

Impact of Other Comprehensive Income Disclosure on Earnings Management: Evidence from Sri Lanka

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The purpose of this paper is to investigate empirically the impact of other comprehensive income on earnings management in listed companies of Sri Lanka. This quantitative study has obtained secondary data from corporate reports of 50 listed companies in the Colombo Stock Exchange based on the market capitalization. The study has employed panel data set covering three years from 2017 to 2019. Modified Jones Model was employed to investigate the relationship between the independent variable; other comprehensive income disclosure (OCI) and the dependent variable; Earnings Management (EM). Besides, four control variables; company size, corporate debt leverage, cash flow and firm growth were included in the conceptual model. Findings of the study revealed a negative but insignificant impact of other comprehensive income with earnings management. This indicates that companies did not use OCI in managing their income in the period analyzed. The study has identified a significant negative impact on earnings management with cash flows from operating activities, while firm leverage and firm growth recorded a significant positive impact on earnings management. These findings in relation to EM may assist various stakeholders in their long-term decision making. Given the less attention for studies on earnings management in South Asian context and specifically in Sri Lanka, this study has addressed an existing empirical gap through the investigation of earnings management and disclosure of other comprehensive income in the listed companies. Findings stressed the need to consider earnings management and disclosure of other comprehensive income in modeling financial planning and decision making with the identified value relevance.

Keywords: *Earnings management, Modified Jones Model, Other comprehensive income*

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