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Identification of Earnings Management in Baltic States Listed Companies in Consumer Goods Industry

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Listed companies attract a high level of interest from users of accounting information (Katutytė, 2021), which may create incentives to manipulate financial information. There is a debate in the literature on the application of earnings management in companies. On the one hand, companies that are audited and accounted for in accordance with international accounting standards are less likely to use earnings management (Beke, 2010; Habib et al., 2022). On the other hand, the political cost hypothesis suggests that the higher a firm's visibility, the more likely it will be to apply earnings management (Watts & Zimmerman, 1986; Katutytė, 2021).

Aim of the study: to identify and assess the trends in the application of earnings management among Baltic States listed companies in consumer goods industry.

In order to achieve the objective of the study, the following *objectives are set*:
1) to identify trends in the application of earnings management in Baltic States listed companies in consumer goods industry;
2) to assess the similarities and differences in the application of earnings management across countries by examining the prevalence of earnings management in listed companies operating in the consumer goods sector in the Baltic States;
3) to assess which areas of performance and accounting estimates of listed companies in the daily consumer goods sector in the Baltic States are indicative of the potential use of earnings management.

Research methodology.

The research hypothesis H1: the results of the application of earnings management by listed companies in consumer goods industry in the Baltic region are different. Since the study involves three countries – Lithuania, Latvia and Estonia – three sub-hypotheses are proposed.

Given that the Beneish M-score model is used to identify the attributes of earnings management, the study includes an earlier accounting period and will therefore use information from the financial statements for the period 2019-2022.

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The general population of the study is companies listed on the Nasdaq Baltic stock exchange. The selection criteria for the sample are: the daily consumer goods sector; the adequacy of the data for the calculations. The sample includes 28 firm-years: 15 Lithuanian, 7 Latvian and 6 Estonian.

The results of the survey. The Beneish M-score model is applied, and the mean M-score is -2.42, the median is – 2.61 and the standard deviation is 0.93. The results of the study show that 75% of the listed companies operating in the daily consumer goods sector in the Baltic States do not show any signs of earnings management. Of the 25% of the years analysed in which signs of earnings management were identified, 18% are attributed to Lithuania and the remainder to Latvia. In Estonia, no signs of the application of earnings management were identified.

The method of analysis of variance was used to assess differences between countries and the statistical hypothesis H0: the variances of the M-score are equal. There is no statistically significant difference between Lithuanian and Latvian companies in the application of earnings management (F_{stat} 0.33< F_{krit} 0.35, $p<0.05$). However, the study found statistically significant differences in the use of earnings management between Lithuania and Estonia (F_{stat} 6.91> F_{krit} 4.64, $p<0.05$) and between Latvia and Estonia (F_{stat} 21.07> F_{krit} 4.95, $p<0.01$).

The following indicators showed unusual values for the companies with earnings management characteristics: sales receivables index (DSRI), gross margin index (GMI), asset quality index (AQI), depreciation index (DEPI), leverage index (LVGI) and, in almost all cases, the accruals to assets ratio (TATA). Analysis of the individual components of the model may indicate areas where financial information is manipulated.

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