

# **The Effect of Demographic and Situational Factors on the Perception of Students on Earnings Management Practices: Evidence from a Non-University Higher Education Institution in Sri Lanka**

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Earnings management practices have regained attention in both academic and professional circles with the re-emergence of the recent national and international corporate scandals. With the availability of mixed-evidence (Keller et al., 2007; Deshpande, 1997) and lack of studies (Ajward, 2015) involving ethical perceptions of accounting students in Sri Lanka, the purpose of this study is to examine both the effect of demographic factors and situational factors (i.e., nature, materiality, intention and direction of earnings manipulation) on the perception of accounting students from a non-university higher education institution in Sri Lanka, which deploys a standard accounting curricula. Following a positivistic research paradigm, a questionnaire developed and refined based on the extant literature (Clikeman et al., 2000; Bruns and Merchant, 1990; Merchant and Rockness 1994; Fischer and Rosenzweig 1995) involving 13 scenarios was deployed on a random basis, and 105 usable questionnaires were collected from third and final year accounting students from the non-university higher education institution. The findings based on the paired-sample t-tests and One-way ANOVA analyses indicate that while demographic factors (i.e., gender, age, academic year, district, race, family income, practical experience, sector of training as audit and not-audit, and the employment status) did not have statistically significant impact ( $p > .05$ ) on the student perceptions on earnings management practices, situational factors did have a significant ( $p < .05$ ) impact. Accordingly, the students perceived accounting manipulations as more ethically questionable compared to similar real earnings management (nature); manipulations involving material items were considered to be more ethically questionable compared to similar lesser material manipulations (materiality); income increasing manipulations were noted to be more ethically questionable compared to similar income decreasing manipulations (direction); and manipulations involving self-centered intentions to be more ethically questionable compared with manipulations of good intentions of the management (intention). These results are expected to have significant educational policy implications, where despite the nature, materiality, intention and direction of unethical practices, any unethical practice should be emphasized, denounced and discouraged in the accounting curricula and education system.

**Key words:** *Accounting curricula, Demographic factors, Earnings management practices, Student ethical perceptions*