standards.

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Conflict of Interest

The authors report no conflict of interest.

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