DOI: 10.21564/2225-6555.2025.28.346818

Earnings Management in Corporate Accounting as a Legal Problem: a Conceptual Framework

Collins C. Ngwakwe*
University of Limpopo
Polokwane, Republic of South Africa
**e-mail: collins.ngwakwe@ul.ac.za*

Abstract
The relevance of this paper lies in the interplay between accounting policies and legal ethics, which remains at the forefront of contemporary discretionary accounting practices and the attendant earnings management. The paper's quest for understanding the legal consequences is relevant for corporate managers and investors, as it provides insight into the consequences of exceeding the boundaries of allowed accounting discretion, which brings regulatory oversight to the illegality of deceitful management of corporate earnings. Accordingly, the purpose of this paper is to analyse the legal repercussions of corporate engagement in earnings management. It also aims to investigate the causative factors of managerial engagement in earnings management and to develop a framework for the phenomenon. The methodological approach focused on critical reviews and the application of doctrinal and comparative research methods to analyze related documents, including those from regulatory bodies, associated cases, and published journal articles, employing a thematic framework. The results show, on the one hand, that earnings management beyond policy limits may result in financial fraud and/or filing deceits, and that such actions could attract various legal enforcement consequences, including fines, penalties, job loss, company closures, and imprisonment, among others. On the other hand, the results also suggest that corporate management may be inclined to engage in illegal earnings management primarily to enhance the company's financial outlook and serve management's economic interests. The paper presents some promising avenues for further research. Such a future could explore the different levels of legal consequences when management exploits accounting policy loopholes, primarily to deceive investors into believing that the company is financially stable, versus the legal repercussions when such exploitation is primarily for management's own financial gain, such as in earnings management and tunneling engagements. A comparison of regional differences in earnings management and differences in legal consequences could offer investors insights into which regions have more substantial legal repercussions and, therefore, stronger deterrents for managers to engage in earnings management.

© Ngwakwe, C.C., 2025

Keywords: *earnings management; legal consequences; accounting policies; illegal earnings management; discretionary accruals; Securities and Exchange Commission; accounting and ethics.*

Управління прибутком у корпоративному обліку як проблема законності: концептуальна основа

Коллінс С. Нгвакве*
Університет Лімпопо
Полокване, Південно-Африканська Республіка
**e-mail: collins.ngwakwe@ul.ac.za*

Анотація
Актуальність статті зумовлена взаємозв'язком між обліковою політикою та правовою етикою, що залишається в центрі сучасних дискреційних практик бухгалтерського обліку та супровідного управління прибутком. Прагнення автора до розуміння юридичних наслідків має значення для корпоративних менеджерів й інвесторів, оскільки надає уявлення про наслідки перевищення меж допустимої облікової дискреції, що викликає регуляторний контроль через незаконність маніпулятивного управління корпоративними прибутками. З огляду на це метою статті є аналіз правових наслідків залучення корпорацій до управління прибутком. Також робиться спроба визначити чинники, що зумовлюють управлінську участь у такому процесі, а також розробити концептуальну модель цього явища. Методологічно дослідження базується на критичному аналізі та застосуванні доктринального й порівняльного підходів для аналізу документів регуляторних органів, судових справ і наукових публікацій за тематичним принципом. Результати дослідження засвідчують, що управління прибутком за межами політичних обмежень може призвести до фінансового шахрайства або подання неправдивих даних, що тягне за собою правові санкції: штрафи, пеню, втрату роботи, ліквідацію компанії, позбавлення волі тощо. Водночас виявлено, що менеджери можуть бути схильні до незаконного управління прибутком з метою покращення фінансового іміджу компанії або отримання особистої вигоди. Автор пропонує напрями для подальших досліджень, зокрема порівняння рівнів юридичних наслідків у випадках, коли маніпуляції використовуються для введення інвесторів в оману, а також коли такі дії переслідують виключно особисті фінансові інтереси менеджменту. Визнано доцільним регіональне порівняння законодавчих наслідків для інвесторів, зокрема: які юрисдикції мають сильніші правові санкції та, відповідно, сильніші стримувальні механізми.

Ключові слова: *управління прибутком; правові наслідки; облікова політика; незаконне управління прибутком; дискреційні нарахування; Комісія з цінних паперів та бірж; бухгалтерський облік і етика.*

Introduction

The need to demonstrate strong financial performance and the strain on financial management are increased by worsening economic conditions and a pessimistic outlook. Positive Accounting Theory posits that the phenomenon of earnings management is associated with an increased risk of bankruptcy. Throughout a company's life cycle, variations in bankruptcy risk, reported profit quality, and other aspects of financial performance are observed [1].

A controversial area at the nexus of ethics, law, accounting, and finance has long been occupied by earnings management [2]. In its broadest sense, it refers to the intentional manipulation of financial reporting procedures to achieve desired earnings results, often to meet market expectations, reduce income volatility, or influence stakeholder perceptions. While some types of earnings management fall within the parameters of accounting discretion allowed by financial reporting standards, others cross into the territory of fraud or deception, raising serious legal and regulatory issues. The scrutiny of corporate reporting practices, as well as the legal responsibility of those who prepare and approve them, has increased in tandem with the ongoing complexity of global financial markets [3; 4].

It is often difficult to distinguish between legal earnings management and illegal financial fraud [5]. In areas such as asset valuation, revenue recognition, and expense timing, accounting standards like Generally Accepted Accounting Principles (GAAP) and International Financial Reporting Standards (IFRS) naturally permit managerial judgment. However, such actions may violate securities law, corporate governance principles, and fiduciary duties if managerial discretion is used with the intention of misleading investors or distorting the firm's actual financial situation. Therefore, a careful analysis of intent and effect, that is, whether the practice in question was intended to inform or to deceive, is necessary to determine whether earnings management is legal [5].

Earnings management can have significant legal ramifications. In governments like the U.S., aggressive earnings manipulation has been classified as a type of securities fraud by the Securities and Exchange Commission (SEC) and the Financial Conduct Authority (FCA). In the UK and countries around the world, serious consequences are often the outcome of enforcement actions, such as corporate fines, the disgorgement of illicit gains, and, in extreme cases, the criminal prosecution of executives. Prominent corporate scandals, such as those involving Enron, WorldCom, and, more recently, Wirecard, demonstrate how unchecked earnings management practices can lead to widespread legal ramifications and corporate collapse [6]. Legislative changes, as well as increased attention from investors, regulators, and auditors, have been prompted by these cases.

In addition to legal and regulatory penalties, earnings management exposes companies and their executives to civil liability. Legal action may be taken by creditors, shareholders, and other interested parties on the grounds of negligence, breach of fiduciary duty, or deception. Additionally, the reputational harm caused by alleged financial reporting dishonesty may have long-term economic and operational repercussions, undermining investor confidence and lowering market value. From a governance standpoint, boards of directors are under increasing pressure to ensure strong internal controls, transparent financial oversight, and ethical corporate cultures that deter dishonest reporting [6].

The legal environment of earnings management in this situation is both preventive and punitive. To identify and discourage manipulation before it turns into fraud, legal frameworks are placing an increasing emphasis on corporate compliance, internal auditing, and whistleblower protections. The line separating legal discretion from illegal deception will continue to be tested as corporate reporting becomes more digitalized and subject to real-time analysis. Therefore, it is crucial for corporate executives, compliance officers, policymakers, investors, and academics seeking to strike a balance between managerial flexibility and the requirements of accountability, transparency, and market integrity to understand the legal implications of corporate engagement in earnings management.

Accordingly, the objective of this paper is to use a doctrinal and comparative research approach to analyse the legal repercussions of corporate engagement in earnings management. The paper also aims to explore the causative factors of managerial engagement in earnings management and to develop a framework on the phenomenon.

Literature Review

The incentive impact of a CEO's personal legal liability is examined by [7]. Taking advantage of a special Chinese law that holds a company's attorney personally liable for the unlawful actions of the company. According to [7], when the CEO also serves as the company's attorney, earnings management tends to decline. According to their further analysis, the impact of a CEO's legal liability on earnings management is more noticeable when the CEO is hired from outside, has no family ties, and the company is at high risk of litigation. Their conclusions hold up well against endogeneity, and when the CEOs' attributes are taken into consideration [7]. According to [8], abnormal accounting accruals are abnormally high around stock offers, particularly for companies whose offers later result in legal action. Compared to companies that are not sued, companies that are sued experience more noticeable reversals, and their stock returns are lower. [8] discovered that abnormal accruals surrounding the offer are significantly positively correlated with the frequency of lawsuits involving stock offers and settlement amounts, while post-offer stock returns are significantly negatively correlated. According to [8], their findings lend support to the theory that certain businesses manipulate earnings upward before issuing stock, making them susceptible to legal action.

To characterize the behavior of businesses at various stages of the corporate life cycle [1], the authors investigated the effects of bankruptcy and the corporate life cycle on earnings management. They used a hierarchical mixed model with a random time and industry effect, which was deemed suitable since it permits the examination of non-independent multilevel data. The financial metrics of over 33000 Central European businesses from 2015 to 2019 were included in their sample. They used three accrual earnings management models, company age, and the non-sequential Dickinson model as variable proxies for the business life cycle and the quality of reported profit. Following their analysis [1], a U-shaped relationship between earnings management and bankruptcy risk was discovered, suggesting that financially distressed companies cut reported accounting profits at the introduction, decline, and to a lesser extent, Growth stages.

The authors in the paper [9] examined how earnings management strategies were affected by the COVID-19 pandemic. Their study employed three discretionary accrual metrics as a proxy for earnings models and focused on a sample of 2031 companies listed in 15 European nations. To compare earnings management during the pre-pandemic period (2017q1-2019q4) and the pandemic period (2020q1-2020q4), ordinary least squares (OLS) regressions were applied by [9]. Their findings show that, in comparison to the previous period, the sample firms tended to manage earnings during the pandemic. This result suggests that the financial reports during the COVID-19 pandemic were less reliable. Additional investigation reveals substantial earnings management that increased income in 2020. Hence, according to the findings by [9], companies manage earnings upward by reducing the amount of reported losses to restore stakeholder and investor confidence, which is necessary to support the economic recovery.

In another related study on earnings management research [10], the authors examined the connection between accounting report quality, particularly in relation to earnings management (EM), and corporate social responsibility (CSR). They found a negative correlation between EM and corporate social responsibility (CSR). Additionally, the year of sample selection, cultural differences, and CSR measurement all moderate this effect.

Due to their superior monitoring skills, previous research generally indicates that the presence of female directors on corporate boards tends to improve the quality of earnings [11]. They suggest that it is unclear, nevertheless, which traits and competencies of female directors contribute to these abilities. Their study focused on the financial backgrounds of female directors, a research niche that has received little attention in the literature. Hence, the findings by [11] indicate that the involvement of female directors with relevant financial backgrounds enhances the quality of earnings more than that of female directors without such backgrounds. Furthermore, according to their findings, only female directors with relevant financial backgrounds and fewer outside directorships can mitigate earnings management. As a result, overcommitting knowledgeable female directors with more outside directorships would reduce their ability to monitor.

The study by [12] tests hypotheses using a two-step system, generalized method of moments (GMM) estimation, and fixed effects. Implementing corporate governance decreases corporate earnings misconduct, according to the analysis findings. The size and independence of audit committees, as well as several board committees and joint audits, are all very successful in reducing earnings management. The overall corporate governance metric indicates that internationalization is significantly moderated negatively. To prevent de-legitimization in the eyes of host countries, internationalization enhances the quality of the corporate governance mechanism, thereby decreasing earnings manipulation.

Using a natural experiment within the framework of China's delisting system reform [13] investigates how new delisting regulations affect the selection of corporate earnings management tools. The findings show that while real earnings management among listed companies has increased, accrual-based earnings management has decreased due to the new delisting regulations.

Materials and Methods

This paper employed the descriptive genre of doctrinal and comparative research design to analyze the legal consequences of earnings management conduct within corporate entities. The examination comprised the use of secondary material sources, which include legislation (such as the Securities and Exchange Act of 1934 [14] and the Companies Act of 2006, as well as the Corporate Act of 2001). Other materials include related case law on earnings management, such as [16], as well as regulatory guidelines from the Securities and Exchange Commission. Other materials included those from the FRC and the ASIC. The various secondary materials examined in this paper include peer-reviewed articles published in reputable journals, academic books, and reports from international accounting bodies, such as the IFRS Foundation. The article data were sourced from databases that spanned both academic and legal bases, including LexisNexis, Westlaw, and JSTOR. Following the application of the descriptive doctrinal research technique, along with comparative approaches, to the legal frameworks of the US, Australia, the UK, Japan, and Africa, findings were obtained. To determine legal liabilities, governance implications, and enforcement trends, findings were synthesized thematically. Although the lack of empirical field data is acknowledged as a limitation, the paper retains analytical rigor by relying on reliable academic and legal sources. A brief overview of the convergence of doctrinal research between accounting and law is presented below to situate and justify the materials and methods.

Before the more modern scientific method became the standard for research, doctrinal research had a long history. Roman legal doctrine predates the contemporary era, and different authoritative structures employed doctrinal approaches to direct people's behavior during the Middle Ages [17]. From the standpoint of accounting, one of the best examples of such historical doctrinal writings is Luca Pacioli's work, in which he recognized and clarified the double-entry approach as the foundation of accounting [Ibid]. However, contemporary doctrinal research now tends to focus on interpreting and assessing the concepts, rules, and principles developed in practice rather than on directing practice [Ibid]. This shift in doctrinal research, as argued by [Ibid], may be due to the development of doctrines used in professional fields like law and accounting. Therefore, one could say that evaluating the suitability of doctrines (concepts, principles, and rules) developed in practice is a crucial role of doctrinal research [Ibid]. In doctrinal research, theory is incorporated differently. Research in any given field is usually grounded in theories either created within the field or imported from related fields. However, doctrinal research adopts a different viewpoint. The ideas, precepts, and guidelines that have been developed in practice are not thought of as theory in and of themselves.

According to [18]. The traditional hermeneutical approach is also employed in doctrinal research within the legal discipline to establish what he refers to as positive law, making it clear that such positive law creates legal certainty. In a similar vein, positive accounting or a positive accounting theory is established through the conventional hermeneutical approach [19]. Hermeneutics is therefore used to identify current knowledge under the descriptive approach rather than to suggest what knowledge ought to be. Thus, in the context of accounting, the standard-setters' financial reporting guidelines are the first source of certainty.

Results and Discussions

In corporate law and financial regulation, earnings management has been subject to intense scrutiny. It entails the purposeful falsification of accounting data to satisfy internal goals or market demands. Although some types of earnings management fall within the acceptable bounds of accounting standards, the practice often raises moral and legal concerns, particularly when it distorts a company's accurate financial picture [20; 8].

Accounting Mechanisms and Concepts of Earnings Management

The use of accounting strategies to manipulate reported earnings without necessarily breaking accounting regulations is known as earnings management [21]. Typical mechanisms are as follows:

– Modifying when revenue or expenses are recognized.
– Changing reserves and provisions.
– Modifying asset valuation assumptions or depreciation techniques.
– Using big bath accounting, also known as income smoothing.

These practices may violate the substance over form principle, as outlined in both Generally Accepted Accounting Principles (GAAP) and International Financial Reporting Standards (IFRS), even though they may be technically permissible [22].

The legal structure

Securities and Exchange Rules. Financial statements must give a true and fair picture of a company's financial situation in accordance with securities laws.

– In the U.S., deceptive or fraudulent statements in relation to securities trading are forbidden by Rule 10b-5 and Section 10(b) of the Securities Exchange Act of 1934.
– The Sarbanes-Oxley Act of 2002 established criminal penalties for false financial reporting and enhanced corporate accountability [23].
– In the UK, directors must make sure financial statements present a true and fair picture in accordance with Sections 393-414 of the Companies Act 2006.
– Accurate financial disclosures are also required by the Australian Corporations Act of 2001 [24].

Governments like the U.S. (SEC), the Australian Securities and Investments Commission (ASIC), the Securities and Exchange Commission (SEC), and the Financial Reporting Council (FRC) in the UK have the authority to investigate and punish deceptive reporting [25].

Corporate Governance and Fiduciary Duties

Directors are obligated by their fiduciary duties to act honestly and in the best interests of the company. A breach of fiduciary duty may occur when earnings are manipulated to deceive shareholders or investors [26]. In cases where directors failed to stop or reveal accounting irregularities that misrepresented the company's actual financial situation, courts have held them personally accountable.

Compliance with Accounting Standards

Both GAAP and IFRS place a strong emphasis on equitable presentation and faithful representation. According to corporate and securities law, earnings management that violates these principles may be considered fraudulent financial reporting or statutory misrepresentation [27].

Legal Consequences

Civil responsibility. Businesses and executives may face civil lawsuits from investors and shareholders because of earnings management.

Shareholder Litigation. When financial restatements take place investors may file a lawsuit alleging deception or careless disclosure.

Class Actions. Within the United States, financial restatements following the discovery of manipulation frequently result in Rule 10b-5 class actions [28].

Criminal responsibility. Manipulation that includes intentional falsification is considered fraud and may be prosecuted. Executives may be fined, imprisoned, or prohibited from holding a corporate office.

Sanctions under regulations. The following may be enforced by regulatory bodies:

- Penalties, both administrative and financial.
- Securities delisting or suspension.
- Disqualification of directors.
- Required enhancements to internal controls.

Consequences for the market and reputation

Aggressive earnings management can undermine investor confidence, harm a brand's reputation, and have a negative impact on stock valuation and credit ratings, even in the absence of formal legal violations [29].

Cases that Stood Out

- Enron Corporation (U.S., 2002): Inflated profits and concealed debt through off-balance-sheet partnerships. The Sarbanes–Oxley Act of 2002 was passed as a result of the scandal, which also caused the company's failure 16].
- WorldCom (US, 2002): Overstated profits by capitalizing operating expenses as assets. For securities fraud, executives were charged with crimes [15].
- Toshiba Corporation [30]: inflated profits which resulted in executive resignations and regulatory fines [31].

These precedents highlight the potential for civil regulatory and criminal repercussions when earnings management is employed dishonestly.

Reducing the risk of legal action

Companies should do the following to avoid legal liability and uphold moral principles:

- Make internal controls and audit committee supervision stronger [32]. Strong corporate governance structures should be implemented.
- Protect and promote whistleblowers.
- Conduct frequent training sessions on ethical financial reporting and compliance. Assure transparency and independence in external audits.

Summary of Findings on Regulatory and Civil Repercussions

From shareholder litigation and regulatory enforcement actions (which may result in hefty fines) to possible criminal penalties for individuals, including incarceration, engaging in corporate earnings management can have a wide range of serious legal repercussions:

- *Shareholder Litigation:* Companies that manipulate earnings to deceive investors run the risk of being sued by shareholders who want to recoup losses from poorly advised investment choices. Such lawsuits may be more likely, depending on the type of earnings management, such as accelerating revenue recognition.
- *Regulatory Enforcement Actions:* In the United States, agencies such as the Securities and Exchange Commission (SEC). S. (or comparable authorities in other jurisdictions) have the authority to initiate inquiries and charge the business and those accountable for financial misrepresentations with heavy administrative penalties and fines.
- *Reputational Damage and Loss of Investor Trust:* Although there is no direct legal penalty, the company's and management's reputation is badly harmed by the discovery of unethical accounting practices.

This results in a decline in support from investors and stakeholders, heightened regulatory scrutiny, and trouble securing future funding.

- *Contractual Penalties:* Companies that manipulate earnings to steer clear of debt covenant violations may still be subject to stricter loan conditions (e.g., higher interest rates, additional limitations) if the manipulation is uncovered or suffer the initial repercussions of the covenant violation. Criminal repercussions.
- *Fines:* If earnings management is determined to be intentional financial fraud, the company and the involved individuals may be subject to hefty fines. Those found guilty of wilfully or egregiously negligently breaking financial reporting laws, especially in cases of outright fraud (e., accounting officers or directors), face imprisonment. A. can be subject to severe jail time, possibly for several years, as demonstrated in scandals such as Enron and WorldCom.
- *Job Loss and Career Ruin:* Managers who engage in these kinds of behaviours frequently lose their jobs right away and suffer long-term repercussions for their careers, such as being disqualified from holding specific roles in publicly traded corporations.

The extent of the manipulation, whether it involved outright fraud or aggressive but legal accounting choices (within the flexibility of GAAP/IFRS), and the legal framework of the jurisdiction all influence the severity of the consequences.

Conceptual Model

Based on the analysis of scientific literature, the author identifies three interrelated directions:

- *Motivational factors of earnings management* – the desire to influence stakeholders' decisions, increase personal compensation, or enhance the company's image (for example, before an IPO, merger, or stock issuance).
- *The essence of earnings management* – the actual use of accounting methods that lead to the distortion of financial indicators.
- *Legal consequences* – when manipulations exceed acceptable limits, they become unlawful and result in fines, dismissal, or criminal prosecution.

These three components form a logical framework (see Figure 1), illustrating the cause-and-effect relationship between the motivation, practice, and consequences of earnings management.

The foregoing findings and discussions in this paper culminate in the formulation of a conceptual framework (Figure 1) that contributes to the understanding of both practical and conceptual aspects of earnings management.

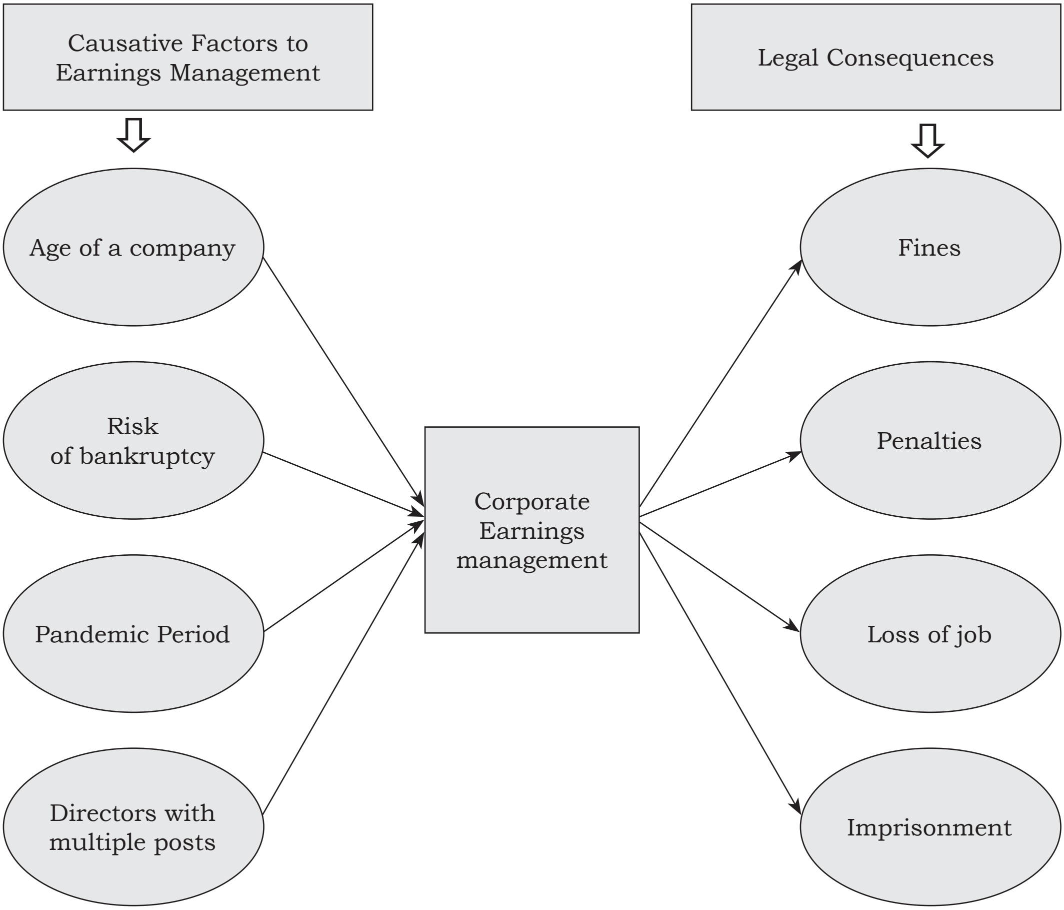

Figure 1. Conceptual Framework of Legal Consequences of Corporate Earnings Management

Source: Author's diagram based on the results.

The scientific literature reviewed in this paper provides evidence of the prevalence of corporate earnings management, which, among other factors, may be catalyzed by accounting discretionary accruals. Therefore, based on a review of the literature and attendant doctrinal and comparative analysis, the paper identifies three interconnected branches of focus, which are: the factors that catalyze earnings management motivation by corporate management, as depicted on the left side of the conceptual framework loop. For several reasons, managers are driven to manipulate earnings, with the primary ones being to influence stakeholder decisions, further their own interests, and ensure the business appears financially secure. These incentives fall into three categories: *contractual duties, capital market incentives, and regulatory motivations*.

Meeting or exceeding financial analysts' earnings projections is a primary incentive for engaging in earnings management, as failing to do so may result in a sharp decline in the stock price and harm the company's reputation. Additionally, managers may manipulate earnings to boost the company's stock price, particularly in the lead-up to significant events such as *mergers and acquisitions, seasoned equity offerings, or initial public offerings (IPOs)*. Additionally, projecting a favourable financial image attracts new lenders and investors, which facilitates and may lower the cost of obtaining funding or securing favourable loan terms. To maintain the appearance of a successful business, earnings management can also be used to conceal underlying financial difficulties or the outcomes of unsuccessful investments. Since *bonuses, stock options, and other performance-related compensation* are frequently directly linked to reported earnings and financial metrics, personally motivating managers to raise their own compensation is also crucial.

The centre stage of the framework depicts the core earnings management, which is the aftermath of causative factors. The existence and practice of earnings management may result in some *legal consequences* if the practice is abused and hence becomes illegal. Accordingly, when earnings management and the multifaceted accounting treatments that cause it overshoot accounting policy and legal limits, the practice becomes unlawful and is subject to regulatory enforcement with attendant consequences. These consequences may include, among others, *fines, penalties, loss of employment,* and *imprisonment*. These appear at the right-side loop in the conceptual framework (see Figure 1).

Conclusion

There is a spectrum of acceptable discretion to outright fraud in earnings management. Any practice that deceives investors or hides financial truth is against both ethical standards and legal principles, even though minor forms may be allowed under accounting regulations. The significance of transparent financial reporting as a basis for investor confidence and market integrity is highlighted by the development of corporate reporting laws, which significant cases and regulatory reforms have strengthened.

The study's conclusions have significant ramifications for investors, fund providers, regulators, and standards setters. During pandemic times, businesses appear to conceal their actual financial circumstances, so lenders and investors should exercise greater caution. This provides a more comprehensive understanding of the accuracy of accounting data in assessing a company's creditworthiness. Regulators and standards-setters may find the results helpful in understanding how pandemic crises might impact financial reporting quality. In fact, businesses are motivated to draw in new investors by increasing their profits. Standards-setters are aware that a set of independent accounting standards is insufficient to prevent financial information misrepresentation due to earnings management, given the existence of such behavior.

References

[1] Durana, P., Michalkova, L., Privara, A., Marousek, J., & Tumpach, M. (2021). Does the Life Cycle Affect Earnings Management and Bankruptcy? *Oeconomia Copernicana*, *12*(2), 425-461.

[2] Baker, C.R. (2020). Law Versus Ethics in Accounting. In *Research on Professional Responsibility and Ethics in Accounting* (pp. 105-119). Emerald Publishing Limited.

[3] Nuhu, M.S., Ahmad, Z., & Zhee, L.Y. (2024). Nexus Among Disclosure Quality, Discretionary Accruals and Real Earnings Management Practices: An Empirical Analysis of Malaysian Public Firms. *Journal of Corporate Accounting & Finance*, *35*(4), 121-138.

[4] Hromei, A.S., & Voinea, M.M. (2013). Accounting between Law, Ethics and Morality. *SEA: Practical Application of Science*, *1*(2).

[5] Kassem, R. (2012). Earnings Management and Financial Reporting Fraud: Can External Auditors Spot the Difference? *American Journal of Business and Management*, *1*(1), 30-33.

[6] Teichmann, F.M.J., Boticiu, S.R., & Sergi, B.S. (2024). Wirecard Scandal. A Commentary on the Biggest Accounting Fraud in Germany's Post-War History. *Journal of Financial Crime*, *31*(5), 1166-1173.

[7] Dong, Y., Wang, X., & Deng, B. (2024). CEO's Personal Legal Liability and Earnings Management. *Applied Economics*, *56*(51), 6314-6332.

[8] DuCharme, L.L., Malatesta, P.H., & Sefcik, S.E. (2004). Earnings Management, Stock Issues, and Shareholder Lawsuits. *Journal of Financial Economics*, 71(1), 27-49.

[9] Lassoued, N., & Khanchel, I. (2021). Impact of COVID-19 Pandemic on Earnings Management: An Evidence from Financial Reporting in European firms. *Global Business Review, 26*(5), 09721509211053491. https://doi.org/10.1177/09721509211053491.

[10] Shi, H., Liu, H., & Wu, Y. (2024). Are Socially Responsible Firms Responsible to Accounting? A Meta-Analysis of the Relationship Between Corporate Social Responsibility and Earnings Management. *Journal of Financial Reporting and Accounting*, *22*(3), 311-332.

[11] Zalata, A.M., Ntim, C.G., Alsohagy, M.H., & Malagila, J. (2022). Gender Diversity and Earnings Management: the Case of Female Directors with Financial Background. *Review of Quantitative Finance and Accounting*, *58*(1), 101-136.

[12] Coleman, M., Abdul-Rahaman, A. R., Takyi, L. N., & Anfom, K. (2025). Corporate Governance and Corporate Earnings Misconduct. *International Journal of Productivity and Performance Management,* 1-31.

[13] Diao, M. (2025). Cat-and-Mouse Game: China's New Delisting Regulations and Corporate Earnings Management Strategies. *Finance Research Letters, 85*(C), 108079. https://doi.org/10.1016/j.frl.2025.108079.

[14] Cornell Law School – Legal Information Institute (2025) Securities Exchange Act of 1934. https://www.law.cornell.edu/wex/securities_exchange_act_of_1934.

[15] United States v. Ebbers, 458 F.3d 110 (2d Cir. 2006).

[16] SEC (Securities and Exchange Commission) v. Lay, No. H-04-0284 (S.D. Tex. 2004).
[17] Coetsee, D. (2019). Policy Research in Accounting: A Doctrinal Research Perspective. *Journal of Economic and Financial Sciences*, *12*(1), 1-9.
[18] Merezhko, O. (2014). Legal Hermeneutics and Methodology of Law. *Evropský politický a právní diskurz, 1*(2), 4-10.
[19] Chabrak, N. (2005). The Politics of Transcendence: Hermeneutic Phenomenology and Accounting Policy. *Critical perspectives on Accounting, 16*(6), 701-716.
[20] Healy, PM., & Wahlen, J. M. (1999). A Review of the Earnings Management Literature and its Implications for Standard Setting. *Accounting Horizons, 13*(4), 365-383. https://doi.org/10.2308/acch.1999.13.4.365.
[21] Schipper, K. (1989). Commentary on Earnings Management. *Accounting Horizons, 3*(4), 91-102.
[22] Dechow, P.M., & Skinner, D.J. (2000). Earnings Management: Reconciling the Views of Accounting Academics, Practitioners, and Regulators. *Accounting Horizons, 14*(2), 235-250. https://doi.org/10.2308/acch.2000.14.2.235.
[23] U.S. Congress. (2002). *Sarbanes–Oxley Act of 2002*. Pub. L. No. 107-204, 116 Stat. 745.
[24] Australian Government. (2001). *Corporations Act 2001 (Cth).* Canberra: Office of Parliamentary Counsel.
[25] Brown, P., Beekes, W., & Verhoeven, P. (2014). Corporate Governance, Accounting and Finance: A review. *Accounting & Finance, 51*(1), 96-172. https://doi.org/10.1111/j.1467-629x.2010.00385.x.
[26] Coffee, J.C. (2003). *Gatekeepers: The Professions and Corporate Governance*. Oxford University Press.
[27] IASB (International Accounting Standards Board). (2018). *Conceptual Framework for Financial Reporting.* London: IFRS Foundation.
[28] Jones, M.J. (2011). *Creative Accounting, Fraud and International Accounting Scandals.* John Wiley & Sons Ltd.
[29] Erickson, M., Hanlon, M., & Maydew, E.L. (2006). Is there a Link Between Executive Compensation and Accounting Fraud? *Journal of Accounting Research, 44*(1), 113-143. https://doi.org/10.1111/j.1475-679x.2006.00194.x.
[30] Hass, S., Burnaby, P., & Nakashima, M. (2018). Toshiba Corporation – How Could so Much be so Wrong. *Journal of Forensic and Investigative Accounting*, *10*(2), 267-280.
[31] Recommendation for Administrative Monetary Penalty Payment Order for Violation of Disclosure Requirements by Toshiba Corporation. (December 7, 2015). *Securities and Exchange Surveillance Commission.* Retrieved from https://www.fsa.go.jp/sesc/english/news/reco/20151207-1.htm.
[32] Cohen, J., Krishnamoorthy, G., & Wright, A. (2008). Corporate Governance in the Post – Sarbanes – Oxley Era: Auditor's experiences. *Contemporary Accounting Research, 25*(3), 751-786. https://doi.org/10.1506/car.25.3.7.

Collins C. Ngwakwe
Ph.D. in Accounting
Professor at the Graduate School of Leadership
Faculty of Management and Law
University of Limpopo
University Road, Sovenga, Polokwane, South Africa
e-mail: collins.ngwakwe@ul.ac.za
ORCID 0000-0002-6954-8897

Коллінз С. Нгвакве
доктор філософії з бухгалтерського обліку
професор Вищої школи лідерства
факультет менеджменту та права
Університет Лімпопо
Університетський шлях, Совенга, Полокване,
Південно-Африканська Республіка
e-mail: collins.ngwakwe@ul.ac.za
ORCID 0000-0002-6954-8897

Suggested Citation: Ngwakwe, C.C. (2025). Earnings Management in Corporate Accounting as Legality Problem: a Conceptual Framework. *Theory and Practice of Jurisprudence, 2*(28), 50-65. https://doi.org/10.21564/2225-6555.2025.28.346818.

Submitted: 01.11.2025
Revised: 14.11.2025
Approved: 18.12.2025
Published online: 25.12.2025