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Did Japanese-SOX Have an Impact on Earnings Quality and Earnings Management?

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ABSTRACT

In this study we investigate whether Japanese SOX (J-SOX) impacted earnings quality and earning management for public firms in Japan. We compare a sample of 60 firms that disclosed material weaknesses (MW firms) with a paired sample similar on size and industry, focusing on accruals quality, accuracy of cash flow prediction, and discretionary accruals. Our results indicate accruals quality improves after the passage of J-SOX and forecast accuracy improves post-J-SOX for both out control firms and MW firms. There are differences in accruals management for MW firms and real management for control firms observed in the pre-and the post-J-SOX periods. We observe differences in accruals quality for both MW firms and the control firms. While earning management remains unchanged post-J-SOX period, both accruals and real management are changed after the passage of the J-SOX. While accrual management was observed even after the passage of the J-SOX, real management was not observed post-J-SOX.

Keywords: earnings quality; accruals quality; earnings management, accuracy for cash flow prediction, and J-SOX.