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THE ROLE OF EARNINGS MANAGEMENT IN CAPITAL EROSION

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Abstract:

The concept of capital preservation is of paramount importance in measuring the performance and financial position of enterprises, so real earnings is the amount that can be distributed without effecting the capital, and therefore is known as " annually distributable income", each enterprise must pay interest, dividends and to creditors, owners and the government taxes (if it operates profitably), so what needed to be determined whether distributable income may cause capital erosion or not (which increases the capital). In this research, the role of earnings management in the capital erosion was discussed, the survey included a sample of companies listed in the Iraq Stock Exchange, the relevant information and data were extracted from the financial data of eleven companies for the period (from 2012 to 2021), and then analyzed and tested according to the statistical analysis program SPSS and Excel, the results show that there is an influential relationship between earnings management and capital erosion, that is to say, earnings management led to capital erosion in the Long term.

Keywords: Earnings Management, the Capital, Capital Erosion

1-INTRODUCTION :

The research examines the relationship between earnings management and capital erosion in a sample of companies listed in the Iraq Stock Exchange, and the sample of companies chosen for more than one sector meets the objectives of the research, and earnings management is one of the administrative means that may be exploited by management to maximize profits and increase their benefits in the short term, but this affects the company's capital in the long term and its existence in the market and may lead to losses and collapse of the company, hereinbefore, the research problem can be introduced In the following question: (Is there a relationship and effect in the use of earnings management on the erosion of capital?) The research hypothesis was put on the fact that there is a relationship between earnings management and capital erosion, and that the importance of the research is to beware of negative earnings management that affects the value of the company and the erosion of capital in the long term, and the researcher used the model (Raman & Shahrur, 2008) to estimate earnings management, and the researcher used three variables to estimate the capital erosion, the first is a comparison between the market value of shares and book value, the second is the change in assets, the third is the change in net profits, for companies that practice earnings management.

2- EARNINGS MANAGEMENT CONCEPT :

The study of (Healy, 1985) is considered the first study that discussed the phenomenon of earnings management, it has shown that the motives of management to practice earnings management aims to increase the incentives obtained by management, Healy has explained that management determines the earnings management strategy in light of the level of incentives expected, and reached (Gaver et al, 1995)) that the strategy of increasing profit through beautification / improvement seeks to achieve a high level of incentives, and (Burgstahler & Dichev, 1997) said that companies manage profits declared in order to avoid a decrease in profits and the occurrence of losses, and (Barton, 2001) says that financial derivatives can be used in addition to earnings management to beautify cash flow, so that income represents the product of the sum of cash flow and accounting accrual, so the reduction of fluctuations in cash flow will conduce to reduce fluctuations inside, and the study of (Leuz, Nanda, Wysocki, 2003) stated that the level of earnings management decreases with the existence of legislative protection for investors, because legislative systems preserve the interests of investors outside the administration, limiting management's ability to use profits for personal motives and benefits, and a study of(Gopalan & Jayaraman, 2012; Lenard & yu,2013) stated the

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weakness of legal systems and the lack of protection for investors may push management to apply the practice of earnings management, and a study of (Zhou & Zou, 2013) indicated that the asymmetry of data may be a major reason for management to practice earnings management to maximize its own interests, from the private information that management possesses only, including future profit to achieve its own interest.

Many views to define earnings management practices, including the definition of (Schipper, 1989), where he determined it as a meaningful intervention in the financial reporting process with the aim of obtaining private gains and not for the purpose of facilitating the process of impartial operation of these reports, and (Scott, 1997) determined the process of selecting accounting policies by the entity in order to achieve specific management objectives, and determined by (Zang, 2007) as actions aimed at changing the declared profits in a certain direction and this change is achieved through structuring transactions and manipulating timings or financial transactions to reach the optimal level of profits, A study of (Peecher, et al, 2010) also dealt with that the presence of naïve investors who are less experienced and skilled in the importance of the available information may push management to apply the practice of earnings management, and on the contrary, the presence of professional investors may represent pressure on companies to increase the degree of disclosure and transparency, as shown by the study of (Lobo & zhou, 2001; Riahi&Arab, 2011) explained that the lack of disclosure provided by the company may be one of the reasons why management applies the practice of earnings management, since the disclosure of data reduces the degree of management's use of earnings management and reduces the asymmetry of information between management and stakeholders, in a way that makes it difficult for management to use its data to convert it into disclosed information, Henry & Bhuiyan, 2013 defined it as a management act to adjust disclosed profits and company value in the short term with the target of achieving specific results to mislead some stakeholders, and profits are managed by taking advantage of the flexibility provided by generally accepted accounting principles, or by adjusting the timing of some real economic activities of the company. (Enomoto et al. 2015) defines earnings management as management's choice of certain accounting policies, or making real economic decisions to influence the disclosed profit figure to achieve specific goals.

The researcher believes that earnings management is plagued by a dark side, which is what some departments seek to achieve gains in the short term and the impact of this appears in the long term on the value of the company and the erosion of the capital in an intangible way in the short term, and this is evidenced by the collapse of giant companies and declaring bankruptcy for adopting negative earnings management, (Omid et al, 2012) mentioned that the practice of opportunistic earnings management aims to hide the operating profit, and maximize the personal interests of management, and this is done through the use of non-profit estimates Logical, such as reducing the estimates of some provisions, which leads to the loss of credibility of financial reports, and the possibility of relying on them because they contain misleading data.

Two points of view about earnings management, and its effect on the quality of accounting data, the first of which is that earnings management is an opportunistic behavior, as it targets to achieve personal interests of managers at the expense of the interests of shareholders, and the second point of view explains that earnings management may be useful because it supports the informational value of profits, and thus can lead to improving the quality of accounting data, managers may use the freedom available to them in measuring profits to communicate private data to shareholders and stakeholders in the company, and the relationship between Earnings management and the value of the company, so that if earnings management's opportunistic and therefore harmful to the company, earnings management is largely accompanied by less value for the company, and vice versa if earnings management is useful, there will be a positive or direct relationship between the extent of earnings management and the value of the company, and Previous studies have indicated that there is an inverse relationship between earnings management and the value of the company, which indicates that earnings management is carried out for opportunistic purposes, and leads to a negative effect and in addition to negatively affecting the quality of accounting data, and then the insanity of investors' decisions, there are many effects of the existence of some wrong management practices that some companies' managements may resort to influence the result of business and financial position and show them in an unreal and inexpressive image, including increasing the likelihood of The entity is exposed in the future to financial and operational shocks that may end up in financial distress and failure in the long term, In addition to the deterioration of the competitive position of the enterprise, and the

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expectation of a rise in the cost of financing, in addition to the fluctuation of return on investment, the unfairness of the market value of the share, the loss of the sovereign resources of the state, and thus harming the interests of those dealing with the facility, whether contributors and investors, or other stakeholders (Hanafi, 2019), earnings management is one of the areas that receive attention at the scientific and organizational levels, and its concept in practice is based on the subjection of accounting profit figures to a process of substantial misinformation and distortion, and practitioners and regulators consider It is a misrepresentation that raises many problems (Al-Qadi et al., 2016).

3-EARNINGS MANAGEMENT JUSTIFICATIONS:

Earnings management is a deliberate activity carried out by managers with the aim of misleading users of accounting information for private gain, and when management resorts to earnings management practices, it is based on the following justifications: (Issa, 2008)

1-It does not mismatch legal rules, whether public or private.
2- It does not mismatch generally accepted accounting principles.
3-It does not exceed its jurisdiction.

The researcher believes that the gaps in accounting standards and practice facilitate the management of negative profits, as they are classified according to standards and policies allowed in the field of accounting practice, and this is an entrance to the practice of managing profits legally, but it will eventually lead to the erosion of capital in the long term.

4-OBJECTIVES OF PASSIVE EARNINGS MANAGEMENT:

Many researchers have dealt with the objectives of negative earnings management, and the following are the most important negative objectives of earnings management: (Nasser spear, 2007; Kinlo, 2008; Pawan et al,2009; William and Zhihomg, 2011; (Hammad, 2005)

1- Misleading stakeholders or some categories of them about the economic performance of the entity.
2- Hide poor financial performance.
3- Avoid violations of debt agreements.
4- Avoid loss of trust by banks.
5- Avoid falling stock prices.
6-Meet stakeholder expectations.
7- Increase bonuses and personal profits.
8- Financial analysts' forecasts of earnings are realized.
9- Increase stock prices in the financial markets.

The researcher believes that all these targets will reduce the value of the company in the long term and lead to the erosion of capital and thus the emergence of undesirable results.

Passive profits can be managed in several ways, the most important of which are: (James and Paul, 1999; Patricia and Douglas, 2000)

1- Excessive aggressive recognition of allocations and reserves.
2- Reduce the burdens and losses resulting from the revaluation of assets.
3- Failure to make sufficient provisions for doubtful debts.
4- Reduction of allocations or reserves in an arbitrary and excessive manner.
5- Record sales before realization.
6- Assumed sales or preparation of sales invoices with previous dates.

The researcher believes that these methods are fraudulent and give an unacceptable image of the value of the company and its capital, and even if these methods in a short time beautify and modify the image of the financial statements, but in the long run they may harm the value of the company and its capital.

5-CONSEQUENCES OF EARNINGS MANAGEMENT

Although managers sometimes see the manipulation of earnings managements better for the benefit of the entity in the short term (short-run), the process can lead to serious long-term problems, the most important of which is the depreciation of the company, many operating decisions that are made for the primary purpose of influencing short-term profits can harm the economic health of the organization in the long term, delaying discretionary expenses can also harm the long-term performance of the entity, Maintenance deferral. Research and development, and employee training may lead to equipment failure, loss of market share, and reduced productivity (Clikeman, 2003), and a study (Ali, 2016) indicates that earnings management devalues the company, as many decisions made by the company to affect short-term profits will harm the company's economic efficiency in the long term.

The accounting literature includes a number of concepts or theories proposed to consider and theorize the joint stock company, perhaps the most important and most employed in accounting research is agency theory (Al-Adeem, 2017), and according to agency theory, there is a problem that emerged from the practice carried out by the owners of deputizing and delegating professional managers to manage their companies, and this problem is the problem of agency issue, which means that each category seeks to serve and achieve its economic interests even if it is at the expense of other categories, the human being This view or theory of the joint stock company is generalized to pervade all relations between the groups that cooperate and work together to establish and operate the joint stock company (Kleinman and Palmon, 2001), for example, the analysis carried out by (Fogarty et al, 2009) of the failure and bankruptcy of the Canadian company Nortel that there is an internal agency problem between the CEO and the members of the board of directors, which restricts and limits the model or theory of the agency in Joint stock companies.

Any cooperative relationship between two or more parties is marred by the problem of agency (Jensen and Meckling, 1976), and to alleviate the problem of agency between shareholders and managers, an external auditor is used, as the audit function is part of the cost of the agency that reduces the value of the joint stock company, which the owners do not mind bearing and sacrificing part of the value of their facility in order to make the interests of the managers in the same direction as the interests of the owners and in line with them (Smith and Warner, 1979; Watts, 1977; Watts and Zimmerman, 1979, 1986).

6- EARNINGS MANAGEMENT MEASUREMENT MODELS :

Earnings management's related to accounting receivables as the basis on which accounting is based, which is the application of the accrual principle, where the profit that results from the accounting accrual is the difference between the net operating profit and net cash flows resulting from operating activities, which is called total accruals (Accruals Total), and the total receivables consist of non-optional receivables and result from the normal operating activity of the company, and are not subject to the control of management, and optional receivables that are subject to the judgment and discretion of management due to its ability to intervene in measurement Accounting and flexibility involved in accounting standards (Jones, 1991), and optional receivables are used to measure and detect earnings management, but due to the difficulty of observing optional receivables in the financial statements, they had to be calculated using some mathematical models (Noor and Al-Awawdeh, 2017) and many researchers have developed a set of models to separate optional and non-optional accrual adjustments, including:

1- Healy, 1985

2- DeAngelo, 1986
3- Jones, 1991
4-The Modified Jones, 1995
5-Ress, Gill & Gore, 1996
6- Kothari, Leone & Wasley, 2005
7- Raman & Shahrur, 2008

Many studies and researches, including McNichols' study in 2002, confirmed that companies with strong growth opportunities have a high percentage of receivables, and on the basis of this hypothesis, both "Raman & Shahrur" in 2008 presented a developed model for the model "Kothari, Leone & Wasley" that takes into account the introduction of a new variable to measure optional receivables called Book to market, which is assumed to be a measure of the company's growth opportunities, and this variable is measured as a ratio between the company's total assets to the total Assets minus book value of equity plus market value of the company The model "Raman & Shahrur" can be expressed as follows:

$NDA_{i,t} / A_{i,t-1} = \alpha 1 (1/ A_{i,t-1}) + \alpha 2 (\Delta REV_{i,t} - \Delta AR_{i,t} / A_{i,t-1})$
$+\alpha 3 (PPE_{i,t} / A_{i,t-1}) + a4\ BM_{i,t} + \varepsilon_{i,t}$

Whereas:

NDA_{t+1} Non-optional entitlements for the period studied.

$A_{i,T-1}$ Total assets of the company (i) in a year (T-1)
$REV_{t,i}\Delta$: change in turnover of company (i) between year (t) and year (1-t).
$\Delta AR_{i,t}$: represents the change in the customer account of the company (i) in the year (t)
$PPE_{t,i}$: Net value of physical equipment (real estate, property and machinery) of the company(i) in year (t).
$BM_{i,t}$: Represents the ratio of the company's total assets to total assets minus the book value of equity plus the market value of the company (i) in the year (t).
A1, A2, A3, A4, A5: model-specific features calculated using least squares method from the previous model

7-THE CAPITAL STRUCTURE CONCEPT :

It is possible to differentiate between two concepts of financing structure in enterprises, namely the financial structure and the capital structure, the financial structure (Financial Structure): It is the structure of the sources of financing or the side of liabilities and shareholders' rights Statement of the financial position of the entity (2018, Khemiri & Noubbigh), and the financial structure means how the assets and investments of the entity are financed, which clarifies the financing tools used in and includes all forms and types of sources of funds, whether owned or assumed, short or long-term (2018, Elmanakhly), while the concept of capital structure refers to long-term sources of funding such as ordinary and preferred stocks, retained earnings, and long-term loans, without concern for short-term sources (Ameen & Shahzaadi 2017).

The capital structure is part of the financial structure, and it is a result of the financial policy followed by it, as this policy affects the financing decision as it is in-depth by choosing the appropriate financing structure, the homogeneous mix of funding sources after studying the cost of each of those sources, through which the institution can maximize its level of profitability, and thus achieve its goal of maximizing the wealth of the owner, or maximizing the market value of the share, and as the institution is a decision-making center, it establishes a number of Financial decisions for the purpose of differentiating between them, as they work to create a kind of structure in its capital structure in order to direct various financial resources to uses with return, it can be said that the enterprise with the aim of formulating a financial policy (Boutaweel, 2013).

The function of financing in enterprises is represented in two kinds of decisions, namely, investment decisions, and financing decisions, as the investment decision deepens by defining profitable investment projects and then determining the optimal size of the capital budget, while the financing decision is in-depth by determining the optimal capital structure for the facility's investments, i.e. the financing mix that reduces the cost of capital to a minimum, and reduces risk, and then maximizes the wealth of the owner, so one of the most complex decisions practiced by financial management are those decisions that deepen by determining the structure Financing business companies, which seeks aims to choose the optimal capital structure in order to maximize the market value of the share, and thus the market value of the entity as a whole, which is reflected in maximizing the wealth of the owner by reducing the minimum cost of capital according to the basic assumption that the lower the cost of capital resulting from creating the optimal mix of funding sources, the higher the market value of the share, and in light of this assumption, the financial department exercises a very important functional activity through which it seeks to determine the optimal ratios for each A source of funding (Boutaweel, 2013: 6).

The accounting literature has focused on the concept of capital structure, as it has been defined as "the mixture or combination of debt and equity that is used to finance the operations and strategy of an enterprise (Ramlia, et, al,2019. Al-Hinnawi)defined it as a term applied to the various types of financing adopted by an organization to obtain the resources necessary for the continuity and growth of its operations, and the capital structure usually consists of shareholder investments and long-term loans (Al-Hinnawi, 2001). It can also be defined as that part that includes only long-term sources of financing, which are long-term loans and equity, including preferred shares (Ahmed, 2011). He defined it (2018,. Yildirim et al) is the way a company finances its assets through equity, debt, or a combination thereof. (Tsoy & Heshmati 2017) defined it as "balancing debt and equity financing sources with the attempt to minimize capital costs, while maximizing the value of the company to the highest possible degree." (Saputra et al. 2015) defined it as "a combination of long-term sources of financing such as loans and equity including reserves used to finance a company's investments." (Attia2020) defined capital structure as "the sum of funds used to finance the activities of the enterprise, whether obtained from self-financing sources represented by equity or from external parties such as loans and bonds, with the target of financing the operations of the enterprise and future investments.

8-HYPOTHESIS TESTING:

The measure of the (Raman & Shahrur scale, 2008), was chosen and modified of Kothari et al, 2005, which modified the scale of (Jones, 1991), and modified by (Dechow et al, 1995), because it is a scale that has not been used in the Iraqi environment and is considered the latest to the researcher's knowledge. The measure is based on the separation of total receivables to optional and non-optional, and takes into account the introduction of a new variable to measure optional receivables called Book to market, which is assumed to be a measure of the company's growth opportunities, and this variable is measured as a ratio between the total assets of the company to the total assets minus the book value of equity plus the market value of the company, and eleven companies were selected from the companies listed in the Iraq Stock Exchange.

1.8- Study hypotheses :

Null (nihilism) hypothesis H0: There is no relationship between earnings management and capital erosion.

Alternative hypothesis H1: There is a relationship between earnings management and capital erosion.

For the purpose of applying the scale, the following is required:

1.8 .Earnings management Measurement

The first step is to calculate the total receivables

The total accruals are calculated using the following formula:

$TA_{i,t}=NI_{i,t}-CFO_{i,t}$

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Whereas:
TAi,t = total accruals of company i during term t
NIi,t = net income of company i during period t
CFOi,t = cash flow from the operations of company i during the period t
The calculation of the previous equation was as shown in the following table:

Table (1)
The calculation of the previous equation

The companies											Company name / years
Baghdad for Beverages	Almnsour Pharmacological	Alkhalij Bank	Investment Bank	Al-Ameen Insurance	Alkhalij Insurance	Alwatniah Investment	Al-Ameen Real Estate	Al-Ahlia Agriculture	zain	Asia cell	
-9497	297	-123711	-155	-330	-1319	561	-449	-137	44797	370216	2012
1425	-1820	-312744	-200	201	-1153	598	-428	-111	-178759	285613	2013
-14661	-1780	-322391	-321	-371	-872	696	-332	-43	-224530	-210210	2014
-32800	-1211	-230844	-341	-643	-872	265	-6051	-51	-380854	-414025	2015
13683	-1194	-300588	-414	-305	-778	-6526	-5138	8	-251450	-574083	2016
18203	-1416	-220802	-381	-358	-957	-5542	-4656	-1	-157219	-814187	2017
8271	9	-217488	-354711	-1049	-444	-3745	-4560	-5	-13013	-896940	2018
-49188	-2077	-230820	-303528	-1242	-526	-3444	-5280	-47	-3785	-955978	2019
-109687	-483	-209965	-352174	-1226	-465	-4518	-6422	-40	-96920	-1051457	2020
-72550	-489	-246218	-321546	-1585	-5629	-5496	-9956	-81	19845	-298357	2021
-24680	-1016	-241557	-133377	-691	-1302	-2715	-4327	-51	-124189	-455941	average
41624	811	58910	172393	559	1547	2931	3109	47	138689	501206	standard deviation

Source: done by the researcher based on the financial statements of the research sample companies and computer results.

The second step is to calculate the corporate propensity values
The calculation of non-voluntary benefits requires the estimation of the propensity values of the following regression equation:

$$TAi=a1(1/At-1)+a2(\Delta REVt/At-1-\Delta RECt/At-1)+a3(PPEt/At-1)+a4(ROAt)+a5(BMt)+\varepsilon t$$

And that the estimation of the previous regression equation requires the availability of the following data in addition to the availability of the total receivables that were calculated in Table (1), and after estimating the regression equation using the SPSS program for each company of the research sample, the results of the analysis showed the values of the Propensity for the companies of the research sample as shown in the following table:

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Table (2)
Propensity values for research sample companies

B5	**B4**	**B3**	**B2**	**B1**	**A**	The companies
597.191	3613902927	5.702	3.008	104.483	-2.067	Asia cell
0.171	1.961	1.295	4.868	0.300	-1.444	zain
-1.633	635671834	-504096609	-129250069	-1.273	-93927245.7	Al-Ahlia Agriculture
-0.662	1497837747	5396708920	6812014981	-1.003	1920381121	Al-Ameen Real Estate
0.739	3.682	-1.159	-3.846	0.297	739836127.5	Alwatniah For Investment
1.815	-1.107	-1.235	-15520541437	0.832	2018542209	Alkhalij Insurance
-0.230	9531299714	-3.379	-3016049516	-1.965	6517327663	Al-Ameen Insurance
-2.817	-3.632	-1.840	2.460	-3.490	1.704	Investment Bank
0.481	-1.694	-4.398	-1.137	-0.283	1.019	Alkhalij Bank
0.901	5025189193	5645180932	1110669328	0.920	-3082783407	Almnsour Pharmacological
-1.961	6.688	5.310	1.523	-1.954	-1.043	Baghdad Beverages

The table was done by the researcher based on the results of the computer.

It is noted that the values of the Propensity are oscillating between negative and positive. This has an impact on the estimation of non-optional accruals, which is reflected in the result on the optional accruals.

The third step is to calculate the non-optional accruals For the purpose of estimating non- optional accruals, the process requires substituting the slope values into the following equation: $\hat{ND}\ At = \hat{\alpha}\ 1(1/At-1) + \hat{\alpha}\ 2(\Delta REVt/At-1 - \Delta RECt/At-1) + \hat{\alpha}\ 3(PPEt/At-1) + \hat{\alpha}\ 4(ROAt) + \hat{\alpha}\ 5(BMt)$.

As a result of the compensation in the previous equation, the non-optional accruals appeared as in the following table:

Table (3)
Non-optional accruals for research sample companies (amounts in millions of dinars).

The companies											Company name
Baghdad Beverages	Almnsour Pharmacological	Alkhalij Bank	Investment Bank	Al-Ameen Insurance	Alkhalij Insurance	Alwatniah Investment	Al-Ameen Real Estate	Al-Ahlia Agriculture	zain	Asia cell	years
-113784	37633875	-40369	-543802	-18399781	1525389	43041	-80352	-176490	-4188108	2984010	2012
-130006	105800479	-128383	-1043693	-31137228	2298100	59836	-78121	-130402	-4508092	3180934	2013
-146273	115879096	-131084	-1270063	-39430879	792652	57071	-77110	-158793	-3290144	3460500	2014
-192675	110316450	-136366	-1285242	-42082114	3160850	65367	-181172	-242046	-3582157	3489951	2015

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-246276	112053100	-133477	-1402001	-40585522	3431702	124299	-154379	-294198	-3544844	3482818	2016
-387264	111348335	-53480	-1374438	-38981034	6061219	194888	-155001	-338672	-2792563	2783429	2017
-457273	136079358	-47088	-1512019	-38956534	3204768	218548	-161096	-349079	-2197880	2317384	2018
-581125	71797843	-40094	-1171058	-39975552	3044532	200813	-162957	-387559	-3183679	2006451	2019
-806422	58164661	-28454	-1338031	-44132061	2831739	262616	-210494	-373859	-5536390	2211597	2020
-1100521	205470345	-37515	-1673932	-49926042	46178670	336803	-332471	-408141	-5292582	1918047	2021
-416162	106454	-77631	-1261428	-38361	7253	156328	-159315	-286	-3811644	2783512	average
329200	46080	47543	305970	8439	13747	101380	76540	102	1066021	627318	standard deviation

The table was prepared by the researcher based on the results of the computer.

The appearance of non-optional accruals in the negative indicates that the company follows a conservative policy, so it does not have non-optional accruals, but when the non-optional accruals are positive, this indicates that the company follows non-conservative policies.

Step Four Optional Accruals to calculate the optional accruals, through which the company follows or does not follow the earnings management, the following equation will be used:

DAt,i=TAi,t – NDAi,t

DAt,i= Optional accruals of company i during period t

TAi,t = total accruals of company i during period t

NDAi,t= Optional accruals of company i during period t

The result of calculating the previous equation was as shown in the following table:

Table (4)

Optional Dues for Research Sample Companies (Amounts in Millions of Dinars)

The companies											Company name
Baghdad Beverages	Almnsour Pharmacological	Alkhalij Bank	Investment Bank	Al-Ameen Insurance	Alkhalij Insurance	Alwatniah Investment	Al-Ameen Real Estate	Al-Ahlia Agriculture	zain	Asiacell	years
-113784	37634	-40369	-543802	-18400	1525389	43041	-80352	-176490	-4188108	2984009	2012
-130006	105800	-128383	-1043693	-31137	2298100	59836	-78121	-130402	-4508092	3180934	2013
-146273	115879	-131084	-1270063	-39431	792652	57071	-77110	-158793	-3290144	3460500	2014

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-192675	110316	-136366	-1285242	-42082	3160850	65367	-181172	-242046	-3582157	3489951	2015
-246276	112053	-133477	-1402001	-40586	3431702	124299	-154379	-294198	-3544844	3482818	2016
-387264	111348	-53480	-1374438	-38981	6061219	194888	-155001	-338672	-2792563	2783429	2017
-457273	136079	-47088	-1512019	-38957	3204768	218548	-161096	-349079	-2197880	2317384	2018
-581125	71798	-40094	-1171058	-39976	3044532	200813	-162957	-387559	-3183679	2006451	2019
-806422	58165	-28454	-1338031	-44132	2831739	262616	-210494	-373859	-5536390	2211597	2020
-1100521	205470	-37515	-1673932	-49926	46178670	336803	-332471	-408141	-5292582	1918047	2021
-416162	106454	-77631	-1261428	-38361	7252962	156328	-159315	-285924	-3811644	2783512	average
329200	46080	47543	305970	8439	13746578	101380	76540	102246	1066021	627318	standard deviation

The table was done by the researcher based on the results of the computer

The appearance of the test accruals in the previous table with a negative value indicates that the company does not practice earnings management, and through the previous table it is clear that the companies (Zain, Al-Ahlia Agricultural Company, Al-Ameen Real Estate, Al-Ameen Insurance, Investment Bank, Gulf Bank, Baghdad Beverages) do not practice earnings management And companies (Asia cell, National Investments, Gulf Insurance, Al-Mansour Pharmaceutical) practice earnings management.

2.8.Measuring capital erosion :

The researcher will study the companies that practice earnings management in measuring capital erosion and will study the following:

First: Comparing the book value of the share with the market value

The comparison of the book value of the share with the market value is summarized in the following table:

Table (5)
Compare book value with market value

The table is done by the researcher based on the financial statements of the research sample companies and the computer results.

The companies								Company name / years
Almansour Pharmacological		Al-khalij Insurance		Alwatania Investment		Asia cell		
Market	Book	market	book	market	book	market	book	
0.92	1	1.19	1	10.94	1	20.99	1	2012
0.69	1	0.83	1	11.37	1	16.11	1	2013
0.64	1	0.78	1	16.09	1	11.32	1	2014
0.58	1	0.47	1	9	1	7.16	1	2015
0.51	1	0.62	1	8.5	1	6.35	1	2016

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0.53	1	0.68	1	6.5	1	5.25	1	2017
0.49	1	0.75	1	7	1	7.5	1	2018
0.72	1	0.71	1	9.1	1	8.5	1	2019
1.09	1	0.7	1	7.76	1	7.31	1	2020
2.16	1	0.66	1	8.65	1	7.49	1	2021
0.833	1	0.739	1	9.491	1	9.798	1	average
0.503632	0	0.186217	0	2.7770467	0	5.004813	0	standard deviation

The researcher notes that Asia cell Company in general decreased the value of its shares and a decrease of almost two-thirds, and that the Alwatania Investment Company in the first three years rose and then fell and then fell and then decreased and this fluctuation indicates an abnormal performance of the company, as for the Gulf Insurance Company, its shares fell less than their book value from 2013 and beyond, and this indicates a bad performance of the company, and finally, Al-Mansour Pharmaceutical Company also has its shares less than their book value, except in the last two years they rose Its shares are higher than their book value, from the above, the researcher concludes that companies that practice earnings management lead to the latter to fluctuation and decline in their market value, and therefore in the long run the capital of those companies erodes, and thus accept the hypothesis of the research that earnings management leads in the long term to the erosion of capital.

Second: Change in Assets

The change in assets is summarized in the following table:

Table (6)
Compare book value with market value

			The companies	Company name / years
Almansour Pharmacological	Al-khalij Insurance	Alwatania Investment	Asia cell	
Change in assets	Change in assets	Change in assets	Change in assets	
1210744254	692817755	1473809635	132245376	2012
2735524535	-107528153	1072370968	171143940	2013
771717205	-101718699	-305853005	604018000	2014
-605376943	-644758890	584815604	-124393000	2015
137243918	20255604	3192905312	-105643000	2016
-93274068	739703849	2668942859	-156756000	2017
1454752005	354206905	996728761	-194015000	2018
-2555640645	-234628924	-709609345	-119056000	2019
-1400297904	51918438	2065762694	502720000	2020

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5500846087	5240499817	2029995416	-763108000	2021
715623844.4	601076770.2	1306986890	-5284368.4	average
2253025874	1683194906	1241803046	387215337.9	standard deviation

The table is done by the researcher based on the financial statements of the research sample companies and the computer results.

From the previous table, the researcher notes that there is a decrease in assets in Asia cell from year to year, but in Alwatania Investment Company, the assets decreased only in two years and this is considered a slight fluctuation, and for the Gulf Insurance Company, the decline was higher than the National Investment Company and by four years, as well as the decline for Al-Mansour Pharmaceutical Company reached four years, from the above, the researcher believes that the decline in assets for companies in general was abnormal and the researcher attributes this to earnings management, and therefore Asset decline reinforces the acceptance of the study's hypothesis that long-term earnings managementerodes capital.

Third: Change in Net Profit

The change in profits is summarized in the following table :

Table (7)
Change in net profit

The table is done by the researcher based on the financial statements of the research sample companies and the computer results

The companies				Company name / years
Almansour Pharmacological	Al-khalij Insurance	Alwatania Investment	Asia cell	
Change in net profit	Change in net profit	Change in net profit	Change in net profit	
272640434	-32758225	701499243	662054750272	2012
-74380966	12175951	-189091095	-81665059000	2013
124783326	204290566	-418252775	-235796000000	2014
84605110	-170627180	-450359014	-291239000000	2015
-526420968	28359	425537665	-23961000000	2016
211756596	-52523547	-301207448	8968000000	2017
-107291573	-5452874	716506111	111343000000	2018
-2046260797	4153338	133576809	22394000000	2019
1674184130	4618511	397763713	71404000000	2020
-98799936	19752056	481547898	90496000000	2021
-48518464	-1634305	149752111	33399869127	average
907521801	91445246	456373952	258433622907	standard deviation

From the above table, it is clear to the researcher that Asia cell, Alwatania Investment Company and Gulf Insurance Company have increased their profits for six years, while Al-Mansour Pharmaceutical Company, their profits increased for five years, although the companies decreased the market value of their shares and decreased their assets, in order to practice earnings management in them, and this last aspect that enhances the acceptance of the research hypothesis that earnings management leads in the long term to the erosion of capital.

CONCLUSION :

That there is an inverse relationship between companies that practice earnings management and the decrease in the market value of shares, as well as the existence of an inverse relationship between companies that practice earnings management and the decrease in assets from year to year, and there is a positive relationship between companies that practice earnings management and increase profits, all of these indicators lead in the long term to the erosion of capital, and that earnings management in creases in one way or another to increase profits and dividends, and the accounting profit appears to be more than the actual profit, which are unreal profits It harms the value of the company and thus the gradual erosion of capital in the long term, and this is confirmed by the results of the applied study on companies that practice earnings management .

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