MANIPULATING SALES REVENUE TO USER REFERENCE POINTS IN PRE- AND POST-SARBANES OXLEY ERAS

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Abstract: Cosmetic earnings management occurs when unmanipulated income falls just below a user reference point (e.g., $395 million) and management increases earnings just across the threshold (e.g., to slightly above $400 million). Extant research shows this form of earnings management routinely occurred prior to but not after the Sarbanes-Oxley Act (SarbOx). The current study examines this same type of biased reporting but with sales revenue as the object of manipulation instead of earnings. Results indicate clear signs of cosmetic sales management in the pre-SarbOx period examined but no evidence of it in the post-SarbOx era, thus providing further evidence of an increased commitment by managers and accountants in recent years to provide more transparent reporting.

Keywords: Revenue manipulation, earnings management, Sarbanes-Oxley Act, Benford’s Law

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