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# Earnings management using classification shifting of revenues<sup>\*</sup>

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## ABSTRACT

This paper examines a novel form of classification shifting as an earnings management tool using a sample of 12,804 UK listed firm-year observations for the 1995-2014 period. It proposes a new approach to classification shifting whereby firms have scope to misclassify revenues from non-operating activities as operating revenues. The results establish that firms engage in classification shifting of non-operating revenues to inflate operating revenues. They indicate that firms in the period following mandatory IFRS adoption are associated with an increase in this practice, consistent with IFRS offering greater scope for manipulation. Further tests reveal that classification shifting of revenues is more pervasive for firms that report operating losses or have low growth.

*Keywords:* classification shifting of revenues, operating revenues, non-operating revenues, IFRS

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