THE APPLICATION OF CREATIVE ACCOUNTING IN EARNINGS MANAGEMENT FOR LISTED COMPANIES

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Abstract

This study explores the practice of creative accounting in earnings management among Palestinian companies listed on the Palestine Stock Exchange (PEX) from 2018 to 2023 (Abdeljawad & Abu Alia, 2022). Using a comprehensive survey approach across all public shareholding sectors, the research applies statistical tools via Statistical Package for the Social Sciences (SPSS) and Excel to examine the extent and patterns of earnings management. Findings reveal that earnings management is actively practiced, particularly in the industrial, insurance, and investment sectors, with variation across the study years. The research emphasizes the need for further exploration of additional variables influencing earnings management and recommends future comparative studies with international markets to broaden understanding. Practical recommendations include enhancing the independence and effectiveness of audit committees, strengthening the regulatory role of the Palestine Capital Market Authority, and establishing more rigorous accountability mechanisms. The study also highlights the necessity of improving accounting practices and financial disclosure, especially in the banking sector. This research adds value by offering a focused analysis of creative accounting within the Palestinian context, contributing to both academic knowledge and practical reforms aimed at reducing the adverse effects of earnings management on stakeholders. It serves as a foundation for future efforts to improve transparency, governance, and financial integrity in Palestinian public companies.

Keywords: Practice of Creative Accounting, Earning Management, Palestinian Companies Listed on the Palestine Stock Exchange

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1. INTRODUCTION

Creative accounting is a controversial practice that significantly influences earnings management by altering financial information to present a more favorable depiction of a company's financial health. Common manifestations of this manipulation include earnings smoothing, income shifting, and big bath accounting. While not always illegal, these practices raise serious ethical and transparency concerns (Kamau & Murori, 2024; Tataru, 2023). Strategic use of creative accounting can distort financial statements, mislead stakeholders, and erode market confidence. Empirical evidence highlights techniques such as inflating revenues, undervaluing expenses, and manipulating receivables as tools frequently employed to meet earnings targets (Remlein & Obrzeżgiewicz, 2024). Despite offering short-term benefits, creative accounting undermines the long-term integrity of corporate governance and financial reporting reliability (Isahak et al., 2023).

Much of the existing research on creative accounting has concentrated on developed markets or neighboring countries such as Jordan, leaving a noticeable gap in the literature regarding its application in Palestinian public shareholding companies. Although studies have identified a correlation between creative accounting and market performance in Palestine (Abdeljawad & Abu Alia, 2022), comprehensive empirical investigations spanning multiple sectors over time remain scarce.

In response to this gap, the present study seeks to evaluate the prevalence and impact of creative accounting practices in earnings management among companies listed on the Palestine Stock Exchange (PEX) from 2018 to 2023. It specifically examines how these practices vary due to factors such as sector type, company size, age, profitability, indebtedness, liquidity, growth, and receivables.

To achieve this, the study employs a quantitative research approach, using a structured survey methodology targeting all sectors listed on the PEX. Data analysis is conducted using Statistical Package for the Social Sciences (SPSS) and Excel to explore the relationships between creative accounting practices and firm-specific characteristics. The study is grounded in agency theory and stakeholder theory to explain managerial motivations and assess the implications for various stakeholders.

This research is significant in that it addresses a critical gap in the literature and offers practical insights for auditors, regulators, and policymakers. Its key contributions include evidence of sectoral variation in earnings management and recommendations for strengthening governance mechanisms to mitigate unethical accounting practices.

The structure of the study is as follows: Section 2 presents a review of the relevant literature, including the concept and characteristics of creative accounting, factors that encourage its use, and both its benefits and drawbacks. It also explores how earnings management practices are measured and the implications of creative accounting. Section 3 outlines the research methodology, while Section 4 presents the results, focusing on the application of the Jones' model and hypothesis testing. Section 5 provides a discussion of the findings, and Section 6 concludes the study.

2. LITERATURE REVIEW

Creative accounting represents a significant peril to entities listed on the PEX by distorting financial statements and misleading stakeholders (Bineid et al., 2023; Al-Khoury et al., 2023). The practice of earnings management is intricately associated with leverage, wherein long-term debt serves to diminish manipulation, while short-term debt exhibits a negligible effect (Muhtaseb et al., 2024). Furthermore, audit committees within Palestinian enterprises do not adhere fully to the national corporate governance code, thereby undermining the oversight of financial practices (Aljadba et al., 2022). The ineffectiveness of corporate governance frameworks contributes to the ongoing prevalence of creative accounting behaviors. Psychological and ethical factors further impact managerial decisions, thereby facilitating earnings manipulation (Michulek & Gajanoova, 2023). Conversely, the absence of auditor specialization within specific industries complicates the identification of intricate financial distortions (Muhtaseb et al., 2024). Then, these circumstances cultivate an environment conducive to the unobserved proliferation of creative accounting; such practices erode confidence in financial disclosures and adversely affect economic stability within Palestine. So, stakeholders must confront these challenges through enhanced oversight, ethical leadership, and reforms in auditing practices. For example, the use of multiple accounting tools and accurate measurement of environmental costs enhances the quality of financial reporting, reducing the opportunities for earnings manipulation (Alshehadeh et al., 2025). Furthermore, the use of effective responsibility accounting, influenced by factors such as organizational structure and business size, enhances internal accountability, making manipulative practices more detectable (Dang et al., 2025). Both frameworks emphasize transparency and accountability, which act as deterrents to creative accounting. However, if responsibility accounting is not aligned with ethical oversight, it may indirectly pressure managers to manage earnings. In general, stronger accountability systems reduce the scope for creative accounting in financial statements. In light of the preceding discussion, this article seeks to investigate the underlying factors driving creative accounting and its influence on earnings management among companies operating on the PEX.

2.1. Concept and characteristics of creative accounting

Creative accounting is the intentional manipulation of financial statements to present a company's finances in a preferred light, often within legal limits but ethically questionable (Murineanu, 2024; Paryani & Mehta, 2024; Tataru, 2023). Specifically, such practices exploit loopholes in accounting standards to inflate revenues, understate expenses, or alter balance sheet items to meet expectations or attract investors (Tataru, 2023; Aggarwal, 2022). The primary motivation behind these practices is to satisfy investor expectations, improve loan terms, or fulfill listing requirements (Murineanu, 2024; Paryani & Mehta, 2024). However, despite being legally permissible in many cases, creative accounting often undermines transparency and objectivity, leading to ethical dilemmas and a loss of stakeholder trust (Isahak et al., 2023; Shevchenko & Liadska, 2022). Notably, major corporate scandals like Enron highlight the dangers of such practices when ethical boundaries are crossed (Piecek, 2023; Aggarwal, 2022). On the other hand, some researchers argue that, if guided by ethical principles, creative accounting can foster flexibility and innovation in financial reporting (Isahak et al., 2023; Shevchenko & Liadska, 2022). Nevertheless, it is important to distinguish creative accounting, which stays within legal limits, from aggressive accounting, which involves illegal manipulation and misrepresentation of financial data (Moskwa-Bęczkowska & Reczyńska, 2023). Furthermore, specific techniques used include adjusting amortization policies, revaluing tangible assets, capitalizing expenses, and manipulating development costs to enhance reported outcomes (Csongor et al., 2012). In contrast to forensic accounting, which seeks to detect and prevent financial fraud through investigation, creative accounting aims to obscure a company's actual financial state (Gupta, 2022; Ogundokun & Ogundokun, 2021). Ultimately, while creative accounting may offer short-term advantages, it carries long-term risks, including poor decision-making, stakeholder distrust, and financial instability (Vega Falcón, 2020).

2.1.1. Factors that encourage the implementation of creative accounting practices

Creative accounting in the corporate sector is often driven by economic pressures, especially in the financial industry, due to its complex regulatory environment (Paryani & Mehta, 2024). Primarily, companies use these practices to present a more favorable financial image, aiming to attract investors and maintain market confidence. Moreover, intense competition and performance-based incentives further push firms to manipulate financial outcomes (Aggarwal, 2022). Importantly, firm size plays a crucial role, as larger corporations — due to their vast resources — are more likely to employ creative accounting (Mensah et al., 2024). For instance, Ghanaian banks and Malaysian firms have shown a direct correlation between company size and income smoothing or misreporting practices. In addition, profitability serves as a key motivator, with high-performing companies often altering earnings to maintain a consistent growth narrative (Geubrina et al., 2022). Notably, these actions are frequently supported by experts like accountants and lawyers who exploit gaps in financial regulations (Michulek et al., 2024; Abed et al., 2022).

However, such manipulation can severely harm corporate solvency, as seen in Nigerian banks, where altered cash assets and deposits led to instability (Dada et al., 2023). Similarly, the misuse of accounting standards intensifies this threat, calling for stronger regulatory enforcement (Oncioiu, 2022). Historical scandals, such as Enron and WorldCom, exemplify how unchecked creative accounting can lead to corporate collapse, reinforcing the importance of transparency and governance (Al-Dulemi et al., 2018). Furthermore, cash flow reporting is particularly vulnerable, with misclassifications distorting a company's true financial standing (Arsenijević & Đukić, 2017). Despite these concerns, some scholars argue that when ethically applied, creative accounting can enhance operational efficiency and support company growth (Ditkaew, 2023). In this context, leveraging tools like factoring can optimize liquidity and improve reputation (Kravtsov, 2022). Ultimately, while creative accounting can offer strategic advantages, its misuse poses significant ethical and financial risks.

2.1.2. The potential benefits and drawbacks of using creative accounting methods

Creative accounting methods, such as activity-based costing (ABC), artificial intelligence (AI), and digital technologies, offer both benefits and challenges across industries. Specifically, ABC enhances cost accuracy and asset valuation, especially in capital-intensive sectors like construction, medicine, and pharmaceuticals (Chatzis et al., 2023). Moreover, ABC holds potential in hospitality and education, though its success in smaller firms depends on strong information systems (Chatzis et al., 2023). Consequently, these innovations automate repetitive tasks, allowing firms to focus on strategic decisions (Nykyforak et al., 2024). As a result, the role of accounting is shifting toward management functions rather than traditional bookkeeping (Zhang, 2022).

Nevertheless, this transformation brings workforce implications, as AI may replace human roles in routine accounting tasks (Nykyforak et al., 2024; Zhang, 2022). Therefore, accountants must develop advanced analytical and managerial skills to remain competitive (Zhang, 2022). In addition, the high cost of adopting digital systems limits access for small and medium-sized enterprises (Holovchak et al., 2023). Further, many accounting frameworks are inadequate in capturing the value of intangible assets and innovations, potentially misrepresenting market value (Semenova et al., 2021). To address this, integrated reporting is essential to reflect the interrelationship between intellectual, environmental, and social capital. Ultimately, while creative accounting tools improve accuracy and insight, successful implementation depends on digital readiness, workforce adaptability, and improved reporting standards.

2.2. Measuring earnings management practices

Earnings management in publicly traded firms utilizes diverse techniques to influence reported financial results. Primarily, accrual management — especially via discretionary accruals — is a common method, with the modified Jones model widely used to detect such practices (Astari & Suryantari, 2024; Azizah & Pujiono, 2021). In particular, this model helps identify deviations from expected accrual behavior across industries (Azizah & Pujiono, 2021). Additionally, real activities management involves adjusting operations, such as altering sales or expenses, to meet earnings targets. For instance, firms managed by professional directors may favor real activity methods, as indicated by abnormal operating cash flows (Astari & Suryantari, 2024).

Moreover, financial ratios serve as indicators of earnings management, with the debt-to-assets ratio and return on assets (ROA) commonly examined (Christiana et al., 2020). While high leverage often prompts earnings manipulation, the effect of profitability metrics like ROA may vary based on investor behavior (Christiana et al., 2020). Furthermore, deferred tax items provide opportunities for earnings adjustment, enabling timing differences that alter reported earnings without affecting tax liabilities (Wang et al., 2016). Consequently, fluctuations in deferred tax accounts can signal manipulation.

Beyond internal techniques, corporate strategies and external pressures — such as economic policy uncertainty — also affect earnings management approaches (Wahyuni et al., 2022; Roma et al., 2021). Notably, firms may modify accrual-based practices depending on their life cycle stage and market conditions. In conclusion, the use of discretionary accruals, real activity manipulation, financial indicators, and deferred taxes are vital for identifying earnings management and evaluating financial statement integrity.

2.3. Implication of creative accounting on earnings management

The effects of creative accounting on earnings management are multifaceted, intertwining financial data manipulation with pressing ethical considerations. Creative accounting, often used synonymously with earnings management, involves the intentional adjustment of financial statements to portray a desired image of a company's financial position. While not necessarily illegal, this practice exploits the flexibility of accounting standards to influence reported outcomes, often at the expense of transparency and accuracy (Kovacova et al., 2022). Such manipulation can significantly affect stakeholders' perceptions and decisions by undermining the reliability of financial reporting.

A primary driver behind creative accounting is the pressure on management to meet internal or external financial expectations. To this end, firms may manipulate the valuation of current assets — such as receivables and inventory — using techniques like write-offs or varying valuation methods to adjust reported earnings (Remlein & Obrzeżgiewicz, 2024). Although these techniques may fall within acceptable accounting practices, they raise serious ethical questions. While some argue that creative accounting reflects strategic financial management, others contend it obscures a company's true financial condition, potentially misleading stakeholders (Kamau & Murori, 2024). The ethical risks of such practices are not trivial, as history has shown that distorted financial reporting can contribute to corporate collapse and systemic economic disruptions (Patel, 2022).

Empirical studies suggest that creative accounting is a widespread phenomenon across regions and industries. Motivations range from personal managerial goals to broader external pressures such as financial risk, investor expectations, and tax optimization (Noor & Sopian, 2023). For example, research from the Visegrad Group countries indicates frequent use of discretionary accruals to inflate profits, illustrating the global nature of earnings management practices (Kamau & Murori, 2024). These activities threaten the credibility of financial reporting, eroding investor confidence and potentially leading to adverse economic consequences such as misallocated investments and business failures (Patel, 2022; Oncioiu, 2022).

Despite the known risks, creative accounting continues to persist, largely due to weak regulatory oversight and the broad interpretive leeway embedded in accounting standards (Paryani & Mehta, 2024). This situation reinforces the need for more stringent regulatory frameworks and ethical guidelines to ensure the integrity of financial reporting and protect stakeholder interests.

In light of this discussion, the study proposes the following hypotheses:

H1: There are no statistically significant differences at the significance level ($\alpha \leq 0.05$) in the practice of creative accounting across various variables, including economic sector, corporation size, profitability, leverage, solvency, cash flow, and corporate growth.

H2: There are no statistically significant differences at the significance level ($\alpha \leq 0.05$) in the practice of creative accounting methods among Palestinian companies listed on the PEX across different economic sectors, including the investment, stock market, industry, services, and insurance sectors.

3. RESEARCH METHODOLOGY

This study utilized descriptive and analytical methodologies, along with a qualitative approach, to evaluate creative accounting practices in Palestinian public shareholding companies. It analyzed financial data from 2017–2022, focusing on 49 companies listed on the PEX, excluding the banking sector due to insufficient data. Table 1 presents the study community. Data collection relied on secondary sources such as academic research and primary data from company financial reports. Statistical analysis was conducted using SPSS and Excel to assess variations in creative accounting practices and identify influencing factors across different economic sectors. While this approach was selected for its ability to reveal patterns across a broad sample, alternative methods were considered. A mixed-methods approach combining financial analysis with qualitative interviews could have offered deeper insight into managerial motivations, though it was limited by access and time constraints. A case study method might have provided richer context but lacked generalizability, while experimental designs were unsuitable due to ethical and practical limitations in manipulating financial behavior. Overall, the selected methodology balanced analytical rigor with practical feasibility to ensure valid, sector-wide insights.

Table 1. Distribution of economic sectors in the PEX for the year 2022

Economic sector	*Number*	*Percentage*
Banking sector	7	14.6%
Insurance sector	7	14.6%
Industrial sector	13	27%
Investment sector	9	18.8%
Services sector	12	25%
Total	**48**	**100%**

Source: Palestine Securities Exchange PSC company profile (n.d.).

Figure 1. Variables that drive businesses in Palestine to adopt creative accounting practices

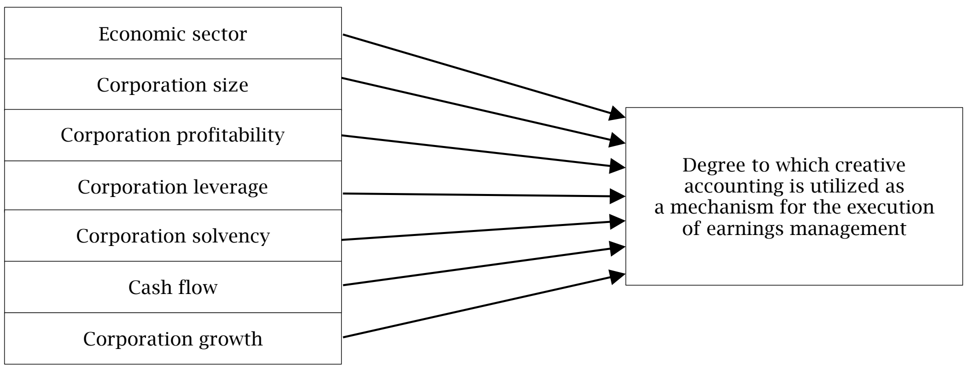

Figure 1 shows the variables that drive businesses in Palestine to adopt creative accounting practices. It addressed variables such as the *economic sector*, *corporation size, corporation profitability, corporation leverage, corporation solvency, cash flow*, and *corporation growth*, all of which impact earnings management.

4. RESULTS

4.1. Jones model of analysis

The Jones model is a vital tool in financial accounting for detecting earnings management, helping ensure the transparency of financial reports (Fiqriansyah et al., 2024). It is extensively used to identify profit manipulation and maintain financial integrity. Beyond accounting, the model plays a significant role in modeling research and development-driven economic growth by illustrating the role of human capital and technology (Nugroho et al., 2019; Arnold, 2005). Its flexibility allows adaptation across various national contexts. Although primarily recognized in accounting and economics, it is also applied in physics and optics to model complex systems (Wu et al., 2010). However, context-specific modifications are essential for accurate results across disciplines.

The Jones model was implemented to analyze data pertaining to publicly traded companies listed on the PEX within the timeframe of 2017–2022, categorized by the respective sectors of the companies, yielding the following findings:

Table 2. Investment sector

Number of companies in the sector	*Companies practicing earnings management*	*Year*	*Number of companies practicing earnings management during the year*
9	4	2017	2
		2018	1
		2019	3
		2020	2
		2021	2
		2022	4

The findings indicated that within the investment sector, four out of nine firms engaged in earnings management practices, constituting 44.44% of the firms within this sector that employed such strategies. The year 2018 marked the period with the least prevalence of earnings management, as merely one firm was identified as engaging in these practices, accounting for 11.11% of the aggregate number of firms in this sector. In contrast, the year 2022 emerged as the period with the highest incidence of earnings management, with the number of firms involved reaching four, which corresponds to 44.44% of the total firms within this sector.

Table 3. Securities sector

Number of companies in the sector	*Companies practicing earnings management*	*Year*	*Number of companies practicing earnings management during the year*
1	1	2017	0
		2018	0
		2019	1
		2020	0
		2021	1
		2022	0

The result was that the only company listed in the securities sector practiced earnings management in 2019 and 2021, while none were found to practice it during the remaining years of the study.

Table 4. Insurance sector

Number of companies in the sector	*Companies practicing earnings management*	*Year*	*Number of companies practicing earnings management during the year*
7	5	2017	1
		2018	0
		2019	1
		2020	3
		2021	2
		2022	3

The result was that five out of seven insurance companies practiced earnings management, representing 71.43% of the sector's companies. 2018 was the only year in which no earnings management occurred, while 2020 and 2022 saw the highest levels of earnings management in the sector, with three companies each practicing it, representing 42.86% of the total number of companies in the sector.

Table 5. Services sector

Number of companies in the sector	*Companies practicing earnings management*	*Year*	*Number of companies practicing earnings management during the year*
12	5	2017	4
		2018	3
		2019	2
		2020	2
		2021	1
		2022	4

The analysis revealed that within the services sector, five out of 12 companies engaged in earnings management, thereby accounting for 41.67% of the firms within this sector that employed such practices. The year 2021 was characterized by the minimal occurrence of earnings management, with merely one company partaking in this practice, which corresponds to 8.33% of the overall companies in this sector. In contrast, the years 2017 and 2022 emerged as the periods with the most pronounced instances of earnings management within this sector, as the number of companies involved in these practices reached four in each respective year, signifying 33.33% of the total companies in this sector.

Table 6. Industrial sector

Number of companies in the sector	*Companies practicing earnings management*	*Year*	*Number of companies practicing earnings management during the year*
13	10	2017	7
		2018	4
		2019	6
		2020	6
		2021	3
		2022	5

The empirical findings indicate that within the industrial sector, a significant proportion of companies, specifically 10 out of 13, engaged in the practice of earnings management, thereby constituting 76.92% of the total companies operating within this sector that employed such financial strategies. The year 2021 emerged as the period characterized by the least engagement in earnings management practices, as only three companies partook in this activity, which corresponds to 23.08% of the overall company count in this sector. In contrast, the year 2017 marked the apex of earnings management activities within the sector, with the number of participating companies escalating to seven, thereby representing 53.85% of the total companies in this domain.

From the aforementioned analysis, it is evident that the enterprises predominantly engaging in earnings management were those within the industrial sector, wherein the number of firms that employed such practices amounted to 10 out of 13, equating to 76.92% of the companies within this sector. This was subsequently followed by the insurance sector, where five out of seven firms engaged in earnings management, representing 71.43%. Following this, the investment sector exhibited four out of nine companies that practiced earnings management, which corresponds to 44.44%. Conversely, the companies within the services sector demonstrated the least engagement in earnings management, with five out of 12 firms in this sector, or 41.67%, participating in such practices. |In the securities sector, which comprises solely one firm, it was found that this singular entity practiced earnings management during several of the years examined in the study.

Upon examining the progression of earnings management methodologies throughout the duration of the study, one observes the data presented in the subsequent table:

Table 7. Development of earnings management processes

Years	*Number of companies*
2017	14
2018	8
2019	13
2020	13
2021	9
2022	16
Total	**73**

As delineated in the preceding Table 7, 14 out of 42 firms engaged in earnings management in the year 2017, thereby accounting for 33.33% of the sample population. The incidence of firms engaging in earnings management diminished in 2018, resulting in eight out of 42, which corresponds to 19.05%. In the years 2019 and 2020, the frequency of earnings management practices experienced an upsurge, with 13 firms partaking in each year, thereby constituting 30.95% of the sample population. Subsequently, the number of firms engaged in this practice declined in 2021 to nine firms, representing 21.43%. In 2022, the peak percentage of firms practicing earnings management was noted, with 16 firms involved, which equated to 38.09% of the overall sample population.

The subsequent table elucidates comprehensively the allocation of earnings management methodologies across various sectors throughout the duration of the research years.

Table 8. Practice of sector companies during the study years

Row labels	*2017*	*2018*	*2019*	*2020*	*2021*	*2022*	*Grand total*
Industry	7	4	6	6	3	5	31
0	0	0	0	0	0	0	0
1	7	4	6	6	3	5	31
Insurance	1	0	1	3	2	3	10
0	0	0	0	0	0	0	0
1	1		1	3	2	3	10
Invest	2	1	3	2	2	4	14
0	0	0	0	0	0	0	0
1	2	1	3	2	2	4	14
PEX	0	0	1	0	1	0	2
0	0	0		0		0	0
1			1		1		2
Service	4	3	2	2	1	4	16
0	0	0	0	0	0	0	0
1	4	3	2	2	1	4	16
Grand total	**14**	**8**	**13**	**13**	**9**	**16**	**73**

4.2. Testing study hypotheses

This research aims to examine the degree to which a constellation of factors may affect the implementation of innovative accounting practices, grounded in the modified Jones model, within public shareholding entities listed on the PEX throughout the examined timeframe (2017–2022). To fulfill this objective, the influence of six independent variables was analyzed: the growth of the company, the profitability of the company, the level of the company's debt, the liquidity of the company, the collections of the company, and the magnitude of the company's assets on the implementation of innovative accounting practices in public shareholding companies listed on the PEX, employing the multiple regression analysis technique.

The hypothesis *H1* will be rejected if $Sig.F_{n-k-l,k} < 0.05$, which refers to the p-value of the F-statistic with degrees of freedom, where, n is the number of observations, k is the number of independent variables, and l is the number of linear restrictions tested.

Table 9. Distribution of study sample companies according to the practice of earnings management, distributed according to economic sectors

Sector	*Earnings management*		*Total*
	0	1	
1	40	14	54
2	4	2	6
3	31	10	41
4	55	16	71
5	47	31	78
Total	**177**	**73**	**250**

This research encompassed five distinct economic sectors, comprising a total of two hundred and fifty observations. It was determined that 177 observations did not engage in innovative accounting practices, whereas 73 observations demonstrated the incorporation of innovative accounting within public shareholding companies that are listed on the PEX.

Table 10. Independent study variables and dependent variable

Model	*Variables entered*	*Variables removed*	*Method*
1	*Corporation asset size, profitability, leverage, solvency, cash flows, and growth.*		Enter

Note: All requested variables entered. Dependent variable: Earnings management.

It is observed from the presented table that the regression technique employed is the Enter method, as it is evident that the software has incorporated all the independent variables into the multiple linear regression model.

4.2.1. Results of H1 testing

One-way analysis of variance (ANOVA) was employed to test *H1*. The results indicated that the p-value = 0.000 is less than 0.05, and the calculated F-value is 12.711), which exceeds the tabulated F-value of 1.96. Consequently, the *H1* was accepted, demonstrating statistically significant differences at the significance level $\alpha \leq 0.05$ in the practice of creative accounting methods. These differences are attributed to the independent variables: company asset size, profitability, debt, liquidity, cash flows, and growth. This indicates that the relationship is statistically significant, as reflected in Table 11.

Table 11. Results of one-way ANOVA analysis of variance to test the study hypothesis

Model 1	*Sum of squares*	*df*	*Mean square*	*F*	*Sig.*
Between groups	12.346	6	2.058	12.711	0.000
Within groups	39.338	243	0.162		
Total	**51.684**	**249**			

Note: Statistically significant at the significance level $\alpha \leq 0.05$.

It is observed from the preceding table that it encompasses the values pertinent to the analysis of variance, through which the overall explanatory power of the model can be discerned via the F-statistic. It is evident from the information presented in Table 11 that the significance value in this investigation was determined to be 0.00, which is below the significance threshold established in the study, specifically 0.05. This substantiates the substantial explanatory power of the multiple linear regression model from a statistical perspective, as it was established that the computed F-value, which is 12.711, exceeds the critical F-value of 1.96. Consequently, we accepted *H2* of the study, which posits that there are statistically significant differences at a significance level $\alpha \leq 0.05$ in the implementation of innovative accounting methods attributable to the independent study variables: the magnitude of the company's assets, the profitability of the company, the indebtedness of the company, the liquidity of the company, the cash flows of the company, and the growth of the company. This indicates that we embrace *H2* hypothesis, which asserts that the relationship is statistically significant.

Table 12. Constant value, regression coefficients, and their statistical significance for the independent variables on the dependent variable

Coefficient statistics	*Independent variables*						
	Beta (β)*	*Corporation growth*	*Corporation solvency*	*Cash flow*	*Corporation leverage*	*Corporation profitability*	*Corporation size*
Coefficient value	0.158	-0.009	5.380E-10	-8.676E-9	3.125E-9	9.580E-9	5.014E-9
T-test	5.017	-1.302	0.272	-3.803	0.671	3.079	2.046
Sig.	0.000	0.194	0.786	0.000	0.503	0.002	0.042

*Note: Dependent variable: Earnings management. Sig. means p-value: if it is bigger that 0.05, then there is impact of the independent variables on dependent variables. * denotes statistical significance at the 0.05 level (p < 0.05).*

The table delineates the constant values, regression coefficients, and their corresponding statistical significance regarding the independent variables affecting the dependent variable (*earning management*). The results indicate that the independent variables — *corporate profitability*, *corporation size*, and *cash flow* achieved statistical significance, as indicated by their significance levels, which were below 0.05, the threshold established within the context of this study. Conversely, the variables encompassing the *corporation growth*, *corporation solvency*, and *corporation leverage* did not achieve statistical significance, as evidenced by their significance levels exceeding 0.05, the predetermined threshold for this research. A detailed analysis of the constant values and regression coefficients indicates a direct correlation between asset size and the profitability of the company, alongside collections, debt size, and innovative accounting practices. In contrast, an inverse relationship was identified between the liquidity of the company, asset growth, and innovative accounting practices within public shareholding companies listed on the PEX throughout the study period spanning from 2017 to 2022.

4.2.2. Results of H2 testing

Descriptive statistics revealed that several public shareholding companies listed on the PEX practiced innovative accounting during the period under study (2017–2022). Therefore, the significance of these practices must be verified by testing *H2* of the study through a one-way variance test. As the statistical model we applied for *H2* was a one-way ANOVA, we can represent it by the following equation:

$$F = MS\ between / MS\ within = df\ between \times SS\ between / df\ within \times SS\ within \quad (1)$$

where, *MS* is mean square, *SS* is sum of squares, *df* is degrees of freedom.

One-way ANOVA was employed to test this hypothesis. The results indicated that the p-value = 0.016 < 0.05, and the calculated F-value is 8.637, which is more than the tabulated F-value of 1.96. Consequently, *H2* was accepted, demonstrating statistically significant differences at the significance level $\alpha \leq 0.05$ in the practice of creative accounting methods among Palestinian companies listed on the PEX across different economic sectors, including the investment, stock market, industry, services, and insurance sectors, as reflected in Table 13.

Table 13. Results of one-way ANOVA analysis of variance to test the study hypotheses

Model 2	*Sum of squares*	*df*	*Mean square*	*F*	*Sig.*
Between groups	1.345	4	0.336	8.637	0.016
Within groups	50.339	245	0.205		
Total	**51.684**	**249**			

5. DISCUSSION

The hypothesis testing results reveal significant relationships between creative accounting practices and earnings management for Palestinian companies listed on the PEX, considering factors like economic sector, company size, profitability, leverage, solvency, cash flow, and company growth. These findings are consistent with previous studies, such as Aggarwal (2022) and Prayani and Mehta (2024), which emphasized that creative accounting is often driven by the need to present a favourable financial position to attract investment and maintain confidence. Moreover, research by Mensah et al. (2024) highlighted the influence of company size, showing that larger firms are more prone to creative accounting, negatively affecting profitability metrics like ROA and return on equity. Geubrina et al. (2022) further noted that profitability is a key driver of creative accounting, with profitable firms often manipulating earnings to meet market expectations. Additionally, Dada et al. (2023) and Al-Dulemi et al. (2018) emphasized that creative accounting practices can undermine corporate solvency, leading to financial instability, as seen in historical cases like Enron and WorldCom. Furthermore, Arsenijević and Đukić (2017) demonstrated how these practices can distort cash flow reporting, stressing the need for alignment with standards to ensure transparency. Finally, adopting creative accounting methods and digital technologies, as Ditkaew (2023) and Kravtsov (2022) pointed out, can enhance accuracy and decision-making but also pose challenges, including labor market shifts and high costs, as noted by Chatzis et al. (2023) and Nykyforak et al. (2024), while Rieg and Ulrich (2024) added that digitalization positively influences performance by enhancing planning and budgeting processes.

6. CONCLUSION

This study concluded that publicly listed companies on the PEX actively engage in earnings management, with significant variation across economic sectors and years. The industrial sector recorded the highest prevalence (76.92%), followed by the insurance sector (71.43%), while the service sector exhibited the lowest (41.67%). The year 2022 saw the peak of earnings management activity, with 38.09% of companies involved. Statistically significant relationships were identified between earnings management and company characteristics such as size, profitability, and growth. Larger and more profitable firms were more inclined to manipulate earnings, while higher liquidity and rapid asset growth were associated with less manipulation.

In light of these findings, several recommendations emerge. First, audit committee independence and impartiality must be strengthened to ensure effective oversight and detection of earnings manipulation. Regulatory bodies, including the Palestine Monetary Authority, the Palestine Capital Market Authority, and the PEX, should intensify investor education initiatives and develop robust financial analysis training programs. These efforts would help stakeholders critically evaluate financial disclosures and recognize signs of creative accounting. Additionally, there is a pressing need to enhance the capabilities of certified public accountants through continuous professional development focused on detecting and addressing earnings management practices. Stronger accountability systems must be enforced within firms to hold executive management responsible for unethical reporting behaviors.

Furthermore, companies should be required to adhere to stricter financial disclosure regulations, particularly in sensitive areas such as changes in accounting policies, executive compensation, and dividend strategies. Drawing on successful policy frameworks from neighboring countries can support the implementation of these reforms in the Palestinian context.

The researchers faced several limitations during this study. Access to detailed non-public financial data was restricted, limiting the ability to detect all forms of earnings management. Measurement challenges arose due to the lack of precise tools for quantifying creative accounting activities. Time, funding, and resource constraints narrowed the scope of data collection and analysis. In addition, the regulatory environment in the Palestinian market, characterized by inconsistent enforcement and transparency requirements, posed challenges in accurately identifying manipulation practices. Finally, variations in accounting practices and disclosure quality across sectors made cross-sector comparisons more complex and potentially less precise.

Finally, continued research is essential to explore additional variables influencing earnings management, including corporate governance structures, board characteristics, and regulatory compliance. Such studies will contribute to building a transparent and trustworthy financial reporting environment in Palestine.

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