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Ethical Perceptions on Earnings Manipulation in Turkey: An Exploration of Differences in Preparers and Users' Perspectives

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Abstract

This study focuses on the impact of a more comprehensive set of scenarios that might be followed by accounting practitioners and leading to earnings manipulations, where such scenarios are yet to be investigated in Turkey and this study is the first to explore this issue. This study examines the ethical perception differences concerning the three types of earnings manipulations; which are income smoothing, earnings management and big bath accounting, between users and preparers' perspectives of financial information in Turkey. A structured questionnaire composed of seven scenarios was used to elicit responses from users; based on 82 financial analysts and portfolio managers' responses, and preparers of financial statements; using responses from 56 independent and 56 company affiliated accountants.

The results reveal that there are significant differences between the ethical perceptions of users and preparers related to some types of earnings manipulations. Additionally, the most unethical tool of earnings manipulations is fraudulent accounting, followed by manipulation through accounting changes and manipulation through operational changes. The study provides insight on the current and potential direction of earnings manipulation in Turkey and help regularity bodies in their efforts to tighten and improve reporting standards and regulations.

Keywords: Earnings manipulation, income smoothing, earnings management, big bath accounting, financial information, user of financial information, preparers of financial information, Turkey.

1. Introduction

The preparation and presentation of high quality financial reports is the responsibility of management and accountants. Additionally, independent auditors play an important role in ensuring the reliability of information provided and increasing the public confidence in the financial reports. Users of financial reports are investors (current or potential), creditors, suppliers, employees, governmental agencies and other interested parties. All those users are external parties who can not get

information directly from internal sources and their information needs are supposed to be satisfied with the information provided to them.

Users always require true, reliable, verifiable and timely financial information about companies. Stockholders and potential investors use financial information in making investment decisions, banks use it in making credit decisions, suppliers and prospective employees may decide which companies to work with by using the provided financial information (Fischer and Rosenzweig 1995).

This study is based on the assumption that users and preparers of financial information are two different groups who have conflicting interests. For example, in the case of borrowing, an accountant manager wishes to decrease cost of borrowing, on the other hand, a financial analysts, who provides credit decisions tries to increase interest rate or selling price of money, hence, the accountant and the financial analyst have conflicting interests. However, studies that examined the fairness judgments of conflicting parties, especially in negotiations, showed that "the parties make egocentric interpretations about the fairness and deem a settlement as a fair settlement when it is biased in favor of their own side" (Paese and Yonker 2001, p. 114). Therefore, earnings manipulation, which will make financial statements look better and decrease cost of borrowing, might be perceived as less unethical by an accountant than a financial analyst.

Most of the previous research investigated how accountants and accounting students (or preparers) perceive earnings management practices and they focused on the methods used for manipulation. They ignored the earnings manipulations other than earnings management and parties other than preparers. The only study that tried to understand ethically related judgments of "users" belongs to Kaplan (2001b). However participants of that study were not real users, rather, they were MBA students who were assigned roles of shareholders and non- shareholders. A real user's ethically related judgments about earnings manipulation may be much different than an MBA student's judgment.

We believe that there are differences between preparers and users as well as diverse types and approaches to accounting manipulations. However, previous studies could examine only preparers with reference to earning management, hence, we complement and extend these studies by looking at the impact of users and preparers on accounting manipulations under diverse approaches to accounting manipulations. The main purpose of this paper is to extend the study of Kaplan (2001b) in order to investigate whether there are significant differences in ethical perception of earnings manipulations between preparers and users of financial information in Turkish settings.

Unlike Belski et al. (2008) and Ng et al. (2009), the current study focuses on the impact of a more comprehensive set of scenarios that might be followed leading to earnings manipulation, where such scenarios are yet to be investigated in Turkey and this study is the first to explore this issue. This investigation may assist regulators to understand the impact of ethical perceptions of preparers and users of financial information and thereby help them specify ways to improve the provision of more information by listed Turkish companies. Therefore, this paper contributes to the literature by (i) examining the ethical perceptions of "users" related to earnings manipulations rather than just examining the ethical perceptions of "preparers, and (ii) testing the ethical perceptions related to three different types of earnings manipulation (income smoothing, earnings management and big bath accounting) rather than just earnings management.

The rest of this paper proceeds as follows; section two provides general overview of accounting in Turkey, section three presents a review of the literature on earnings manipulation; section four illustrates the development of the research hypotheses followed by a description of the research methodology. Section five is the analysis of results and discussion. Finally, section six provides conclusions and gives a summary of the main findings of this study, followed by the study limitations in section seven.

2. General overview of accounting in Turkey

In Turkey, as an emerging economy, expansion of the trading and industrial production made accounting applications more effective and inevitable. In addition, until the establishment of Accounting and Auditing Standards Board of Turkiye (TMUDESK) in 1994, accounting profession was not organized in a legal structure. This situation reveals much diversity among companies' reporting systems and accounting applications in the same sector.

On the other hand, another reason of the reporting diversities in Turkey came into practice as a result of uncompromised attitudes of the standard setting institutions (TMUDESK, 2000:1). Today there are two main accounting standards issued by the Ministry of Finance and Capital Markets Board of Turkey (SPK). In practice, it is seen that SPK adjusted its own chart of accounts according to the notifications of the Ministry of Finance. Although the financial statement's form of these two institutions is similar, there are some differences about the accounting concepts and asset evaluation approaches. Besides, the adoption of IAS to the Turkish accounting system by TMSK is an important step for the reporting standardization for the future. However, all companies listed on the Istanbul Stock Exchange are required to follow IFRSs. Communique Serial: XI No: 25 allows an option to follow IFRSs in one of two ways due to delays in translating IFRSs into Turkish:

- A listed company can follow the official English version of IFRSs as published by the IASB, in which case the audit report and basis of presentation footnote make an explicit statement of compliance with International Financial Reporting Standards.
- A listed company can follow the Turkish translation of IFRSs. Because of the translation delay, the audit report and basis of presentation footnote state that the financial statements comply with "IFRSs as adopted for use in Turkey".

Financial reporting in Turkey is tax-driven and companies try to determine tax-purpose income rather than performance evaluation -purpose income. Generally tax laws determine accounting treatments. With the establishment of the Capital Market Board in 1986, financial accounting standards started to be developed, and all publicly traded companies are required to apply IFRS as of beginning of January 2005. However, the important point is that because Turkey has not a developed capital market, only a small portion of the companies applies IFRS, higher portion (especially family-owned and small to medium sized companies) continues to prepare financial statements according to tax laws. This fact plays an important role in the determination of financial reporting quality in Turkey.

Furthermore, another economic factor that encourages manipulation of accounts in Turkey is the inflation. Inflation rate in Turkey has been very high for many years; in 2004 it dropped to one-digit number as a first time after nearly 30 years. Although inflation rate was high, inflation accounting was not allowed in Turkey until 2004 and this caused fictitious earnings and increased tax burden. Governors, who have been trying to win the battle with inflation and improve the economical conditions for many years, say that increasing tax rates and economic austerity policies are unavoidable. Because of high inflation rates, high tax rates, and difficult economic conditions, it is not easy for many companies to stay alive and continue operations. In such environment, earnings manipulation may be deemed as ethical by the company owners and workers (including accountants) who make a choice between bankruptcy and staying alive. Therefore, the current paper sheds light on the ethical perceptions of earnings manipulation between preparers and users and paves the way for standards setters towards developing accounting standards that reduce earnings manipulation.

3. Literature review

According to the literature, there are mainly three types of earnings manipulation; income smoothing (IS), earnings management (EM), and big bath accounting (BBA). *Income smoothing* has been used to explain the manipulative behavior of management to diminish the variability of income streams and to prevent sharp decreases and increases in income figures (Atik 2009). According to Ashari, et al. (1994, p. 291), "income smoothing is

deliberate voluntary acts by management to reduce income variation by using certain accounting devices." *Earnings management* is used in the studies when it is hypothesized that management tries to increase or decrease income figure with a specific purpose, such as decreasing earnings before a managerial buyout (DeAngelo 1986), increasing share prices before an initial public offering (Teoh, et al., 1998; Roosenboo et al. 2003), increasing bonus payments (Guidry, et al. 1999), decreasing tax payables (Keating, et al. 2000) and decreasing debt contracting costs (Beatty and Weber 2003). Stolowy and Breton (2000, p.43) define *big bath accounting* as large profit reducing write- offs or income-decreasing discretionary accruals in income statements especially when a new chief executive officer (CEO) is appointed, so new CEO cleans the accounts to be able to use it in the future to smooth earnings. Walsh et al. (1991) points out that in most studies related to big bath accounting, the attention has focused on proving the incidence of large write-offs.

On the other hand, there are three types of methods that are used to manipulate earnings, where earnings manipulations can be made through (i) changes in operations, such as changing time of an investment or an advertising campaign, (ii) changes in accounting methods or estimates, such as changing the estimates of bad debts or changing depreciation method, or (iii) fraudulent accounting practices, such as recording fictitious sales.

Bruns and Merchant (1990) provide a leading study on ethical perceptions of accounting manipulations. They tried to explore the morals of short-term earnings management using a questionnaire, composed of thirteen hypothetical operating and accounting manipulation methods of earnings management situations. The survey was directed to 649 participants representing general managers, finance managers, control and audit managers. The results reveal that operating manipulations were judged more favorably than manipulations based on accounting methods, because when operating manipulations are used, earnings numbers show what actually happened. Additionally, earnings management was deemed more acceptable when (i) the result reduced earnings rather than increasing it, (ii) the change was small, and (iii) it was made to meet an interim quarterly budget target rather than to meet an annual budget target.

A number of research have employed the Bruns and Merchant (1990)' questionnaire to test ethical perceptions of earnings management. Among them are Fischer and Rosenzweig 1995, Clikman et al. 2001, Geiger et al. 2003, Özer et al. 2003. Fischer and Rosenzweig 1995 surveyed a sample of undergraduate students, MBA students and accounting practitioners. The results are consistent with Bruns and Merchant 1990, where all the groups surveyed have a greater tolerance for operating expense manipulations than the manipulations based on accounting methods. Fischer and Rosenzweig 1995 commented that one of the possible reasons of these findings is that many people think of ethics as a list of rules and assume that if something is not expressly prohibited, one need not worry about ethics. Clikeman et al. 2001 tried to find out whether gender and national origin influence accounting students' perceptions of earnings management based on a sample of 115 accounting students (54 male and 61 female) from six different countries (USA, Hong Kong, Indonesia, Malaysia, Singapore and Taiwan). The findings did not support that gender and culture significantly affect judgments on the ethical acceptability of earnings management. Geiger et al. 2003 extended Clikeman et al. 2000 study to test the impact of national culture on ethical perceptions of earnings management. They used a sample of 898 accounting students from eight countries (Australia, Hong Kong, Indonesia, Malaysia, Singapore, Spain, UK and USA). The findings suggested that individuals from different countries vary significantly in their general perceptions regarding earnings management. However, there was only minimal association between perceptions and the five cultural dimensions of Hofstede. Özer et al. 2003 examined ethical judgments of undergraduate, MBA and PhD students, top executives and accounting staff on earnings management. Results showed that significant variances exist among ethical judgments concerning not only the type of manipulations but also within and between the groups of respondents.

Kaplan (2001a) conducted an experimental study on MBA students to understand whether an individual's ethically related judgments in response to earnings management activities are associated

with the individual's role. The students were assigned one of three different roles: a shareholder, another manager from the company who is unfamiliar with the manager engaging in earnings management behavior or another manager from the company who is familiar with the manager engaging in earnings management behavior. Results showed that individuals' assigned role do not appear to make differentiated ethically related judgments across different scenarios of earnings management as well as individuals view any attempts to manipulate earnings are equally unethical.

Belski et al. (2008) extended prior studies that examined the ethics of earnings management by further examining individuals' judgments of ethical acceptability related to specific earnings management activities as they relate to the intent and type of the earnings management manipulation. The experiment was conducted using business school students from a public university who responded to six hypothetical vignettes involving the management of earnings. The study found that the intent of the earnings management matters, where managers engaging in earnings management that was deemed opportunistic or selfish were considered more unethical (or less ethical) than earnings management behavior aimed at increasing firm contracting efficiency. Additionally, the study found that the method of the manipulation was also important. Accounting estimate manipulations was considered the least ethical followed by economic operating decisions. Changes in accounting method were considered the least unethical.

Grasso et al. (2009) focused on the ethical perception of earnings management using a survey that compares accounting students' and professionals' perception of the ethics of earnings management before and after the accounting scandals that led to passage of the Sarbanes-Oxley Act of 2002 (SOX) in USA. The 14-item version of Merchant's earnings management survey instrument was used. The results suggest that professionals and students in the era following the passage of SOX find earnings management more questionable and less ethical than their pre-SOX counterparts. Overall, the high-profile accounting scandals appear to have a higher effect than SOX on the perceived ethics of earnings management. In addition, the results indicated that accounting manipulations were perceived as significantly less ethical than operational manipulations both pre- and post-SOX. On a relative basis, professionals and managers judged accounting manipulations more harshly than students did, and students judged operational manipulations more harshly than professionals and managers did.

Ng et al. (2009) carried out a pilot study on a sample of 262 final year undergraduate accounting students, where they were asked to complete a questionnaire that tests the impact of moral intensity on financial accountants' propensity to manage earnings. Different ethical scenarios were presented to respondents in the survey; each ethical scenario was designed in either high or low moral intensity form, to reflect the importance of the moral dilemma at hand. The results indicated that three of the five moral intensity components have a significant influence in the study. In addition, t- tests indicated that the manipulation of high and low conditions within each scenario were also successful.

In Turkey, studies on ethical perceptions on earnings manipulation are lagging behind its counterpart in developed countries, Kutay et al. (2005) surveyed managers in Turkey to elicit their perception on creative accounting practices. The survey targeted managers of the companies that operate in the Aegean Region of Turkey. Most of the respondents expressed that creative accounting practices frequently take place and most of respondents believe that companies are benefiting from creative accounting rather than having difficulties.

Atik (2009) noted that flexibility in selecting accounting methods sometimes motivates managers to choose accounting methods or to change employed ones in order to increase, decrease or smooth income figures. Income-smoothing behaviors of Turkish listed companies are detected through empirical tests using discretionary accounting changes (DACs) between the years 1998 and 2003. Financial institutions were excluded because of accounting and reporting differences. Parallel to the study conducted by Moses (1987), income smoothing is accepted as one motivation of DACs and the sample firms are classified as smoothers and non-smoothers by using Moses' smoothing behavior index. Results showed that possible motivations of DACs are income smoothing,

economical characteristics of the periods in which the DACs are made, and the desire of Turkish firms to have net incomes close to zero.

In the light of above discussion, it is noted that there is a lack in the literature generally as well as in Turkey specifically, as an emerging market, on the ethical perceptions of preparers and users about earnings manipulation. Majority of previous research have concentrated on ethical perceptions of only one type of earnings manipulation; earnings management, based on the questionnaire developed by Bruns and Merchant (1990). There is a need to employ new research instruments and methodologies in this line of research, hence, this study tried to fill this gap by testing ethical perceptions of "preparers" and "users" of financial information using a differently set questionnaire.

4. Research design

4.1 Research questions

The research questions of this study are:

1. To what extent ethical perceptions concerning the methods used for accounting manipulation differ between preparers and users?
2. Does the method and type of earnings manipulation have different effects on ethical perceptions of earnings manipulation?
3. Which of the methods; *(i) changes in operations* , (ii) *changes in accounting methods and/or estimates* , (iii) *fraudulent accounting practices*, respondents believe to be more in Turkey in order to change earnings?

4.2. Hypotheses development

4.2.1. Users and preparers ethical perceptions

In cases where parties have conflicting interests, their ethical perceptions on the same issues might differ, as each party would evaluate the event based on his/her perspective. It has been noted that some of the Turkish CPAs reported that although they have never manipulated financial information, earnings manipulation aiming to decrease tax liability is unavoidable for many firms because tax rates are very high and do not allow a living space for firms. On the other hand, it is not sound to expect that a tax officer would also have similar opinions concerning manipulation made to decrease tax liability. Therefore based on the intuition that users and preparers of financial information are two different groups that have conflicting interests, the following hypothesis is developed.

H_1: Users' ethical perceptions concerning earnings manipulation are different from preparers' ethical perceptions.

Furthermore, when one party thinks that manipulating earnings is an ethical (unethical) behavior, then it may be expected that this party will also perceive the steps taken to manipulate earnings as ethical (unethical). In order to understand whether users' ethical perceptions concerning the method used for manipulation are different from those of preparers, the following second hypothesis is tested.

H_2: Users' ethical perceptions concerning the methods used for manipulation are different from those of preparers.

4.2.2. Type of earnings manipulation

After reviewing the literature on earnings manipulations, we determined that studies that have tested the ethical side of manipulations are rare. In general, studies were carried out to determine whether companies manipulate earnings or not and what the possible outcomes of manipulative behaviors are. However, although no comments have been raised about the ethics of earnings manipulation, some studies (such as Hepworth 1953; Beidleman 1973; Moses 1987; Trueman and Titman 1988; Zucca and Campbell 1992; Stolowy and Breton 2000) discuss the advantages of some types of earnings manipulations. Among the advantages of income smoothing; (i) having better relations with investors, creditors, workers, and so on, (ii) having higher security

prices and lower cost of capital, and (iii) creating more stable capital markets. Additionally, advantages of big bath accounting are: (i) after having a big bath and cleaning the accounts, management becomes able to smooth income figures in the future, and this is good for the company, (ii) management may undertake a big bath to signal investors that bad times are behind them and better times will follow. Therefore in the current study, it is expected that the type of earnings manipulation would affect ethical perceptions. Hence, the following hypothesis is formulated:

H3: Ethical perceptions on earnings manipulation change by the type of manipulation.

4.2.3. Methods of earnings manipulation

Earnings manipulation can be made through (1) changes in operations, (2) changes in accounting methods or estimates, and (3) fraudulent accounting practices. Most of the previous related research (Bruns and Merchant 1990; Fischer and Rosenzweig 1995; Elias 2002; Özer et al. 2003) showed that operating manipulations were deemed less unethical than accounting manipulations and frauds. Fraud was deemed as the most unethical case. Bruns and Merchant (1990, p.24) make the following explanation related to this finding: "….operating manipulations were judged more favorably because the earnings numbers are indicative of what actually took place. The operating manipulations have changed reality and truth is fairly reported". Based on the above discussion, the following hypothesis is developed.

H4: Ethical perceptions on methods used for manipulation change by the type of the method.

4.2.4. Dominant method used in practice for manipulation of earnings

In order to understand the respondents' thoughts about the frequency of occurrence of the three types of earnings manipulation methods in Turkey, this study tests the following hypothesis:

H5: Fraudulent accounting is the dominant in practice to manipulate earnings.

4.3. Instrument

A questionnaire was developed for the purpose of this study that contains two sections; the first section includes scenarios that describe the three different types of earnings manipulation, which are income smoothing, earnings management and big bath accounting. In developing the scenarios and the sub-statements, the paper inspires scenarios that have been discussed in previous literature (for example, DeAngelo 1986; Bruns and Merchant 1990; Walsh et al. 1991; Teoh et al. 1998; Healy and Wahlen 1999; Guidry et al. 1999; Stolowy and Breton 2000; Buckmaster 2001; Roosenboom et al. 2003; Beatty and Weber 2003,). The scenarios comprise seven scenarios; the first scenario, describes an income smoothing case; the scenarios from two to six, describe earnings management cases; and the seventh scenario, describes a big bath accounting case. The main difference between the scenarios is the intent of management engaging in manipulative behavior.

Under each of the first six scenarios, there are three sub-statements that describe methods used to manipulate financial information. The first sub-statements of each scenario describe manipulation through changes in operations, the second sub-statements describe manipulations through accounting method or policy changes, and the third ones describe fraudulent accounting practices. Respondents were asked to express their opinions on the ethical acceptability of each scenario and sub-statement (or methods used for manipulations) based on on a five-point Likert scale, that ranged from 1 "ethically" to 5 "not-ethically".

Table 1 summarizes the scenarios that were used to test users' and preparers' perceptions towards earning manipulation (questionnaire is available from the authors upon request).

(Table 1 here)

The second section of the questionnaire, is composed of five questions covering how often managers change their operations, accounting methods/estimates and practice fraudulent accounting in order to change the financial appearance of their firms. The respondents were asked to rate their answers on each statement based on a five-point Likert scale ranging from

"strongly agree" to "strongly disagree" or "always" to "never". An initial version of the questionnaire was sent out to six accountants and four financial analysts working in Turkey, and based on their feedback, minor modifications were made.

4.4. Sample selection

The questionnaire was directed to financial analysts who are working in financial institutions and evaluate financial performances of the firms applying for loans, as well as to portfolio managers and specialists who work for investment and portfolio management companies were selected as representatives of financial information' users, to ensure awareness of the scenarios and related earnings manipulation types and methods. Additionally, independent and company affiliated accountants representing the preparers of financial information were subject to the survey. Due to difficulty in following the random method in selecting the sample, where it is very hard to determine all the financial information users and preparers in Turkey, representatives from the market were selected for this study.

The questionnaire was distributed mainly through e-mail, but to somewhere delivered through mail as well as using a drop-off, pick-up method when convenient. There was no check for the response rate where the number of users and preparers participating in the survey is not counted. The completed questionnaires that were valid for analysis were 194; 82 from financial analysts and portfolio managers, 56 independent and 56 company affiliated accountants.

5. Analysis of results and discussion

The survey tests the ethical perceptions of users and preparers on earnings manipulation in Turkey and consensuses on the types and methods of manipulations and its effects on firms' reports.

5.1. Reliability test

The questionnaire was tested for reliability and internal consistency using Cronbach's alpha. This test calculates the reliability coefficient (α) if one variable is removed from the original set of variables in the questionnaire. This test helps determine the set of variables with high reliability based on an α coefficient above 0.7. The coefficient of the original set of questionnaire variables is judged reliable using this method with scores varying between 0.732 to 0.861 when one variable is removed from the questionnaire.

5.2. Awareness's on earnings manipulation scenarios

Participants were requested to express and rate the degree to which they have awareness of scenarios that can be followed for earnings manipulation. The answers of users and preparers to each scenario and sub-statement of the scenarios were compared using t-tests. As mentioned before, preparers (112 respondents) are company affiliated and independent accountants, and users (82 respondents) are financial analysts and portfolio managers who work for financial institutions. As for the fifteen of the total twenty-five questions, which are related to the scenarios, mean scores of the answers of preparers are higher than mean scores of the answers of users. For example, as shown in table 2, mean score of preparers is 2.552 against 2.549 of users for the first scenario and this is the case for the reset of scenarios. The results reveal that those accountants deem most of the scenarios and attempts under each scenario to earnings manipulation are more unethical than financial analysts do. However, significant differences between preparers and users exist only for certain scenarios, Scenario 1; 1.a, 1.b, 1.c, Scenario 2; 2.b, 2.c, Scenario 3; 3.a, Scenario 4; 4.a and Scenario 5; 5.c, as follows:

(Table 2 here)

- The first scenario, describes an income smoothing case, where all types of attempts (changes in operations, changes in accounting methods or estimates, and fraud) to smooth income were deemed more ethical by financial analysts than accountants. Financial analysts might have thought that smooth income figures are good in the long run.

- The second scenario, describes a managerial buyout situation where members of the board of directors want to take over the firm that they work for. This scenario and the attempt, which was changing depreciation method and recording next period's prepaid expenses as current year's expenses, were evaluated significantly more unethical by accountants than financial analysts.
- According to the third scenario, question 3.a. describes a situation in which sales and promotion expenses are decreased and advertisement project is postponed to next year. This is also evaluated significantly more unethical by accountants. While evaluating the ethical acceptability of the methods used for manipulation, accountants might have thought the benefits and harms of the methods for firms in the long run.
- The fourth scenario, describes a situation in which a firm manipulates its financial information in order to decrease cost of borrowing. Financial analysts evaluated this scenario significantly more unethical than accountants did. This is not a surprising result. Financial analysts who responded to this questionnaire are working in financial institutions and use financial information of firms to make credit decisions. Because this scenario is about misleading them, they opposed manipulative behavior more strongly.
- According to the fifth scenario, question 5.c, which describes a fraudulent accounting practice in order to decrease tax payable, was also evaluated significantly more unethical by accountants.

On light of the above discussion, the firs hypothesis, *Users' ethical perceptions concerning earnings manipulation are different from preparers' ethical perceptions.*

5.3. Impact of methods of manipulations on ethical perceptions

Analysis of preparers and users of financial information' responses on their perceptions of the impact of the method of earning manipulation on ethical perceptions were carried out. Therefore, this paper argues that intents explained in the scenarios may affect the ethical perceptions related to the methods explained in each sub-question. In other words, an operating manipulation might have been perceived differently when it was made to smooth income rather than to decrease cost of borrowing or tax liability. Therefore, it is necessary to replicate the t-test with the average scores of all questions related to each scenario with all sub-scenarios.

As shown table 3, there are significant differences between the ethical perceptions of users and preparers in scenarios one through four, in relation to income smoothing, management buyout and increasing share prices before an IPO were deemed significantly less unethical by users.

(Table 3 here)

On the other hand, the fourth scenario, which is about trying to mislead banks, was deemed significantly more unethical by users. Based on the above discussion, the second hypothesis, *Users' ethical perceptions concerning the methods used for manipulation are different from preparers' ethical perceptions,* is accepted.

5.4. Type of earnings manipulation

This study tests whether the type of earnings manipulation would affect ethical perceptions of preparers and users. One-way ANOVA test is used to test preparers' and users' responses for the scenarios presented. As shown in table 4, the results suggest that there are significant differences between the scenarios. Scheffe test showed that there are four homogeneous subsets of the scenarios. The first subset is composed of Scenarios 1, 7, 4 and 5, the second subset comprises scenarios 7, 4, 5 and 3, the third one is composed of scenarios 5, 3 and 6, and the last one includes only the scenario 2.

(Table 4 here)

Ethical perceptions about income smoothing scenario are similar to big bath accounting scenario, however different from earnings management scenarios. Additionally, income smoothing and big bath accounting are deemed as the least unethical earnings manipulation. On the other hand, earnings manipulations that are made for the benefits of managers are deemed as the most unethical ones. Hence, the third hypothesis, *Ethical perceptions on earnings manipulations change by the type of manipulation,*

is accepted.

Further test is carried out based on the average scores of each scenario and related sub- statements. As shown in table 5, there are three homogeneous subsets of the scenarios. The first subset is composed of scenario 1 and 7, the second one is composed of scenarios 4, 3, 5 and 2, and the third one comprises only the scenario 6. Again, ethical perceptions related to income smoothing and big bath accounting are similar, but significantly different from the ethical perceptions related to earnings management scenarios. This time scenario 6, which is about increasing bonus payments, is the most unethical scenario.

(Table 5 here)

The methods used for manipulation were also compared with one-way ANOVA test. Results showed that ethical perceptions about the three types of methods are significantly different from each other. Manipulation through changes in operations was deemed as the least unethical one, followed by manipulation through changing accounting methods and/or estimates. As expected, fraudulent accounting practices were deemed as the most unethical.

5.5. Manipulation through changes in real operations

As shown in table 6, 46.12 % of the respondents think that manipulation through changes in real operations take place "always" or "often, 47.67 % think that they happen "sometimes" and only 6.22 % think they take place "rarely" or "never". Results of T-test suggest that preparers and users think similar about the frequency of the occurrence of this type of manipulation method.

(Table 6 here)

5.6. Manipulation through changes in accounting methods and/or estimates

As shown in table 7, 53.12 % of the respondents strongly agree or agree that manipulation through changes in accounting methods and/or estimates take place in Turkey, 39.06 % of respondents disagree on the occurrence of such manipulation, and only 7.81 % of respondents express that such manipulation "rarely" or "never" take place. T-test results show that there are significant differences between the answers of accountants and financial analysts about the frequency of occurrence of the changes in accounting methods and/or estimates. A higher percentage of users think that this type of manipulation method takes place more frequently.

(Table 7 here)

5.7. Manipulation through fraudulent accounting

As shown in table 8, 47.64 % of the respondents think that fraudulent accounting practices take place "always" or "often", 38.2 % think that they happen "sometimes" and only 14.14% think they take place "rarely" or "never". Again, there are significant differences between the answers of accountants and financial analysts about the frequency of occurrence of frauds. Users think that managers engage in fraudulent accounting more frequently.

(Table 8 here)

As the summary of tables 6, 7 and 8, we can say that most of the respondents think that all of the methods to manipulate earnings are very common and practiced very often in Turkey.

6. Conclusion

Existing related literature examines mainly the ethical acceptability of earnings management practices and perspectives of accountants, accounting major students and academics. Other types of earnings manipulation such as income smoothing and big bath accounting, and perspectives of other parties such as users, have been ignored by majority of previous research. This study aimed to fill this gap. The ethical perception differences of financial analysts and accountants about three types of earnings manipulations were examined by using a questionnaire. The scenarios in the questionnaire were developed based on the existing literature and included the information about the purposes of management and three types of attempts to realize these purposes.

The findings of this study reveal that users of accounting information evaluate most of the scenarios and attempts more unethical than preparers do. This is an interesting result because manipulations and frauds harm mostly users, so it was expected that users would oppose manipulative behavior more severely.

Significant differences exist between ethical perceptions of users and preparers related to scenario 1 (income smoothing), scenario 2 (management buyout), scenario 3 (manipulation before an IPO), and scenario 4 (misleading banks). Accountants oppose the first three scenarios more strongly; however, financial analysts assess the fourth scenario as more unethical.

Additionally, statistical results revealed that the respondents think that the three types of manipulation tools significantly different from each other. As it is expected, the most unethical tool is fraudulent accounting, then manipulation through accounting changes and manipulation through operational changes. Here, some questions arise. Although accountants think that earnings manipulation and fraud are unethical, what factors motivate them to behave unethical? Might some factors be high tax rates, fear of losing their jobs, or being evaluated and paid according to financial results? Future research may concentrate on these subjects.

For the preparation and presentation of reliable and useful financial information, there are many responsible parties other than accountants, such as governmental agencies, owners or investors of firms, and top managers. Each of these parties should try to create an environment in which accountants feel free to behave according to their rights and wrongs. Additionally, accounting ethics education will help accountants to develop better ethical rules while deciding on what is wrong and right. Therefore, improving the quality of accounting ethics education and making it widespread is very important in Turkey.

7. Limitations of the Study

The most important limitation of this study is the small sample size. Although there may thousands of financial information users and preparers, findings of the study is derived based on the answers of only 194 respondents. The second limitation is that the responses were not anonymous. The respondents delivered the filled questionnaire through e- mail. Although they were informed that the answers would be kept strictly confidential, their answers might have been different if the research was web-based. Furthermore, concerning the scenarios described in the questionnaire, the intent behind the earnings manipulation was explained. However, in the real world, it is impossible to understand real intents of a firm when it changes its operations and/or its accounting methods. Therefore, in a real operating environment, without knowing the real purpose, making ethically related judgments will be very difficult.

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Table 1. The different scenarios of earnings manipulation

Earnings Manipulation Type	Scenario (the purpose or intent of management)	The Method used for manipulation
Income Smoothing	1. To have smooth income figures over the long run	1.a. Changing real operations
		1.b. Changing accounting methods or estimates
		1.c. Fraudulent accounting
Earnings Management	2. To take over the firm (Management buyout case)	2.a. Changing real operations
		2.b. Changing accounting methods or estimates
		2.c. Fraudulent accounting
	3. To increase share prices before an initial public offering	3.a. Changing real operations
		3.b. Changing accounting methods or estimates
		3.c. Fraudulent accounting
	4. To decrease cost of borrowing	4.a. Changing real operations
		4.b. Changing accounting methods or estimates
		4.c. Fraudulent accounting
	5. To decrease taxes payable amount	5.a. Changing real operations
		5.b. Changing accounting methods or estimates
		5.c. Fraudulent accounting
	6. To increase bonus payments of top executives	6.a. Changing real operations
		6.b. Changing accounting methods or estimates
		6.c. Fraudulent accounting
Big Bath Accounting	7. To benefit from the opportunity of blaming previous management for the poor results of the current year	7. Changing accounting methods or estimates (Method is indicated in the scenario)

Table 2. Users and preparers perceptions on earnings manipulation scenarios

Scenarios	Average Mean		t-statistics
	Preparers	Users	
Scenario 1	2.552	2.549	0.013
S1.A	2.369	1.802	3.156*
S1.B	3.464	3.024	2.260**
S1.C	4.315	3.864	2.834*
Scenario 2	4.424	4.000	2.521**
S2.A	3.613	3.825	-1.116
S2.B	3.748	3.275	2.271**
S2.C	4.342	3.827	3.214*
Scenario 3	3.276	3.062	0.908
S3.A	2.640	2.259	1.907***
S3.B	3.261	2.963	1.366
S3.C	4.423	4.439	-0.120
Scenario 4	2.575	3.242	-2.867*
S4.A	1.757	2.225	-2.350**
S4.B	2.901	2.938	-0.177
S4.C	4.063	4.038	0.158
Scenario 5	3.114	3.092	0.091
S5.A	2.523	2.738	-1.061
S5.B	2.536	2.506	0.142
S5.C	4.064	3.709	2.053**
Scenario 6	3.600	3.692	-0.410
S6.A	3.718	3.863	-0.768
S6.B	3.682	3.863	-1.028
S6.C	4.126	3.875	1.569
Scenario 7	2.896	2.595	1.363

* Significant at 0.01 level, ** Significant at 0.05 level *** Significant at 0.1 level

Table 3: Comparison of mean scores of the scenarios between the user and the preparer groups

	Group	N	Mean	Std. Dev.	t-statistics
Scenario 1	Preparers	112	3.209	1.000	3.165*
	Users	82	2.818	0.721	
Scenario 2	Preparers	112	4.021	0.907	2.183**
	Users	82	3.721	0.991	
Scenario 3	Preparers	112	3.428	0.995	1.776***
	Users	82	3.184	0.873	
Scenario 4	Preparers	112	2.861	0.914	-1.684***
	Users	82	3.098	1.031	
Scenario 5	Preparers	112	3.062	1.036	0.223
	Users	82	3.030	0.864	
Scenario 6	Preparers	112	3.800	0.948	-0.214
	Users	82	3.829	0.888	
Scenario 7	Preparers	112	2.896	1.462	1.363
	Users	82	2.595	1.384	

* Significant at 0.01 level ** Significant at 0.05 level *** Significant at 0.1 level

Table 4. Comparison of the ethical perceptions concerning the type of earnings manipulation

ANOVA	F = 28.223		Sig. = 0.000		
	Scheffe Test Results				
	N	Subset for alpha = .05			
Scenario		1	2	3	4
1 (IS)	167	2.551			
7 (BBA)	170	2.765	2.765		
4 (EM)	153	2.863	2.863		
5 (EM)	153	3.105	3.105	3.105	
3 (EM)	152		3.184	3.184	
6 (EM)	150			3.640	
2 (EM)	163				4.239

Means for groups in homogeneous subsets are displayed.

a.) Uses Harmonic Mean Sample Size = 157.932.

b.) The group sizes are unequal. The harmonic mean of the group sizes is used. Type I error levels are not guaranteed.

Table 5. Comparison of the ethical perceptions concerning the type of earnings manipulation- average score

ANOVA	F = 76.910		Sig. = 0.000	
	Scheffe Test Results			
	N	Subset for alpha = .05		
Scenario		1	2	3
1	194	2.614		
7	170	2.765		
4	194		3.182	
3	194		3.253	
5	194		3.467	
2	194		3.491	
6	194			4.285

Means for groups in homogeneous subsets are displayed.

a.) Uses Harmonic Mean Sample Size = 190.165.

b.) The group sizes are unequal. The harmonic mean of the group sizes is used. Type I error levels are not guaranteed.

Table 6. Opinions on occurrence of changes in operations

	All Respondents		Users		Preparers	
	Freq.	%	Freq.	%	Freq.	%
Always	7	3.63	1	1.22	6	5.41
Often	82	42.49	41	50.00	41	36.94
Sometimes	92	47.67	36	43.90	56	50.45
Rarely	11	5.70	4	4.88	7	6.31
Never	1	0.52	0	0	1	0.90
Total	193	100	82	100	111	100
Missing	1		0		1	
Total	194		82		112	

Table 7. Opinions on occurrence of changes in accounting methods/estimates

	All Respondents		Users		Preparers	
	Freq.	%	Freq.	%	Freq.	%
Strongly agree	16	8.33	6	7.32	10	9.09
Agree	86	44.79	47	57.32	39	35.45
Neither agree nor disagree	75	39.06	25	30.49	50	45.45
Disagree	11	5.73	4	4.88	7	6.36
Strongly disagree	4	2.08	0	0	4	3.64
Total	192	100	82	100	110	100
Missing	2		0		2	
Total	194		82		112	

Table 8. Opinions on occurrence of fraudulent accounting practices

	All Respondents		Users		Preparers	
	Freq.	%	Freq.	%	Freq.	%
Always	15	7.85	8	10	7	6.31
Often	76	39.79	43	53.75	33	29.73
Sometimes	73	38.22	27	33.75	46	41.44
Rarely	16	8.38	2	2.5	14	12.61
Never	11	5.76	0	0	11	9.91
Total	191	100	80	100	111	100
Missing	3		2		1	
Total	194		82		112