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Does there Prevail Momentum in Earnings Management for Seasoned Equity Offering Firms?

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Abstract

This study investigates the relationship between current and past period earnings manipulations for multiple seasoned equity offering (SEO) firms. These firms' discretionary accounting accruals (DAs) increase with the extent of cumulative prior DAs accompanying prior equity offers, consistent with the notion that prior earnings manipulators' continually inflate the earnings around SEOs. The prior manipulators appear to both engage in real activities as well as use accounting accruals to alter reported earnings. Nevertheless, the portfolio with the greatest allegedly cumulative manipulation and current income-increasing DAs in the issuance year generates significantly deteriorating post-issue stock returns.

JEL classification: G14; G32; M41

Keywords: Discretionary Accruals; Earnings Management; Real Earnings Management; Seasoned Equity Offerings; Sequential Stock Offerings

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