

# Accepted Manuscript

Modeling default prediction with earnings management

Hsiou-Wei William Lin, Huai-Chun Lo, Ruei-Shian Wu

PII: S0927-538X(16)30005-1  
DOI: doi: [10.1016/j.pacfin.2016.01.005](https://doi.org/10.1016/j.pacfin.2016.01.005)  
Reference: PACFIN 811

To appear in: *Pacific-Basin Finance Journal*

Received date: 9 June 2015  
Revised date: 19 January 2016  
Accepted date: 22 January 2016



Please cite this article as: Lin, Hsiou-Wei William, Lo, Huai-Chun, Wu, Ruei-Shian, Modeling default prediction with earnings management, *Pacific-Basin Finance Journal* (2016), doi: [10.1016/j.pacfin.2016.01.005](https://doi.org/10.1016/j.pacfin.2016.01.005)

This is a PDF file of an unedited manuscript that has been accepted for publication. As a service to our customers we are providing this early version of the manuscript. The manuscript will undergo copyediting, typesetting, and review of the resulting proof before it is published in its final form. Please note that during the production process errors may be discovered which could affect the content, and all legal disclaimers that apply to the journal pertain.

# Modeling Default Prediction with Earnings Management

## Abstract

This study explores whether taking into account real earnings management improves specification of the default prediction model based on the Z-score methodology for Chinese listed companies. We demonstrate that the model proposed by Altman (1968) overestimates (underestimates) the Z-score and thus the survival probability for firms engaging in aggressive (minor or no) income-increasing manipulation. By contrast, our inclusion of the indicator variable for real earnings management considerably enhances the explanatory power of Z-score factors for firm survival/default. With respect to the ability to predict out-of-sample default, our findings suggest that the accounting-based credit scoring model adjusted for real earnings management unanimously yields a greater prediction accuracy rate and a lower false loan rejection rate than the unadjusted scoring model for financially non-distressed firms.

*Keywords:* Accrual-based earnings management; Default prediction model; Real earnings management

*JEL classifications:* G14, G29, J44

Download English Version:

<https://daneshyari.com/en/article/7374370>

Download Persian Version:

<https://daneshyari.com/article/7374370>

[Daneshyari.com](https://daneshyari.com)