The Impact of International Financial Reporting Standards (IFRS) on Earnings Management Behavior:
Evidence from Commercial Banks in the Kingdom of Saudi Arabia

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Abstract

Study Objective: This study seeks to examine the impact of the adopting of International Financial Reporting Standards (IFRS) on earnings management practices in Saudi Arabian commercial banks. It concentrates on two forms of earnings management: accrual earnings management (AEM) and real earnings management (REM). The research aims to explore how the adoption of IFRS affects the mitigation of earnings manipulation and promotes financial transparency in Saudi banks.

Design and Methodology: The research employs an experimental methodology, gathering data from ten Saudi banks spanning the years 2015 to 2023. Financial information was sourced from publicly accessible reports on the banks' official websites and the Saudi Capital Market Authority (CMA) website. The analysis was conducted using SPSS statistical software (version 25) to examine the relationship between IFRS adoption and both accrual–based earnings management (AEM) and real earnings management (REM). Additionally, the study incorporates control variables, including bank size, leverage, and profitability, to substantiate the hypotheses.

Results: The findings of the study indicated a statistically significant link between the adoption of IFRS and a reduction in accrual earnings management (AEM), marked by a noticeable decline in earnings manipulation. Additionally, the results showed a significant correlation between IFRS adoption and a decrease in real earnings management (REM), enhancing transparency and diminishing real earnings manipulation. Moreover, the study observed a significant reduction in the impact of control variables such as bank size, leverage, and profitability on earnings management following the adoption of IFRS.

Originality and Contribution: This study offers fresh insights into the role of IFRS in enhancing transparency and curbing earnings manipulation in Saudi banks. It emphasizes how these standards influence earnings management practices, presenting a unique perspective on the impacts of IFRS adoption within the banking sector.

KeyWords: International Financial Reporting Standards (IFRS), Accrual Earnings Management (AEM), Real Earnings Management (REM), Saudi Banks.

أثر المعايير الدولية لإعداد التقارير المالية على سلوك إدارة الأرباح: أدلة من البنوك التجارية في المملكة العربية السعودية

ملخص البحث

هدف الدراسة: هدفت هذه الدراسة إلى تحليل تأثير تطبيق المعايير الدولية لإعداد التقارير المالية (IFRS)على سلوك إدارة الأرباح في البنوك التجارية بالمملكة العربية السعودية، تركز الدراسة على نوعين من إدارة الأرباح: إدارة الأرباح على أساس الاستحقاق (AEM) وإدارة الأرباح الحقيقية (REM). وتسعى الدراسة لفهم كيفية أثر تطبيق IFRS في تقليل التلاعب بالأرباح وتعزيز الشفافية المالية داخل البنوك السعودية.

التصميم والمنهجية: اعتمدت الدراسة على المنهج التجريبي، حيث تم جمع البيانات من عشرة بنوك سعودية خلال الفترة من 2015 إلى 2023، تم استخراج البيانات المالية من التقارير المنشورة والمتوفرة على المواقع الرسمية للبنوك وموقع هيئة السوق المالية السعودية، كما تم تحليل البيانات باستخدام برنامج التحليل الإحصائي SPSS الإصدار 25 لتحديد العلاقة بين تطبيق IFRS وإدارة الأرباح على أساس الاستحقاق (AEM) وإدارة الأرباح الحقيقية (REM). وقد تم تضمين المتغيرات الرقابية وهي حجم البنك، الرافعة المالية، والربحية للتحقق من صحة فرضيات الدراسة.

النتائج: أظهرت نتائج الدراسة وجود علاقة ذات دلالة إحصائية بين تطبيق المعايير الدولية لإعداد التقارير المالية (IFRS) وتقليل ممارسات التلاعب بالأرباح على أساس الاستحقاق (AEM)، حيث تبين انخفاض واضح في التلاعب بالأرباح المستحقة، كما أظهرت النتائج وجود علاقة ذات دلالة إحصائية بين تطبيق IFRS وتقليل التعديلات على الأرباح الحقيقية(REM)، مما يعزز الشفافية ويقلل من التلاعب بالأرباح الحقيقية، بالإضافة إلى ذلك، لوحظ انخفاض كبير في تأثير المتغيرات الرقابية مثل حجم البنك والربحية على إدارة الأرباح بعد تطبيقIFRS.

الأصالة والإضافة: تساهم هذه الدراسة في توضيح دور المعايير الدولية لإعداد التقارير المالية (IFRS) في تحسين الشفافية وتقليل التلاعب بالأرباح في البنوك السعودية، كما تسلط الضوء على تأثير هذه المعايير على سلوكيات إدارة الأرباح، مما يوفر رؤية جديدة حول تأثير تطبيق هذه المعايير في القطاع المصرفي.

الكلمات المفتاحية: المعايير الدولية لإعداد التقارير المالية (IFRS)، إدارة الأرباح على أساس الاستحقاق(AEM)، إدارة الأرباح الحقيقية(REM)، البنوك السعودية.

1- Introduction

The emergence of International Financial Reporting Standards (IFRS) has marked a significant transformation in the landscape of global financial reporting. Accounting information plays a critical role in informing the decisions of investors, creditors, analysts, and other stakeholders. This information's importance in financial markets is amplified by its direct impact on investment decisions, necessitating the preparation of financial statements in line with high-quality standards (Brown, 2020; Majed et al., 2023). The IFRS framework, established by the International Accounting Standards Board (IASB), is designed to provide a unified set of high-quality, transparent, and comparable financial reporting standards that support informed decision-making by various users of financial statements (Majed et al., 2023) As of today, IFRS has been adopted by over 140 countries, including major economies in the European Union, Australia, and parts of Asia. However, there remains a debate regarding its impact on accounting practices, particularly in the realm of earnings management (Ahmed et al., 2021). Earning management, which involves the deliberate manipulation of financial statements to achieve specific financial outcomes, presents a challenge to the integrity of financial reporting. This practice can undermine the credibility of financial statements, misleading stakeholders and potentially distorting resource allocation decisions (Pășcan, 2015). Saudi Arabia, as part of its Vision 2030 initiative, has undertaken significant reforms to align its accounting practices with international standards. The adoption of IFRS by Saudi commercial banks is a critical step in this direction, aimed at enhancing transparency and comparability in financial reporting. This paper explores the impact of IFRS adoption on earnings management behavior within Saudi Arabian commercial banks, providing empirical evidence on whether these standards contribute to a reduction in such practices (Ahmed et al., 2021).

2- Research Problem and Questions

The central research problem addressed in this study is whether the adoption of IFRS influences earnings management behaviors among commercial banks in Saudi Arabia. The study seeks to answer the following key questions:

- How has the adoption of IFRS affected the transparency and reliability of financial reporting in Saudi banks?

- Does the transition to IFRS reduce the incidence of earnings management practices in Saudi banks?

- How do bank size, leverage, and profitability influence earnings management practices in Saudi banks following the adoption of IFRS, the challenges and opportunities faced by Saudi banks in implementing IFRS?

3- Objectives of the Study

the objective of the study can be summarized in the following sub–objectives

- Evaluating the Impact of IFRS adoption on Financial Reporting Transparency and Reliability.

- Investigate the Influence of IFRS adoption on Earnings Management Practices.

- Analyze the Effects of Bank Characteristics (size, leverage, and profitability) on Earnings Management post–IFRS adoption, and the challenges and opportunities faced by Saudi banks in implementing IFRS.

4- Literature Review

   (**Majed et al**., **2023**), The study investigates the impact of the mandatory adoption of IFRS on aggressive accruals in the Saudi Security Exchange (Tadawul), focusing on the period from 2014 to 2019. The research highlights the significance of IFRS adoption in emerging markets, particularly in Saudi Arabia, which mandated IFRS for listed companies starting in 2017. The study employs a sample of 781 firm–year observations to assess changes in aggressive accruals before and after IFRS adoption. The findings indicate a decrease in aggressive accruals post–IFRS adoption, suggesting that the new standards have reduced the tendency of companies to inflate financial reports, improving financial reporting quality by enhancing the transparency and reliability of financial reports and reducing earnings manipulation.

(**Nnadi et al**., **2023**), the study investigates the impact of IFRS 9 on earnings management in European commercial banks, focusing on the role of loan loss provisions as a tool for earnings manipulation. The research reveals that the adoption of IFRS 9 has significantly altered the way banks report loan loss provisions, with non–listed banks in the EU engaging in earnings management through these provisions yet experiencing less volatility in net income post–adoption. This suggests that while IFRS 9 aims to improve accounting quality, its effectiveness varies across different types of banks and regions. The study also examines the role of audit quality, finding that being audited by a Big–4 firm does not necessarily lead to higher–quality accounting reports, as the level of audit quality does not significantly reduce earnings management behavior in banks. This is attributed to the fact that both Big–4 and non–Big–4 auditors adhere to the same regulatory and professional standards. Furthermore, the research highlights that the adoption of IFRS 9 has led to a reduction in the volatility of net income in EU banks compared to non–EU banks, indicating a decrease in earnings management practices. However, the study also notes that non–EU banks exhibit increased income smoothing post–adoption, suggesting that the standard's impact is influenced by geographic and regulatory factors. Overall, the findings suggest that while IFRS 9 has the potential to improve accounting quality, its effectiveness is contingent upon various factors, including audit quality, geographic location, and the listing status of banks. The study concludes that regulators may need to identify additional tools to regulate or supervise earnings management behavior, as improvements in accounting standards alone may not guarantee enhanced accounting quality.

(**Garfatta**, **2021**), the study examines the relationship between corporate social responsibility (CSR) disclosure and earnings management practices in Saudi Arabia following the mandatory adoption of IFRS. The study aims to provide additional evidence on this association by using recent data from 2017 to 2019 and the study utilizes Bloomberg ESG scores to measure CSR disclosure and employs the modified Jones model to assess earnings management through discretionary accruals. The findings of the study reveal a positive association be-

tween CSR disclosure and earnings management practices, supporting the per-spective of agency theory. This suggests that managers may engage in socially responsible activities to conceal their misconduct and convince stakeholders of the company's transparency. The study concludes that CSR in this context may serve as a "greenwash" strategy to deceive stakeholders, particularly in markets like Saudi Arabia where regulatory frameworks are less developed. The study underscores the need for policymakers to implement guidelines that ensure CSR activities are genuine and not merely a facade for earnings manipulation.

(**Allehaidan**, **2021**), the study explores the impact of (IFRS) adoption and Audit Quality (AQ) on Earnings Management (EM) practices within Saudi Ara-bia's listed firms. The research highlights the significance of transparent and cred-ible financial statements for decision-making by investors and government or-ganizations, emphasizing the detrimental effects of EM as a major economic bar-rier that can lead to financial crises, as evidenced by historical corporate scandals like Enron. The paper investigates the transition from Saudi GAAP to IFRS, ini-tiated by the Saudi Organization for Certified Public Accountants (SOCPA) in 2012, with mandatory implementation for listed firms starting in 2017. The re-search employs discretionary accruals to measure EM, utilizing models by Healy (1985) and Kothari et al. (2005), and analyzes a sample of 16 Saudi-listed firms from 2014 to 2019. The findings indicate a negative relationship between IFRS adoption and EM practices, particularly when combined with AQ, while firm size positively correlates with accrual Earnings management.

(**Alfadhael & Jarraya**, **2021**), The study explores the intricate landscape of earnings management, a concept that has garnered significant attention in the accounting literature due to its implications for financial reporting and corporate governance. Earnings management is defined as the deliberate intervention in the financial reporting process by management to achieve specific objectives, of-ten at the sacrifice of transparency and accuracy in financial statements. This practice is driven by various motivations, including capital market pressures, contractual obligations, and regulatory requirements. The literature identifies two primary forms of earnings management: accrual-based and real earnings

management. Accrual Earnings Management involves the manipulation of accounting policies and estimates to alter reported earnings, while real earnings management entails altering actual business operations to achieve desired financial outcomes. The Jones Model (1991) and its subsequent modifications are frequently employed to detect Accrual Earnings Management by estimating non-discretionary accruals. Real earnings management, on the other hand, is often measured through models that assess deviations in production costs, discretionary expenses, and sales manipulation. This form of earnings management is particularly concerning as it can have long–term detrimental effects on a company's operational efficiency and financial health. The consequences of earnings management are profound, affecting not only the firm's value and ethical standards but also disguising operational management problems and potentially leading to economic sanctions. In the Saudi context, studies have shown that earnings management practices are influenced by factors such as corporate governance, ownership structure, and external audit quality. These factors play a crucial role in either constraining or facilitating earnings management activities. Overall, the literature underscores the complexity of earnings management and the need for robust governance mechanisms to mitigate its adverse effects. The ongoing research in this area continues to evolve, particularly in light of new regulatory frameworks and the adoption of international financial reporting standards (IFRS).

(**Hashed & Almaqtari**, **2021**), the study explores the impact of corporate governance mechanisms and the adoption of IFRS on earnings management and financial reporting quality in Saudi Arabia. It utilizes a sample of 102 non-financial companies listed on the Saudi Stock Market (Tadawul) over the period from 2014 to 2019, which is divided into pre– and post–IFRS adoption phases. The research framework includes four dimensions of corporate governance: board effectiveness, audit committee effectiveness, ownership structure, and audit quality, with IFRS adoption treated as a dummy variable. The study employed various models to assess the effects of these governance mechanisms on IFRS compliance, earnings management, and financial reporting quality. It uses

the modified Jones model and Kothari et al. (2005) model to measure earnings management, while financial reporting quality is assessed using the McNichols model (2002). The findings indicate that board size, board meetings, and foreign ownership negatively affect IFRS compliance, whereas board and audit committee independence have a positive effect. Furthermore, the study finds that IFRS adoption has a positive impact on reducing earnings management when discretionary accruals are measured without performance magnitude. The research also highlights the significant role of audit committee attributes, such as size and independence, in influencing financial reporting quality. Larger audit committees are associated with better financial reporting quality and reduced earnings management. Additionally, the study reveals that foreign ownership positively contributes to financial reporting quality and enhances the comparability of IFRS financial statements. Overall, the study provides valuable insights into the effects of corporate governance and IFRS adoption on financial reporting quality in Saudi Arabia, offering implications for policymakers, regulators, and academics. It emphasizes the need for an effective financial reporting system and corporate governance framework to support the country's Vision 2030 goals.

(**Wardhana**, **2019**), The study investigates the impact of IFRS adoption on earnings management within the banking sector in Indonesia, focusing on the implementation of PSAK No. 50 and PSAK No. 55 (revised 2006) concerning financial instruments. It provides empirical evidence on whether IFRS adoption affects earnings management and tests for differences in earnings management levels before and after IFRS adoption. The findings reveal that the adoption of IFRS did not significantly influence earnings management, as there was no statistically significant decrease in earnings management post-adoption. The study also highlights that the average value of discretionary accruals was slightly higher after IFRS adoption, but this difference was not statistically significant. This outcome suggests that the adoption of IFRS, particularly PSAK No. 50 and PSAK No. 55, still allows for the occurrence of earnings management. The research further emphasizes that the unique characteristics of a country or company may affect the effectiveness of IFRS implementation, indicating that IFRS may not be entirely appropriate when implemented in countries with different characteristics from developed

nations. Consequently, the study concludes that the adoption of IFRS should be tailored to accommodate the specific characteristics of each country to achieve the intended improvements in financial reporting quality.

Building on the existing literature, which provides mixed and sometimes contradictory evidence regarding the impact of IFRS on earnings management (E.M.), this study aims to fill a significant research gap. It specifically investigates the impact of IFRS adoption on earnings management practices within commercial banks in the Kingdom of Saudi Arabia. Unlike previous studies, this research considers both real and Accrual Earnings Management, offering a comprehensive analysis of how these practices are influenced by IFRS adoption. Despite the growing interest in real earnings management activities, prior research has not adequately addressed this area, particularly in the context of Saudi Arabia's banking sector. Furthermore, to the best of the researchers' knowledge, there is a notable scarcity of studies that have explored the role of IFRS adoption in earnings management among commercial banks in Saudi Arabia. This deficiency highlights the importance of this research, as it contributes valuable insights to the accounting literature and enhances understanding of IFRS's implications in an underexplored setting. By addressing this gap, the paper not only provides a nuanced understanding of IFRS's effects on earnings management but also underscores its significance in contributing to the broader field of accounting research, particularly in the context of emerging markets like Saudi Arabia.

5- Theoretical Framework and Development of Hypotheses

The adoption of International Financial Reporting Standards (IFRS) represents a significant shift in accounting practices worldwide, aimed at enhancing the quality and comparability of financial information. This research investigates the impact of IFRS on earnings management behaviors within commercial banks in Saudi Arabia. The study focuses on two primary forms of earnings management: Accrual Earnings Management (AEM) and real earnings management (REM). AEM involves the strategic manipulation of accounting accruals to present enhanced earnings figures, while REM involves altering actual business operations to improve current earnings outcomes.(Feldmann & Le, 2017a)

5-1 Accrual Earnings Management (AEM) and IFRS

Accrual Earnings Management (AEM) involves the adjustment of accounting accruals to influence reported earnings figures. This can include manipulating estimates related to revenue recognition, expenses, and provisions for bad debts to meet financial targets or smooth earnings, often without directly affecting cash flows (Feldmann & Le, 2017a). Such practices can obscure a company's true financial performance, potentially misleading investors and other stakeholders. The adoption of IFRS is aimed at reducing the prevalence of AEM by enforcing stricter financial reporting standards. IFRS enhances the transparency and comparability of financial statements by curbing managerial discretion over accruals. This is achieved through rigorous disclosure requirements and standardized accounting practices, particularly in key areas like revenue recognition and asset valuation (Christensen et al., 2021). By aligning reported figures more closely with economic reality, IFRS reduces opportunities for earnings manipulation. A key feature of IFRS is its emphasis on fair value accounting, which aligns asset and liability valuations with current market conditions. This approach can limit AEM by reducing the scope for subjective assessments in financial reporting (Ball et al., 2019). Unlike rules-based frameworks such as U.S. GAAP, IFRS's principles-based approach prioritizes the economic substance of transactions, aiming for a more accurate reflection of a company's financial position. (Cho et al., 2018). Empirical research indicates that countries adopting IFRS often experience improved financial reporting quality, evidenced by reduced earnings management (Nnadi et al., 2023). However, the success of IFRS in curbing AEM depends on effective enforcement and robust corporate governance structures within each jurisdiction. Strong regulatory oversight and governance practices are crucial to ensuring that the benefits of IFRS are realized, maintaining transparency and reliability in financial reporting (Alfadhael & Jarraya, 2021). Therefore, the following hypothesis is proposed:

H01: "**There is no statistically significant impact of the adoption of IFRS on Accrual Earnings Management** (**AEM**) **in Saudi banks**"

This is the null hypothesis, but the alternative hypothesis suggests that the adoption of IFRS by Saudi banks will significantly reduce AEM practices. By enhancing the transparency and standardization of financial reporting, IFRS is expected to deter earnings manipulation and promote more accurate financial disclosures, aligning with global best practices in accounting.

5-2 Real Earnings Management (REM) and IFRS

Real Earnings Management (REM) involves altering actual business operations to influence reported financial outcomes. Unlike accrual earnings management, which manipulates accounting entries, REM entails making decisions that impact cash flows and operations, such as overproducing inventory to reduce the cost of goods sold or timing sales and expenses strategically (Pappas et al., 2019). These actions can temporarily boost earnings but may harm long-term company performance by distorting resource allocation and operational efficiency. The adoption of IFRS aims to curb both accrual and real earnings management by enhancing financial statement transparency and comparability. IFRS emphasizes high-quality and consistent financial reporting, which can indirectly limit REM by increasing scrutiny of business operations and financial disclosures (Nnadi et al., 2023).

The stringent disclosure requirements under IFRS provide stakeholders with better insights into a company's operational decisions, making it more challenging for managers to engage in REM without detection (Hasan & Rahman, 2020). Moreover, IFRS's principles-based framework requires a true and fair view of financial statements, which discourages manipulation of real activities. By focusing on the economic substance over the form of transactions, IFRS reduces the incentives for managers to engage in practices that might boost short-term earnings but are not economically beneficial in the long run (Ball et al., 2019). This shift towards fair representation aligns reported financial performance

more closely with actual business conditions, thus helping to mitigate the adverse effects of REM.

Empirical evidence suggests that IFRS adoption leads to improved earnings quality and reduced earnings management practices, including REM (Dong et al., 2020). However, the extent of this impact is contingent upon robust enforcement mechanisms and corporate governance structures. Effective oversight ensures that the benefits of IFRS are realized, promoting transparency and accountability in financial reporting (Hashed & Almaqtari, 2021) Therefore, the following hypothesis is proposed.

H02: **There is no statistically significant impact of the adoption of IFRS on real earnings management (REM) in Saudi banks**.

This is the null hypothesis, but the alternative hypothesis posits that the adoption of IFRS will significantly influence REM practices. By mandating more transparent and comprehensive financial reporting, IFRS is expected to deter real earnings manipulation and foster a more accurate representation of Saudi banks' financial health.

5-3 Bank Size, Leverage, Profitability, and (ARM), (REM) in IFRS Adoption

The adoption of IFRS has significantly reshaped the financial reporting landscape globally, enhancing transparency and comparability of financial statements (Alfadhael & Jarraya, 2021). In the banking sector, particularly in Saudi Arabia, IFRS adoption has posed new challenges and opportunities for earnings management. Prior research indicates that bank size is often correlated with greater resources and capabilities to engage in sophisticated accrual earnings management (AEM) techniques (Dechow et al., 2010), (Mwangi, 2018; Nguyen et al., 2023). Larger banks may have more complex operations, thereby providing more opportunities to manage earnings through accruals. Similarly, leverage, as a measure of financial risk, has been shown to have a direct impact on earnings management. Banks with higher leverage might have stronger incentives to manage earnings to meet debt covenants or regulatory requirements (Liu et al., 2022).

Profitability, on the other hand, can influence both AEM and real earnings management (REM), as more profitable banks may have greater flexibility in managing reported earnings to smooth income or to present a more favorable financial position (Kim et al., 2022), (Charisma et al., 2022; Z et al., 2023). Empirical studies context have highlighted that these financial characteristics significantly affect the degree of earnings management, particularly under the stringent reporting requirements of IFRS (Feldmann & Le, 2017b), Therefore, the following hypothesis is proposed

H03: **under the adoption of IFRS**, **bank size**, **leverage**, **and profitability exert no statistically significant impact on accrual earnings management** (**AEM**) **and real earnings management** (**REM**).

This is the null hypothesis, but the alternative hypothesis seeks to investigate the effects of control variables on the levels of accrual and real earnings management surrounding the adoption of IFRS. By doing so, it enhances the comprehension of the factors influencing earnings management and evaluates the role these variables play in mitigating accrual and real earnings management in Saudi banks before and after IFRS adoption.

5-4 The Challenges and Opportunities Faced by Saudi Banks in IFRS Adoption

The adoption of IFRS in Saudi Arabia represents a major shift in financial reporting, bringing both challenges and opportunities for the banking sector. As Saudi banks transition to IFRS, they encounter several obstacles that must be navigated to ensure effective compliance and harness the benefits of these international standards.

5-5 Challenges

One of the primary challenges in the adoption of IFRS is the complexity and comprehensiveness of the standards themselves. IFRS requires a significant overhaul of existing accounting systems and practices, necessitating substantial investments in training and development for accounting professionals (Black &

Maggina, 2019). This need for specialized expertise can strain resources, especially in banks that previously operated under more simplified local standards. Additionally, the transition to IFRS involves significant changes in financial statement presentation and disclosure requirements. Saudi banks must enhance their financial reporting processes to meet these new requirements, which can be resource-intensive and time-consuming. Furthermore, the principles-based nature of IFRS demands a higher degree of judgment and interpretation, potentially leading to inconsistencies if not properly managed (Alsalman, A., & Aljabr, 2020) Cultural and operational differences also pose challenges.

The shift from traditional accounting practices to IFRS requires a change in mindset and approach, which can be difficult to achieve in a short timeframe. Resistance to change among staff and management may slow down the adoption process, affecting the overall efficiency of implementation (Al-Hadi et al., 2019).

5-6 Opportunities

The adoption of IFRS offers several opportunities for Saudi banks. By aligning with global financial reporting standards, Saudi banks can improve the transparency and comparability of their financial statements, which can enhance investor confidence and attract foreign investment. This alignment provides an opportunity to access international capital markets more effectively, potentially lowering the cost of capital (Al-Moataz, E., & Hussainey, 2020). Moreover, IFRS implementation can lead to improvements in internal controls and financial reporting quality. The rigorous requirements of IFRS promote better governance and accountability, which can strengthen the overall financial health and performance of banks. This shift can also foster a more robust risk management framework, essential for navigating the complexities of modern financial markets (Majed et al., 2023).

To maximize opportunities and minimize challenges, policymakers and stakeholders should consider several strategies. First, investing in comprehensive training programs for accounting professionals can ensure that staff are well-equipped to handle the complexities of IFRS. This investment should include

ongoing education to keep pace with updates to the standards (Alsalman, A., & Aljabr, 2020) Second, enhancing collaboration between regulatory bodies, banks, and educational institutions can facilitate a smoother transition. By sharing best practices and resources, stakeholders can develop more effective implementation strategies and address common challenges collectively. Finally, fostering a culture of change and adaptability within banks is crucial. Encouraging open communication and feedback can help identify areas of resistance and provide solutions that support a positive transition. By embedding IFRS principles into the core values of the organization, Saudi banks can leverage these standards to achieve greater operational excellence and competitive advantage (Nnadi et al., 2023)

The model of research can be plotted as follows:
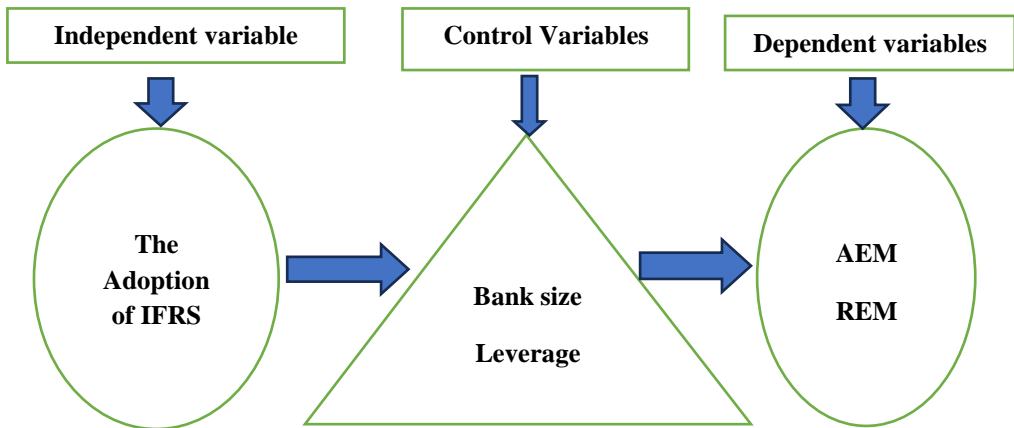
6- Research Methodology

Research Design: the quantitative analytical approach to analyze the impact of applying IFRS on the behavior of accrual and real earnings management in Saudi banks before and after the adoption of IFRS. The study is divided into two time periods: the period before the application of the standards and the period after the application, with a focus on changes in relevant accounting indicators. This study focuses on the impact of implementing (IFRS) on earnings manage-

ment, measured through Accrual Earnings Management (AEM) and real earnings management (REM) in banks. To achieve this, specific control variables—bank size, leverage, and profitability—were included to account for certain influencing factors when evaluating the relationship. However, the study does not aim to explore all factors affecting earnings management but rather focuses primarily on the role of IFRS within this framework.

- **Sample Selection**: A sample of 10 Saudi banks listed on the Capital Market Authority (CMA) was selected based on the following criteria:

- Availability of complete annual financial data for the period from 2015 to 2023.

- The bank continued its operations during the study period.

- Commitment to applying IFRS standards in financial reporting starting from the year of application (2017).

- **Data Collection**: The financial data were extracted from the published financial reports available on the official websites of the banks and the Saudi Capital Market Authority (CMA) website.

- **Variables**:

  o **Independent Variable**: (the dummy variable), This variable represents the adoption of IFRS standards by Saudi banks and is quantified as follows:
  - Value "0": the period before the adoption of the IFRS.
  - Value "1": the period after the adoption of the IFRS.

  o **Dependent Variable**: The Modified Jones Model is used to measure Accrual Earnings Management (AEM), (Costa & Soares, 2022; Garfatta, 2021; Indriani & Pujiono, 2021), while the Modified Dechow, Kothari, and Watts model is used to measure Real Earnings Management (REM) (Roychowdhury, 2006; Trisnawati & Nugroho, 2011), widely adopted approach. The goal of both models is to measure earnings manipulation and using them together allows for a more comprehensive analysis of earnings management practices in banks, examining various aspects of earnings man-

agement. These models allow for a detailed, multi–dimensional examination of earnings management, providing insight into both Accrual Earnings Management techniques and real earnings management used by firms. These models allow for a detailed and multi–dimensional examination of earnings management, providing insight into both accrual–based and real earnings management techniques used by firms.

A– **Accrual Earnings Management using the Modified Jones Model**:

The model is used to measure earnings manipulation through accruals (total accruals, discretionary accruals, and non–discretionary accruals).

Done through the following steps:

1. Measuring Total Accruals: This is the difference between operating income and cash flow from operations, as represented in the following model:

TAC $_{it}$=NI $_{it}$−CFO $_{it}$

Where:

- TAC$_{it}$: Total Accruals during period t.

- NI$_{it}$:   Net Income during period t.

- CFO$_{it}$: Cash Flow from Operations during period t.

This equation shows the difference between accounting profits (net income) and actual cash flows from operations, which forms the basis for measuring accruals.

2. Estimating Model Coefficients α₁, α₂, α₃: These coefficients are used to calculate Non–Discretionary Accruals (NDA) via the following regression equation for the sample banks in the study:

$$\frac{TAC_{it}}{A_{it-1}} = \alpha 0 + \alpha 1 \left(\frac{1}{A_{it-1}}\right) + \alpha 2 \left(\frac{\Delta REV_{it} - \Delta REC_{it}}{A_{it-1}}\right) + \alpha 3 \left(\frac{PPE_{it}}{A_{it-1}}\right) + \varepsilon_{it}$$

where:

- TAC$_{it}$: Total Accruals for bank i in year t.

- A$_{it-1}$: Total assets for bank i in year t–1.

- ΔREV_{it}: Change in revenues for bank i between year t and year t–1.

- ΔREC_{it}: Change in receivables for bank i between year t and year t–1.

- PPE_{it}: Property, plant, and equipment (fixed assets) for bank i in year t.

- $\alpha_0, \alpha_1, \alpha_2, \alpha_3$: Regression coefficients estimated using linear regression analysis.

- ϵ_{it}: Error term representing unexplained variation by the model.

3. Determine Non–Discretionary Accruals (NDA) for all banks across all years using the equation:

$$(NDA_{it})) = \alpha 0 + \alpha 1 \left(\frac{1}{A_{it-1}}\right) + \alpha 2 \left(\frac{\Delta REV_{it} - \Delta REC_{it}}{A_{it-1}}\right) + \alpha 3 \left(\frac{PPE_{it}}{A_{it-1}}\right) + \varepsilon_{it}$$

4. Calculating Discretionary Accruals (DA) for each bank, which is the difference between total accruals and non–discretionary accruals:

$$DA_{it} = TAC_{it} - NDA_{it}$$

b– Real Earnings Management (Modified Cash Flow Model):

Dechow, Kothari, and Watts model is one of the commonly used methods to measure Real Earnings Management (REM). It focuses on detecting earnings manipulation through operational activities, such as manipulating operating cash flows (CFO). The operating cash flows are adjusted to determine whether earnings have been managed unnaturally through operational decisions aimed at improving accounting outcomes in the short term. The model identifies abnormal operating cash flows (Abnormal CFO) by comparing actual cash flows with expected cash flows based on economic variables, such as changes in revenues.

To calculate REM using this model are as follows:

1. Identify Operating Cash Flows (CFO): The actual operating cash flows are extracted from the cash flow statement in the financial statements of the banks.

2. Calculate Expected Operating Cash Flows (Expected CFO):This is done using the Dechow, Kothari, and Watts model to measure the changes resulting from real earnings management according to the following equation:

$$\left(\frac{CFO\ Expected}{A_{it-1}}\right) = \alpha 0 + \alpha 1 \left(\frac{1}{A_{it-1}}\right) + \alpha 2 \left(\frac{REV_{it}}{A_{it-1}}\right) + \alpha 3 \left(\frac{\Delta REV_{it}}{A_{it-1}}\right) + \varepsilon_{it}$$

Where:

- Expected CFO: Adjusted Operating Cash Flows (non–discretionary), which refers to the cash generated from operating activities adjusted for a specific period (t).

- A_{it-1} (Total Assets): The total assets of the institution in the year preceding the current year (t).

- REV_{it}: Revenue during the current year.

- REV_{it-1}: Revenue from the previous year.

- α_0: The constant in the equation, representing the intercept of the model.

- α_1, α_2, α_3: The coefficients estimated by the regression, indicate the impact of each independent variable on the adjusted operating cash flow (Expected CFO).

- ε_{it} (Error term): The error term or residual reflecting deviations that cannot be explained by the independent variables in the model.

3. Calculate Abnormal Operating Cash Flows (Abnormal CFO):

$$\text{Abnormal CFO} = \text{CFO} - \text{Expected CFO}$$

o **Controlling Variables**

- **Bank Size**: Bank size is an important control variable in earnings management studies. It is measured using the natural logarithm of total assets, which reflects the bank's ability to grow and achieve financial stability. Several studies indicate that larger banks often benefit from economies of scale, enhancing their financial stability and reducing the need for earnings manipulation. Larger banks are generally less prone to accrual earnings management compared to smaller banks, which are more vulnerable to manipulation due to limited resources.

- **Leverage**: Leverage, measured using the debt–to–equity ratio, represents the extent to which a bank relies on debt to finance its investments. Leverage impacts financial stability, as banks with higher debt levels may face

greater financial risks, which increases the likelihood of employing earnings management strategies to smooth out financial volatility. Several studies show that banks with higher leverage are more likely to manipulate earnings to stabilize their financial outcomes among the challenges posed by high debt levels.

- **Profitability**: Profitability, measured using return on assets (ROA), is a key indicator of a bank's efficiency in generating returns from its assets. In earnings management contexts, profitability plays a significant role, as managers may be motivated to enhance short-term earnings through accounting methods, such as adjusting the timing of revenue and expense recognition. Strong financial performance is often tied to rewards and incentives for managers, driving them to apply earnings management techniques.

Table (1) shows the variables used in the study models

Table 1: shows the study variables

Variable	Variable Definition	Code	Operational definition of the variable	The studies that addressed the measurement
Independent Variable				
adoption of IFRS Standards	The application of IFRS in commercial banks in Saudi Arabia.	IFRS	A dummy variable that takes the value (0) for the pre-implementation period and (1) for the post-implementation period.	(Alfify & Islam, 2024; Nnadi et al., 2023; Sultan et al., 2024)
Dependent Variables				
Accrual Earnings Management	Earnings management through manipulation of accounting accruals.	AEM	Measured Using the Modified Jones Model for Accounting Accruals.	(Costa & Soares, 2022; Garfatta, 2021; Indriani & Pujiono, 2021),

Real Earnings Management	Earnings management through manipulation of operational activities such as cash flows.	REM	Measured using the Modified Dechow, Kothari, and Watts.	(Roychowdhury, 2006; Trisnawati & Nugroho, 2011)
Control Variables				
Bank Size	The size of the bank is determined by total assets.	SIZE	The natural logarithm of total assets (Log of Total Assets).	(Dechow et al., 2010; Mwangi, 2018; Nguyen et al., 2023)
Leverage	The bank's leverage ratio is represented by the ratio of liabilities to total assets.	LEV	Total liabilities divided by total assets (Total Liabilities / Total Assets).	(Baltas, 2024; Khan, 2022; Mwangi, 2018)
Profitability	Profitability is represented by the return on assets (ROA) as a measure of the bank's ability to generate profits.	ROA	Net income divided by average total assets (Net Income/ average Total Assets).	(Charisma et al., 2022; Kim et al., 2022; Z et al., 2023)

Prepared by researchers.

7- Data Analysis

The researchers utilized statistical methods appropriate to the nature of the study variables to construct the study models during the applied study, using the Statistical Package for Social Sciences (SPSS) version 25. The methods are as follows:

- **Descriptive Statistics**: Conducted to test the suitability of the data for analysis, identify whether the study data contains any outliers, and provide a general overview of the variables under study.

- **Normality Test**: Conducted to verify whether the variable data follows a normal distribution, ensuring the use of appropriate statistical methods for data analysis. The Kolmogorov–Smirnov test was employed for this purpose.

- **Collinearity Test** (**Multicollinearity**): Aimed at examining linear redundancy among the study model variables through collinearity diagnostics by calcu-

lating the Tolerance value for each study variable (independent and control variables). This helps determine the Variance Inflation Factor (VIF).

- **Pearson Correlation Test**: Used to analyze the relationships between the control variables (bank size, leverage, and profitability) and the dependent variables (Accrual Earnings Management, and real earnings management) to determine the strength and direction of these relationships.

- **Linear Regression Analysis**: The purpose of this analysis is to study the impact of IFRS adoption on both Accrual Earnings Management and real earnings management by determining the relationship between the independent variable (IFRS adoption) and the dependent variables (Accrual Earnings Management behavior and real earnings management behavior), Multiple Linear Regression Analysis: Conducted to study the impact of control variables (e.g., bank size, leverage, profitability) on the dependent variables (Accrual Earnings Management, real earnings management) before and after the adoption of IFRS standards. This test is used to evaluate the third hypothesis (H3), To estimate the regression coefficients for each hypothesis.

7-1 Descriptive Analysis of Study Variables

Before conducting statistical analyses to test the study hypotheses, a descriptive statistical analysis was performed to identify whether the study data contained any outliers and to provide a general summary of the data distribution and the characteristics of the variables under study. Which include:

- **Independent Variable**: The adoption of IFRS, represented by periods. This period is expressed as (0) before the adoption of the standards and (1) after the adoption.
- **Dependent Variables**: Accrual earnings management (AEM), real earnings management (REM).
- **Control Variables**: Company size (SIZE), leverage (LEV), and return on assets (ROA).

Table (2) shows the Descriptive Statistics of the study's variables

Table 2: Descriptive study's variables

Variable	N	Min	Max	Mean	Std. Deviation	Coefficient of Variation (%)
Accrual Earnings Management (AEM)	90	-0.0821	0.0897	0.0003	0.034	11,333
Real Earnings Management (REM)	90	-0.171	0.0735	0.0076	0.0366	481.58
Bank Size (SIZE)	90	17.4638	20.7597	19.0531	0.7087	3.72
Leverage (LEV)	90	0.0948	0.1725	0.131	0.0174	13.28
Profitability (ROA).	90	-0.015	0.0276	0.0168	0.0064	38.1
(adoption of IFRS Standards)	90	0	1	0.78	0.418	53.59

Source: Statistical Analysis Outputs

The analysis of the descriptive statistics for the study variables indicates the following:

- **Accrual Earnings Management** (**AEM**): The results show the mean value (0.0003) is close to zero, suggesting that accrual–based earnings management does not exhibit significant upward or downward trends in the sample of banks studied. The relatively small standard deviation (0.034) indicates moderate variability among the banks, while the high coefficient of variation (11,333%) reflects substantial differences. This variability is attributed to the impact of IFRS standards, which affect how banks calculate and present accrual–based earnings. This figure highlights significant data variation over the study period.

- **Real Earnings Management** (**REM**): The results show the mean value (0.0076) is also near zero, indicating no significant trends in real earnings management. However, its standard deviation (0.0366) is larger than AEM's, suggesting greater variability among banks when applying real earnings manage–

ment practices. This variability stems from the different adjustments each bank makes under IFRS standards, affecting real earnings calculations. The high co-efficient of variation (481.58%) signifies noticeable data variability, indicating that IFRS standards have significantly influenced real earnings accounting across banks.

- **Bank Size** (**SIZE**): The results show that the mean value (19.0531) suggests an average bank size of 19 in the sample, with a standard deviation (0.7087) representing moderate size variability among banks. This variability may reflect the differential impact of IFRS standards based on bank size, with larger banks potentially being more affected than smaller ones. The very low coefficient of variation (3.72%) indicates slight variability in bank size compared to other variables.

- **Leverage** (**LEV**): The results indicate that the mean value (0.131) suggests moderate leverage use among the banks in the sample. The very low standard deviation (0.0174) indicates substantial agreement among banks regarding lev-erage levels. The moderate coefficient of variation (13.28%) reflects moderate variability in leverage used across banks.

- **Profitability** (**ROA**): The results show the mean value (0.0168) indicates moderate profitability among the banks analyzed. The low standard deviation (0.0064) also shows limited variability. However, the coefficient of variation (38.1%) reveals significant differences in profitability across banks.

- **IFRS Implementation**: The results show the mean value (0.78) shows that most data pertains to the post-IFRS implementation period, highlighting the significant impact of these standards in the sample. The standard deviation (0.418) indicates considerable data variability, while the coefficient of variation (53.59%) reflects substantial differences in how banks apply IFRS standards, mirroring the changes in financial policies and accounting practices due to the-se standards.

In summary, there is significant data variability before and after adopting IFRS standards, particularly in accrual earnings management (AEM) and real earnings management (REM). The adoption of IFRS has led to variations in how earnings are calculated and reported, significantly affecting banks' financial accounts, especially in earnings management practices.

7-2 Tests of Normality

The data were tested for conformity to the normal distribution. This aims to ensure that the studied variables follow a normal distribution, allowing for the use of parametric statistical tests for analysis. If the variables do not follow a normal distribution, non-parametric statistical tests are used instead. The Kolmogorov-Smirnov test of normality was employed to evaluate the distribution nature,

Table (3) shows the Summary of Kolmogorov-Smirnov Test Results for Significance

Table 3: Summary of Kolmogorov-Smirnov Test Results for Significance

Variable	Sig. (Kolmogorov-Smirnov Test)	Interpretation
Accrual Earnings Management (AEM)	0.200	The p-value is greater than (0.05), indicating that the data follows a normal distribution.
Real Earnings Management (REM)	0.172	The p-value is greater than (0.05), meaning the data is normally distributed.
Bank Size (SIZE)	0.200	The p-value is greater than (0.05), indicating that the data follows a normal distribution.
Leverage (LEV)	0.200	The p-value is greater than (0.05), indicating that the data follows a normal distribution.
Profitability (ROA)	0.150	The p-value is greater than (0.05), meaning the data is normally distributed.
adoption of IFRS Standards	0.000	The p-value is less than (0.05), indicating that the data does not follow a normal distribution.

Source: Statistical Analysis Outputs

The normality test results indicate the following:

- **Variables AEM**, **REM**, **SIZE**, **LEV**, **and ROA**: The p–value (Sig.) is greater than (0.05) in the Kolmogorov–Smirnov test. This indicates that these variables follow a normal distribution, making them suitable for use in parametric statistical tests that assume data normality.

- **Variable Period** (**IFRS adoption**): The p–value (Sig.) = (0.000), less than (0.05), indicating that this variable does not follow a normal distribution. However, this is expected because the variable " Period" is a dummy variable that only takes the values 0 and 1, which inherently prevents it from following a normal distribution. Binary or dummy variables are not evaluated using the same criteria as continuous quantitative variables and do not require normality. They are analyzed using appropriate statistical methods, and there is no need to process this variable as it falls under categorical variables, rendering normality tests unnecessary.

7-3 Multi-Collinearity Test

Table (4) shows the Summary Table of the Multicollinearity Test (VIF) for Management (REM) and (AEM)

Table 4: Summary Table of Multicollinearity Test (VIF) for (REM) and (AEM)

Variables	Type	B	Std. Error	Beta	t	(.Sig)	Tolerance	VIF
Bank Size	REM	0.012	0.006	0.227	1.969	0.052	0.774	1.292
	AEM	-0.001	0.005	-0.015	-0.127	0.899	0.774	1.292
Leverage	REM	-0.092	0.215	-0.044	-0.427	0.67	0.979	1.021
	AEM	0.127	0.199	0.065	0.641	0.523	0.979	1.021
Profitability	REM	-1.628	0.648	-0.286	-2.511	0.014	0.792	1.262
	AEM	0.831	0.599	0.157	1.387	0.169	0.792	1.262

Source: Statistical Analysis Outputs

The results of the multicollinearity test indicate no significant multicollinearity issue among the variables used in the statistical model. The Tolerance values ranged between (0.774) and (0.979), all above the acceptable threshold of (0.1), indicating no strong linear correlation between the variables. Additionally, the

Variance Inflation Factor (VIF) ranged between (1.021) and (1.292), well below the critical value of (10), suggesting that the variance of the variables is not inflated due to multicollinearity. Based on these findings, the variables (bank size, leverage, profitability) are not interrelated in a way that would negatively affect the statistical analysis results.

7-4 The Pearson Correlation Test

Table (5) shows the Pearson correlation results for the study variables.

Table 5: Pearson Correlation Results for the Study Variables

Variables	Accrual Earnings	Real Earnings	Bank Size	Leverage	Profitability	adoption of IFRS Standards
Accrual Earnings	1	-0.873**	-0.009	0.043	0.189	-0.331**
Real Earnings	-0.873**	1	0.139	-0.053	-0.212*	0.221*
Bank Size	-0.009	0.139	1	-0.082	0.409**	0.168
Leverage	0.043	-0.053	-0.082	1	0.009	0.080
Profitability	0.189	-0.212*	0.409**	0.009	1	-0.119
adoption of IFRS Standards	-0.331**	0.221*	0.168	0.080	-0.119	1

Source: Statistical Analysis Outputs

The Pearson Correlation Test results indicate the following:

- There is a strong negative correlation between accrual earnings management and real earnings management (-0.873**), suggesting that banks relying on accrual-based techniques tend to avoid using real earnings management methods. When accrual earnings management increases, real earnings management significantly decreases, indicating that accounting adjustments under IFRS standards may be sufficient to achieve targets without resorting to actual earnings manipulation.

- There is no statistically significant relationship between accrual earnings management and both bank size (-0.009) and leverage (0.043). Regarding profitability, the results show a weak and nonsignificant relationship (0.189), suggesting that profitability has a limited impact on accrual earnings management.

- There is no statistically significant relationship between real earnings management and both bank size (0.139) and leverage (-0.053). Additionally, there is a weak negative correlation with profitability (-0.212*), indicating that higher

profitability may reduce reliance on real earnings management. As for IFRS adoption (the period before and after its application), there is a weak positive correlation (0.221*), reflecting a slight positive impact on real earnings management over time.

- There is a strong positive correlation (0.409**) between bank size and profitability, suggesting that larger banks are often more profitable. Moreover, there is a weak correlation (0.168) between bank size and IFRS adoption, indicating a limited impact of IFRS on bank size. Furthermore, no statistically significant relationship exists between leverage and IFRS implementation (0.080), while a weak negative correlation (–0.119) is observed between profitability and IFRS implementation, suggesting a slight temporal impact on profitability.

8- Results and Discussion

8-1 H01: "There is no statistically significant impact of the adoption of IFRS on Accrual Earnings Management (AEM) in Saudi Banks"

The study tests the impact of the adoption of IFRS on Accrual Earnings Management (AEM) in Saudi banks, focusing solely on the impact of applying IFRS without considering control variables. This allows for examining the basic relationship between IFRS adoption and Accrual Earnings Management. The regression equation is as follows:

$$\text{Accrual Earnings Management (AEM)} = \beta_0 + \beta_1 \text{IFRS} + \epsilon$$

Where:

- Accrual Earnings Management (AEM): This is the dependent variable; it measures changes in earnings based on the adoption of IFRS.

- β_0 (Intercept): This is the constant term, representing the estimated value of Accrual Earnings Management when the independent variable, IFRS, is zero (i.e., before the adoption of IFRS). It represents the baseline effect, independent of the independent variable.

- β₁ (Coefficient for IFRS): This is the coefficient associated with the adoption of IFRS. It measures the relationship between the adoption of IFRS and the level of Accrual Earnings Management (AEM).

- If the coefficient is statistically significant, it indicates a meaningful impact of applying IFRS on earnings management behavior.

- IFRS (The adoption of IFRS Standards): This is the independent variable that represents the adoption of IFRS. It is typically represented as 0 when IFRS is not adopted and 1 when it is adopted. This variable tests how the adoption of IFRS affects Accrual Earnings Management.

- ϵ (Error Term): This is the error term or residual, which represents the differ–ence between the observed values and the values predicted by the equation.

Table (6) shows Linear Regression Analysis for Measuring the Impact of IFRS on Accrual Earnings Management in Saudi Banks.

Table 6: Linear Regression Analysis for Measuring the Impact of IFRS on Accrual Earnings Management in Saudi Banks

Independent Variables	Variable Symbol	Dependent Variable	Unstandardized Coefficients	Standardized Coefficients	T-Statistic	(.Sig)	Interpretation
Constant	(Constant)	Accrual Earnings Management	B = 0.021	-	2.867	0.005	Significant
IFRS	IFRS	Accrual Earnings Management	B = -0.027	Beta = -0.331	-3.294	0.001	Significant
Statistic				**Value**			
Correlation Coefficient (R)				0.331			
R-squared (R²)				0.11			
Adjusted R-squared				0.1			
F-value				10.853			
Significance (P-value)				0.001			
Durbin-Watson Statistic				2.455			

Source: Statistical Analysis Outputs

Based on the data from the previous table, the regression equation for the first hypothesis can be formulated as follows:

Accrual Earnings Management (AEM)= 0.021 - 0.027IFRS+ϵ

The following results can be observed from the table:

- The regression analysis results showed a relationship between the adoption of IFRS Standards and accrual earnings management in Saudi banks. The correlation coefficient (R=0.331) indicates a significant relationship between the two variables, suggesting a noticeable effect. Additionally, the R–squared value of (0.110) indicates that approximately (11%) of the variation in accrual earnings management can be explained by the adoption of IFRS. Although this proportion is relatively low, it indicates that IFRS has a substantial contribution in altering the pattern of earnings management in Saudi banks, with other factors also contributing to this variation.

- The ANOVA results showed an F–value of (10.853) with a significant level of (0.001) indicating that the model is statistically significant. This result confirms that the adoption of IFRS Standards has a significant impact on Accrual Earnings Management in Saudi banks, thereby supporting the alternative hypothesis of a statistically significant relationship between the adoption of IFRS Standards and earnings management.

- The regression coefficient for the independent variable IFRS is (B=−0.027), indicating that the adoption of IFRS Standards leads to a reduction in accrual earnings management. This suggests that the adoption of IFRS has contributed to enhancing the transparency of financial reporting, which negatively affects earnings manipulation or adjustments in reports.

- The standardized coefficient (Beta) is (−0.331), indicating that the adoption of IFRS Standards has a moderate negative impact on accrual earnings management. This means that the adoption of IFRS Standards has helped reduce earnings adjustments, enhancing the reliability of financial reports.

- The P–value is (0.001), which is less than (0.05), indicating that the relationship between the adoption of IFRS Standards and Accrual Earnings Management is statistically significant.

Based on the analysis, it can be concluded that the adoption of IFRS has a noticeable impact on accrual earnings management in Saudi banks. The results show a statistically significant relationship between the adoption of IFRS and the reduction in earnings manipulation. These findings result in the rejection of the null hypothesis and the acceptance of the alternative hypothesis., that IFRS adoption contributes to improving transparency and reducing earnings adjustments. These findings suggest that IFRS has likely played a role in enhancing the credibility of financial reporting and achieving financial fairness in the Saudi banking sector, supporting the first alternative hypothesis this finding is supported by previous studies such as (Ball et al., 2019; Cho et al., 2018).

8-2 H02: There is no statistically significant impact of the adoption of IFRS on real earnings management (REM) in Saudi Banks

The study tests the impact of the adoption of IFRS on real earnings management in Saudi banks, focusing solely on the impact of applying IFRS without considering control variables. For examining the basic relationship between IFRS adoption and real earnings management. The regression equation is as follows:

$$\text{Real Earnings Management (REM)} = \beta_0 + \beta_1 \text{ IFRS} + \varepsilon$$

Where:

- Real Earnings Management: The dependent variable. It represents the level of real earnings management in Saudi banks.

- β_0 (Constant): Represents the constant term in the equation, i.e., the expected value of real earnings management when the independent variable (IFRS) is zero.

- β_1 (Coefficient for IFRS): The regression coefficient that shows the extent of the impact of the adoption of IFRS on real earnings management.

- IFRS (adoption of IFRS): This is the independent variable that represents the adoption of IFRS. It is typically represented as 0 when IFRS is not adopted and 1 when it is adopted. This variable tests how the adoption of IFRS affects real earnings management.

- ε (Error Term): This is the error term or residual, which represents the difference between the observed values and the values predicted by the equation.

Table (7) shows Linear Regression Analysis for Measuring the Impact of IFRS on Real Earnings Management in Saudi Banks.

Table 7: Linear Regression Analysis for Measuring the Impact of IFRS on Real Earnings Management in Saudi Banks

Independent Variables	Variable Symbol	Dependent Variable	Unstandardized Coefficients	Standardized Coefficients	T-Statistic	(.Sig)	Interpretation
Constant	(Constant)	Real Earnings	B = -0.023	-	-2.823	0.006	Significant
IFRS	IFRS	Real Earnings	B = 0.019	Beta = 0.221	2.122	0.037	Significant

Statistic	Value
Correlation Coefficient	0.221
R-squared (R²)	0.049
Adjusted R-squared	0.038
F-value	4.501
Significance (P-value)	0.037
Durbin-Watson Statistic	2.441

Source: Statistical Analysis Outputs

Based on the data from the previous table, the regression equation for the Second hypothesis can be formulated as follows:

$$\text{Real Earnings Management (REM)} = = -0.023 + 0.019\,\text{IFRS} + \varepsilon$$

The following results can be observed from the table:

- The regression analysis results indicate a relationship between the application of IFRS and real earnings management (Real Earnings) in Saudi banks, with a correlation coefficient of R = 0.221, suggesting a weak to moderate relationship between the variables. The coefficient of determination R^2 = 0.049 indicates that the adoption of IFRS explains approximately 4.9% of the variation in real earnings management. Although this percentage may seem low, it highlights that IFRS contributes significantly to changes in real earnings management practices in Saudi banks, while other factors may also contribute to this variation.

- The ANOVA results show an F-value of 4.501 at a significant level (Sig.) = 0.037, indicating that the statistical model is significant. This confirms that the adoption of IFRS has a substantial impact on real earnings management in Saudi banks, supporting the hypothesis of a statistically significant relationship between the adoption of IFRS and real earnings management.

- The regression coefficient for the independent variable IFRS is B = 0.019, indicating a slight increase in real earnings management due to the adoption of IFRS. This suggests that IFRS adoption may influence banks to adopt more consistent methods in determining earnings.

- The standardized coefficient (Beta) is 0.221, indicating that the adoption of IFRS has a weak to moderate impact on real earnings management. This implies that IFRS' adoption has influenced adjustments to real earnings management practices in banks.

- The P-value is 0.037, which is less than 0.05, indicating a statistically significant relationship between IFRS adoption and real earnings management.

Based on the above analysis, it can be concluded that the adoption of IFRS has had a noticeable impact on real earnings management in Saudi banks. The findings indicate a statistically significant relationship between IFRS adoption and adjustments to real earnings, these findings result in the rejection of the null hypothesis and the acceptance of the alternative hypothesis. IFRS adoption en-

hances transparency and reduces modifications in real earnings. These results suggest that IFRS has contributed to improving the reliability of financial reports and achieving financial fairness within the Saudi banking system, supporting the second alternative hypothesis. This finding is supported by previous studies such as (Dong et al., 2020; Hasan & Rahman, 2020).

8-3 H03: Under the adoption of IFRS, bank size, leverage, and profitability exert no statistically significant impact on accrual earnings management (AEM) and real earnings management (REM).

This hypothesis can be divided into the following two sub–hypotheses:

8-3-1 "*There is no statistically significant impact of control variables (bank size, leverage, and profitability) on the level of accrual earnings management (AEM) in Saudi banks under the adoption of IFRS.*"

Proposed Regression Equation:

$$AEM = \beta_0 + \beta_1(SIZE) + \beta_2(LEV) + \beta_3(PROF) + \epsilon$$

Where:

- AEM: Level of accrual earnings management

- SIZE: Bank size

- LEV: Leverage

- PROF: Profitability

- ϵ\epsilon$\epsilon$: Random error

Table (8) shows the Results of the multiple linear regression analysis measuring the impact of control variables on the level of accrual earnings management in Saudi banks before and after the adoption of IFRS.

Table 8: Results of the multiple linear regression analysis measuring the impact of control variables on the level of accrual earnings management in Saudi Banks before and after the adoption of IFRS

Interpretation	After IFRS	Before IFRS	Result
Before adopting IFRS, there was a strong correlation between the control variables and accrual earnings management (AEM). However, after IFRS implementation, this correlation weakened to become weak to moderate.	0.304	0.728	R (Correlation)
Before adopting IFRS, 53% of the variance in AEM could be explained by the control variables, while after adopting IFRS, this explanation dropped to only 9.2%.	0.092	0.53	R² (Model Explanation)
The model before adopting IFRS explains the variance better than the model after adopting IFRS, indicating that the independent variables explain AEM more effectively before IFRS implementation.	0.061	0.514	Adjusted R² (Adjusted Explanation)
In both cases, the values indicate that the residuals are well independent, confirming the model's suitability in both scenarios.	2.376	2.656	Durbin-Watson (Residual Independence)
The model before adopting IFRS has a statistically significant impact on AEM, while after IFRS, the impact is significantly weaker.	2.918	32.387	F (ANOVA)
Before adopting IFRS, an increase in bank size led to an increase in AEM, while after IFRS, the impact reversed, leading to a decrease in AEM.	B = -0.004	B = 0.004	Bank Size (B)
Before adopting IFRS, an increase in leverage led to a decrease in AEM, but after adopting IFRS, the relationship became positive, where leverage increased AEM.	B = 0.430	B = -0.981	Leverage (B)
Before adopting IFRS, profitability had a strong positive impact on AEM, but after adopting IFRS, the impact of profitability became statistically insignificant.	B = 0.791	B = 3.784	Profitability (B)

Interpretation	After IFRS	Before IFRS	Result
Before adopting IFRS, the impact was highly statistically significant on AEM, while after adopting IFRS, it remained significant but to a lesser extent.	0.039	0	p-value (Significance)
In both cases, the values are close to zero, indicating no bias in the model in either scenario.	-0.06497 to 0.08714	-0.06873 to 0.03438	Residuals

The findings from the multiple linear regression analysis revealed that IFRS adoption significantly influenced accrual earnings management (AEM). The relationship between control variables and AEM shifted with the adoption of IFRS; these variables were more effective in explaining earnings management prior to IFRS, while their influence diminished afterward. This implies that IFRS adoption altered the dynamics between control variables and AEM. Consequently, it can be concluded that the adoption of IFRS curbed earnings manipulation and improved transparency, as detailed below:

Change in the relationship between control variables and AEM:

-   **Before adopting IFRS**: The relationship was strong (R = 0.728), indicating that control variables such as bank size, leverage, and profitability significantly influenced AEM. This may suggest potential earnings manipulation based on these variables.

-   **After adopting IFRS**: The relationship weakened (R = 0.304), implying that control variables explained a smaller portion of the variance in AEM, reducing the scope for earnings manipulation as the influence of these variables became less pronounced.

Model Explanation (R^2) and Adjusted R^2:

-   **Before adopting IFRS**: The model explained 53% of the variance in AEM (R^2 = 0.53), indicating that AEM was significantly affected by control variables, leaving greater room for manipulation.

- *After adopting IFRS*: The model's explanatory power dropped to 9.2% (R^2 = 0.092), meaning the influence of control variables diminished, suggesting increased transparency and reduced manipulation opportunities.

Coefficients and Their Impact:

- *Before adopting IFRS*: Bank size (B = 0.004) positively impacted AEM, suggesting that larger banks could manipulate earnings based on their size. Profitability (B = 3.784) had a substantial positive impact on AEM, implying an incentive to adjust earnings based on profitability levels, creating room for manipulation. Leverage (B = –0.981) showed that increased leverage led to decreased AEM, potentially reflecting its use to reduce reported earnings.

- *After adopting IFRS*: Bank size (B = –0.004) had a negative impact on AEM, indicating that larger banks faced greater difficulty manipulating earnings through size. Profitability (B = 0.791) had an insignificant impact, reflecting diminished influence on earnings manipulation post–IFRS. Leverage (B = 0.430) now positively influenced AEM, demonstrating how IFRS reshaped financial reporting practices and how banks managed leverage.

Statistical Significance (**p–value**):

- *Before adopting IFRS*: The p-value was 0.000, indicating a highly significant impact of the model on AEM.

- *After adopting IFRS*: The p–value increased to 0.039, suggesting that while the impact remained significant, it was less pronounced compared to the pre-IFRS period. This reduction underscores IFRS's role in lessening the direct impact of control variables on AEM.

Residuals Before and After adopting IFRS: Residual values in both periods were close to zero, indicating no evident bias in the model and that the estimates were accurate.

Based on the above analysis, it can be concluded that the adoption of IFRS contributed to reducing earnings manipulation and enhancing transparency. This change is evident from the weaker relationship between control variables and AEM after IFRS adoption, indicating that earnings became less susceptible to manipulation and external pressures. these findings result in the rejection of the null hypothesis and the acceptance of the alternative hypothesis: There is a statistically significant impact of control variables (bank size, leverage, and profitability) on the level of accrual earnings management (AEM) in Saudi banks under the adoption of IFRS." However, the impact of control variables is diminished in the presence of the adoption of International Financial Reporting Standards (IFRS).

8-3-2 "*There is no statistically significant impact of control variables (bank size, leverage, and profitability) on the level of real earnings management (REM) in Saudi Banks under the adoption of IFRS"*

Proposed Regression Equation:

$$REM = \beta 0 + \beta 1 IFRS + \beta 2 SIZE + \beta 3 LEV + \epsilon$$

Where:

- REM: Level of real earnings management

- SIZE: Bank size

- LEV: Leverage

- ROF: Profitability

- ϵ\epsilon$\epsilon$: Random error term

Table (9) shows the Results of the multiple linear regression analysis measuring the impact of control variables on the level of real earnings management in Saudi banks before and after the adoption of IFRS.

Table 9: The results of the multiple linear regression analysis measuring the impact of control variables on the level of real earnings management in Saudi Banks before and after the adoption of IFRS

Interpretation	After IFRS	Before IFRS	Result
The correlation before the IFRS application is stronger than after, indicating that the impact of variables on real earnings became less clear after the application.	0.328	0.726	R (Correlation)
Before adopting IFRS, 52.6% of the variance in real earnings was explained by the control variables. After IFRS, the explanation decreased to 10.8%.	0.108	0.526	R² (Model Explanation)
After adopting IFRS, the model's explanation of variance in the data is further reduced.	0.077	0.51	Adjusted R² (Adjusted Explanation)
Before and after the implementation, the values indicate that the residuals are well-independent, showing model suitability in both cases.	2.38	2.775	Durbin-Watson (Residual Independence)
The model before the IFRS implementation had a statistically significant impact on real earnings, while after application, it became significantly weaker.	3.467	31.863	F (Analysis of Variance)
Before adopting IFRS, bank size had a negative impact on real earnings, while after application, it had a positive effect.	B = 0.005	B = -0.004	Bank Size
Before adopting IFRS, leverage led to an increase in earnings, while after the implementation, it had a negative effect.	B = -0.516	B = 0.803	Leverage
Before adopting IFRS, profitability had a greater negative impact on earnings compared to after the implementation, where the negative impact was smaller.	B = -1.252	B = -2.708	Profitability
Before adopting IFRS, the impact was statistically significant on real earnings, while after the implementation, the effect was weaker.	0.02	0	p-value (Statistical Significance)
The values are close to zero in both cases, indicating no bias in the model in either case.	-0.14684 to 0.06389	-0.03281 to 0.05503	Residuals

The multiple linear regression analysis demonstrates that the adoption of IFRS significantly affected real earnings, altering the relationship between control variables and earnings management. Before IFRS' adoption, control variables provided a clearer explanation of earnings, whereas their influence became less distinct afterward. This indicates that IFRS adoption transformed the dynamics between control variables and real earnings. From this analysis, it can be inferred that the adoption of IFRS contributed to reducing manipulation and enhancing transparency, as detailed below.

Change in the Relationship between Regulatory Variables and Real Earnings:

- *Before adopting IFRS*: The relationship between regulatory variables (such as bank size, leverage, and profitability) and real earnings was strong (R = 0.726), indicating a significant impact of these variables on earnings, which could allow banks to manipulate earnings based on these variables.

- *After adopting IFRS*: The relationship between regulatory variables and real earnings became weaker (R = 0.328), indicating that the regulatory variables now explain less of the variance in real earnings, thereby reducing their impact on real earnings.

Model Fit (R^2) and Adjusted Model Fit (Adjusted R^2):

- *Before adopting IFRS*: The model explained 52.6% of the variance in real earnings (R^2 = 0.526), suggesting that earnings were significantly influenced by the regulatory variables, providing more room for manipulation.

- *After adopting IFRS:* The model's explanation dropped to 10.8% (R^2 = 0.108), meaning that real earnings became less influenced by regulatory variables, which might indicate greater transparency and reduced earnings manipulation.

Coefficients and Their Effects:

- *Before adopting IFRS*

  o Bank Size has a negative impact on real earnings (B = –0.004), where any increase in bank size leads to lower earnings.

  o Leverage: Led to an increase in earnings (B = 0.803).

  o Profitability: Led to a greater reduction in earnings (B = –2.708).

- *After adopting IFRS:*

  o Bank Size: Now had a positive impact on real earnings (B = 0.005), meaning that an increase in bank size led to higher earnings.

  o Leverage: Now negatively impacted earnings (B = –0.516).

  o Profitability: Its negative impact became less severe (B = –1.252), reflecting a more balanced relationship between profitability and earnings.

Statistical Significance (**p–value**):

- ***Before adopting IFRS adoption***: The p–value was 0.000, indicating that the model had a statistically significant impact on real earnings.

- ***After adopting IFRS adoption***: The p–value became 0.02, meaning the impact is still present but to a lesser degree, indicating that IFRS application reduced the direct impact of regulatory variables on real earnings.

Residuals:

- ***Before adopting IFRS* adoption**: The values were close to zero, indicating that the model was unbiased and that the estimates were close to the actual values.

- ***After adopting IFRS adoption***: The values remained close to zero, suggesting that the model was still unbiased and that the estimates remained accurate.

The findings from the multiple linear regression analysis revealed that IFRS adoption significantly influenced real earnings management (REM). The relationship between control variables and REM shifted with the adoption of IFRS; these variables were more effective in explaining earnings management before IFRS adoption, while their influence diminished afterward. These findings result in the rejection of the null hypothesis and the acceptance of the alternative hypothesis: There is a statistically significant impact of control variables (bank size, leverage, and profitability) on the level of real earnings management (REM) in Saudi banks under the adoption of IFRS." However, the impact of control variables is diminished in the presence of the adoption of IFRS. This implies that IFRS adoption altered the dynamics between control variables and REM. Consequently, it can be concluded that the adoption of IFRS curbs earnings manipulation and improves transparency.

In the analysis of the third hypothesis, it was found that the adoption of IFRS affected the relationship between control variables (bank size, leverage, and profitability) and earnings management practices, both accrual–based and real. The influence of control variables on earnings management practices was significantly reduced compared to the period before the adoption of IFRS. This reflects the role of IFRS adoption in curbing or reducing both accrual–based and real earnings management practices.

9- Conclusion

9-1 Summary of Results

- The study's findings revealed a statistically significant impact of IFRS adoption on accrual earnings management. Regression analysis demonstrated that the regression coefficient (B) for the independent variable (IFRS adoption) was –0.027, indicating that implementing these standards reduces earnings manipulation based on accrual accounting. This impact was substantiated by a p–value of 0.001, which is below the 0.05 threshold, confirming strong statistical significance. Furthermore, the analysis showed a correlation coefficient (R) of 0.331, which suggests a moderate relationship between IFRS implementation and earnings management, while the coefficient of determination (R^2) was

0.110, indicating that IFRS adoption accounts for approximately 11% of the variance in earnings management practices. The model's F-value was 10.853, with a p-value of 0.001, further demonstrating strong statistical significance.

- The findings also indicated a statistically significant relationship between IFRS adoption and real earnings management in Saudi banks. The analysis showed that the regression coefficient (B) for the IFRS application was 0.019, suggesting a slight increase in real earnings manipulation following the adoption of IFRS. This impact was supported by a p-value of 0.037, which is below 0.05, indicating strong statistical significance. Additionally, the correlation coefficient (R) was 0.221, reflecting a weak to moderate relationship between IFRS implementation and real earnings management. The coefficient of determination (R²) was 0.049, implying that IFRS adoption accounts for only 4.9% of the variance in real earnings. The model's F-value was 4.501, with a p-value of 0.037, confirming that the relationship between the variables is statistically significant.

- The results indicated that control variables, namely bank size, leverage, and profitability, significantly influenced accrual earnings management before the adoption of IFRS standards, accounting for approximately 53% of the variance in accrual earnings. However, following the adoption of IFRS, the influence of these control variables diminished markedly to just 9.2%. This suggests that IFRS adoption reduced the capacity of control variables to impact earnings manipulation. Additionally, the correlation coefficient (R) decreased from 0.728 to 0.304 after IFRS adoption, highlighting the reduced significance of these variables. Specifically, bank size had a positive impact on accrual earnings before IFRS, which turned negative afterward. Conversely, leverage negatively impacted earnings before IFRS but exhibited a positive impact post-adoption. Profitability had a significant impact before IFRS adoption but became statistically insignificant afterward. The model's F-value dropped from 32.387 before IFRS to 2.918 after its adoption, indicating a weaker influence post-implementation.

- The findings revealed that control variables, including bank size, leverage, and profitability, significantly influenced real earnings management before the adoption of IFRS, explaining about 52.6% of the variance in real earnings. However, post–IFRS adoption, the influence of these control variables diminished substantially, accounting for only 10.8% of the variance. This suggests that IFRS implementation reduced the role of control variables in earnings manipulation. Furthermore, the clarity of these variables' effects declined after the standards were applied, as evidenced by a decrease in the correlation coefficient (R) from 0.726 to 0.328.

9-2 Recommendations

- **Recommendations for Academic Researchers**

  o Studying IFRS Impact on Earnings: Conducting further research on how IFRS adoption affects both accrual–based and real earnings manipulation across different sectors.

  o Investigating Real Earnings Management: Exploring the underlying reasons for slight increases in real earnings manipulation following IFRS adoption.

  o Evaluating Regulatory Variables: Analyze the role of regulatory variables in earnings management before and after IFRS adoption to provide insights for policy adjustments.

- **Recommendations for Regulatory Bodies**

  o Enhance IFRS Standards Enforcement: Strengthen the enforcement of IFRS compliance to ensure consistent application across financial institutions.

  o Develop Comprehensive Regulatory Strategies: Update regulations to address changes due to IFRS adoption, focusing on risk management and the impact of variables like bank size and leverage.

○ Monitor Financial Manipulation Tools: Ensure financial institutions have effective tools to detect and control both accrual–based and real earnings manipulation.

- **Recommendations for the Saudi Banking Sector**

○ Strengthening IFRS Application: Applying IFRS thoroughly to reduce profit manipulation and boost transparency.

○ Review Real Earnings Practices: Implement measures to closely monitor and manage real earnings manipulation.

○ Conducting Regular Impact Assessments: Perform annual reviews to assess IFRS's effectiveness in reducing earnings manipulation.

○ Enhancing Staff Training: Offer specialized IFRS training for accounting and management teams to improve application and understanding.

○ Adapting to Future Changes: Periodically update strategies and policies in response to ongoing and future IFRS changes.

9-3 Suggestions for Future Research

- Examine the role of corporate governance structures in moderating the effects of IFRS on earnings management, focusing on board characteristics and audit quality.

- Investigate how advancements in financial technology and data analytics might interact with IFRS adoption to influence earnings management practices.

- Explore the broader implications of IFRS adoption on financial stability and risk management within the banking sector.

- Undertake comparative analyses between Saudi banks and banks in other regions that have also adopted IFRS. This could provide insights into regional differences in the impact of IFRS on earnings management.

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