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Effect of Earnings Management on Profitability Ratios of listed Companies on Dubai Financial Market

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Abstract

This paper, reviewed the effect of Earnings Management by Discretionary Accruals on Profitability ratios (Return on Assets (ROA), Return on Equity (ROE), Return on investment (ROI), Return on Capital Employed (ROCE), Operating Cash Flow Margin (OCFM), Operating Income Margin (OIM), Gross Profit Margin (GPM), and Net Profit Margin (NPM). The Earnings Management value was calculated for (52) companies listed on the Dubai Financial Market for 5 years from 2014 to 2018. The results showed that companies practiced Earnings Management activities in varying proportions. In addition, this paper includes the calculation of the profitability ratios for all sample companies. The regression analysis results showed there is appositive effect of earnings management on (ROA, ROE, and ROI), and there is negative effect of earnings management on operating cash flow margin OCFM, in addition there is no effect of earnings management on (ROCE, OIM, GPM, and NPG)

Key Words: *Earnings Management, Earnings Management Through Discretionary Accrual, Profitability Ratios*

1. Introduction

Profit is the fundamental goal of every firm. To survive and thrive, all businesses require a steady increase in earnings. So, the company that loses money regularly will not be able to thrive for long. The financial analysis of the financial statements is a basic pillar on which analysts and investors rely, to evaluate the activity of the facility and to know the extent of its viability in the competitive market. The financial analysis depends mainly on the four lists issued by the facility at the end of its annual activity especially the profits numbers. In the light of this information, specific ratios have been extracted that show the difference between the financial position of the enterprise and similar or different establishments in the activity. Profitability ratios are among the most important ratios for what they reflect on the performance of companies.

In addition, earnings are the bottom-line item on a business's income statement that shows how the firm is providing value, or financial advantage, to the stockholders' wealth. It acts as a gauge for identifying, analyzing, evaluating, and forecasting a company's future ability to create cash flows for its stakeholders, which ultimately aids in deciding the stock's attractiveness present and prospective investors. It eventually leads to the formation of a foundation for developing and implementing stock market investment strategies.

Also, profitability ratios are financial measures that investors use to assess a company's capacity to generate income profit in relation to its revenue, operational costs, balance sheet assets, and equity shareholders over a certain period.

Because of the importance of this key indicator's effect on stock prices, businesses have long used different legal and criminal tactics and procedures to manipulate earnings to achieve certain goals. Earnings management is the name given to these techniques. These strategies are used to achieve a consistent revenue trend throughout time rather than having exceptional excellent or poor years.

This paper studied the effect of earnings management through Discretionary Accruals on profitability ratios for a sample of Dubai Financial Market companies, where simple regression analysis was used to verify the validity of the following hypothesis:

H0: Earnings management through DA has no significant effect on Profitability Ratios in DFM.

2. Literature Review

Many studies have indicated the position of earnings management and its effect on the profitability of the company. Where Bhutto and others (2021) found the combined effect of real and accrual earnings management on stock performance is shown to be very unfavorable. Because investors may be interested in accrual earnings management. In addition, Ruslim and Muspyta (2021) found Profitability has a negative influence on debt expenses, but financial leverage has no effect. Earnings management is unable to offset the negative impact of profitability on debt costs, and it is also unable to mitigate the negative impact of financial leverage on debt costs. Also, Al-Zahrani's (2019) study's findings clearly showed that managing actual earnings techniques has a detrimental impact on both the company's performance and its corporate worth. Furthermore. the study of Anjum and others (2012) found the Earnings Management has a negative impact on firm profitability.

2.1 Concept of Earnings Management Through Discretionary Accruals

Accruals' Definition It's a type of accounting method that records income and cost as soon as they happen, regardless of when money is transferred. Discretionary and non-discretionary accruals are the two types of accruals that exist. Discretionary accruals are non-essential or non-mandatory costs or assets that are used to promote or enhance the company's status and worth. Non-discretionary accruals are costs that are required but have already been recorded in the books of accounts (Kumawat &Soral,2020). Accruals are used to reduce incompatibilities, which are caused by differences in acknowledgment or identification time. Managers usually have a lot of discretion over accounting judgments regarding accruals, such as discretions in estimating the expected lives and salvage values of deferred taxes, and losses from bad debts, long-term assets, also, in selecting inventory valuation and depreciation methods, such as LIFO, FIFO, or weighted-average methods or straight-line or accelerated depreciation methods (Healy & Wahlen, 1999). In addition to the above, Earnings management is established through discretionary accruals as a result of the management's choice between the available alternatives and accounting policies, as well as a result of the judgments and estimates they issue when applying them for the purpose of inflating or reducing profits. Through a literature review, earnings management through discretionary accruals has been defined:

According to (Belkaoui, 2007), "…earnings management is the potential use of accruals management with the goal of personal gain. Accrual earnings management occurs in the context of a set of flexible reporting and a set of specific contracts that determine the distribution of rules among stakeholders…".

Also, Wibisono (2004) defines earnings management as "….is a management intervention in the external financial reporting process to be able to increase or decrease the accounting profit. The emergence of earnings management is driven by the desire of the manager to maximize his utility. This desire is supported by the presence of several opportunities owned by the manager. First, the manager controls the internal information and the prospects of the company in the future more than the owners (shareholders) do. Second, the general theme of accounting provides the freedom to choose accounting policies….".

Healy and Wahlen (1999) stated that the definition of earnings management contains several aspects. "First, the intervention of earnings management on the financial reporting can be done with the use of judgment, such as the judgment which is required in estimating the number of future economic events to be shown in the financial statements, including the estimates of the economic lives and residual values of fixed assets, the responsibility for pensions, taxes suspended, receivables and impairment loss of assets".

Through the foregoing, it is clear that the definition of earnings management through discretionary accruals is the administration's reliance on its discretionary authority in estimating receivables and choosing between alternatives and accounting policies to maximize profit to achieve personal gains for the administration.

2.2 Concept of Profitability Ratios

Profitability may be defined as the modulation of two words profit and ability. In other terms, it is related to the Earning power of operational efficiency of the concerned investment idea of profitability, which may be described as a given investment's capacity to generate a return from its usage. Profitability measurement is the total measure of performance profits, as bottom lines are also essential for financial organizations. Creditor performance of portability may be obtained by analysing and understanding several sorts of profitability ratios.

The ability of a firm to make a profit on capital invested is a significant driver of its total worth and the value of the securities it issues. As a result, many stock analysts would regard profitability to be a primary emphasis of their research. Profitability indicates a company's competitive market position and, by extension, the quality of its management. The income statement displays the sources of profits as well as the sales and cost components. Earnings can be paid to shareholders or reinvested back into the business. Earnings reinvested improve solvency and offer a buffer against short-term issues (Robinson,2020).

Dave (2012) defines profitability as an ability to make a profit from all the business activities of an organization, company, firm, or enterprise. It shows how efficiently the management can make a profit by using all the resources available in the market. Profitability is also the ability of a given investment to earn a return from its use. According to Finance Dictionary, "Profitability is defined as the potential of a company to exceed its overall revenue from its total expenses which result in profit generation" In addition, Adjirackor and others (2017) defined Profitability as an efficiency metric and a management guide to improved efficiency. Although profitability is an essential metric for assessing efficiency, a high level of efficiency might be coupled with a lack of profit. Simply said, the net profit number indicates a healthy balance between the values received and the values supplied. The improvement in operational efficiency corresponds to one of the elements on which an enterprise's profitability is heavily reliant. Furthermore, aside from efficiency, several other elements influence profitability.

According to Damodaran (2007), the profitability ratios are the ones related to the analysis of the generation of value through the company and for the shareholders.

Through the above, the profitability ratios as a set of ratios that reflect the company's financial performance during a certain period. These ratios measure the company's ability to generate profits by increasing its total revenues over its total expenses. These ratios are also used to compare companies' performance during Years and comparison of companies in the same sector.

2.3 Types of Profitability Ratios

Profitability ratios assess a company's capacity to make profits. These ratios are of interest to investors looking to invest in the most successful firms in the world. Many profitability ratios are used to reflect the performance of companies. This paper explained the most important of these ratios. It is as follows:

1. Return on Assets (ROA)
2. Return on Equity (ROE)
3. Return on investment (ROI)
4. Return on Capital Employed (ROCE)
5. Operating Cash Flow Margin (OCFM)

6. Operating Income Margin (OIM)
7. Gross Profit Margin (GPM)
8. Net Profit Margin (NPM)

2.4 Profitability and Earnings Management

Profitability is an indicator of management performance in managing the assets of the firm, as measured by the profit generated by the company (Sudarmadji and Sularto, 2007).

Profitability demonstrated management's capacity to manage profits. Companies that make large profits will seek to preserve and even expand their earnings while also offering benefits to both the firm and the investors. As a result, management is encouraged to undertake earnings management through the technique of income smoothing so that reported earnings do not vary. As a result, investor confidence is growing.

Managers also do earnings management, which is linked to bonuses or pay. According to the Bonus Plan Hypothesis, if a company's profit is below the real performance standards for incentives in a given year, the manager will manage the company's profit by conducting earnings management to meet the minimum level required to receive a bonus. Managers will manage and organize to declare earnings that are not too high if their performance in that year received the above amount designated for bonuses. Widyastuti (2009) backs up this claim, stating that the higher the degree of profitability, the better the earnings management.

3. Methodology of the Study

To achieve the objectives of the study, we used the descriptive-analytical approach, through which he tries to describe the phenomenon, the subject of the study, and analyze its data, the relationship between its components, the opinions raised about it, the processes it includes, and the effects that they cause.

3.1 Data Collection:

The sample for this study was obtained from the FINBOX database and the annual financial reports for companies published on the Dubai Financial Market website between 2014 and 2018 (5 years).

3.2 Sample Size

The sample included 52 companies listed on Dubai Financial Market (DFM).

3.3 Period of the study:

The present study is covered 5 years from 2014 to 2018.

3.4 Statistical Tool

In this paper, we used the SPSS statistical program to study the relationship between the study variables, where simple regression analysis was used to clarify the effect of earnings management on profitability ratios.

3.5 Hypotheses of Study

Through the above, measured the effect of earnings management on profitability ratios to test the following hypotheses:

H1: Earnings management through DA has a significant effect on Profitability Ratios in DFM.

H0: Earnings management through DA has no significant effect on Profitability Ratios in DFM.

3.6 Variables of Study

To measure the effect of earnings management on profitability ratios, the variables will be studied as follows:

- **Independent Variables** (Earnings management Discretionary accruals And Real Earnings Management)
- **Dependent Variables** (Profitability Ratios)

3.7 Measuring of Earnings management Discretionary accruals

Dechow, Sloan, and Sweeney (1995) updated the Jones model (1991) and showed that the modified Jones model had greater power in identifying earnings management. The modified Jones model assumed that all credit sales in the event period were due to earnings management and that the change in sales was adjusted to account for the change in receivables. The regression model that is estimated is as follows:

$$\frac{ACC_{it}}{ASSET_{it-1}} = \frac{\beta_{0t}}{ASSET_{it-1}} + \beta_{1t}\ \frac{\Delta SALES_{it} - \Delta AR_{it}}{ASSET_{it-1}} + \beta_{2t}\frac{PPE_{it}}{ASSET_{it-1}} + \varepsilon_{it}$$

Where:

ACC_{it} represents the total accruals calculated as the continuing operating net profit minus the cash flow from operations for year t

$$ACC_{it} = NI - CFO$$

$ASSET_{it-1}$ denotes the assets for the previous year

$\Delta NETREV$ denotes the change in net revenue for year t

ΔAR_{it} denotes the change in account receivables for year t

PPE_{it} denotes the gross fixed assets for year t

ε_{it} The absolute value of ε it for the results of Equation 2 denotes the modified Jones model (Dechow et al. 1995) for year t.

4. Results of Analysis

4.1 Measurement of Earnings Management

Table (1) shows the descriptive statistics for the variables in the second equation, as the sample 260 Since the number of companies is 52 and the period of study 5 years, also the maximum value of Earnings Management measured by modified Jones model was 0.35849 to Al Ramz Corporation Investment and developing company and d in 2015, and the minimum value -0.43903 to Drake and Scull International PJSC company in 2018.

Table 1: Descriptive Statistics for Modified Jones (1995) Model

Variables	N	Minimum	Maximum	Mean	Std. Deviation
ACC/TA	260	-.4702	.3855	-.001553	.0981130
B/TA	260	.0000	.0196	.001803	.0039209
ΔRV-ΔAR/TA	260	-1.0457	.9273	.005992	.1422951
PPE/TA	260	.0000	13.0225	.453120	1.5479513
Earnings Management	260	-.43903	.35849	-2.30769E-07	.09558317

Source: Data collected from the annual reports of select companies.

Table (2) showed the correlation matrix between the variables of the regression model, where the correlation coefficient was the highest between total accruals and change in net revenue minus the change in account receivables where the value is -0.169 and significant 0.003 less than 0.05 this means that there is a statistical significance between the variables and an association between the variables, and the correlation coefficient between total accruals and the total assets is -0.125 and significant 0.022 less than 0.05. This means that there is a correlation between these variables, also found no correlation between total accruals and fixed assets because the significantly greater than 0.05.

Table 2: Modified Jones (1995) Model Summary

Dependent variable	Independent variable	Pearson Correlation	Sig	R	R^2	F	F Sig	Beta	t-Value	t-Sig	VIF
ACC/TA	B/TA	-.125	.022	.226	.051	4.577	.004	-4.596	-2.282	.023	1.747
	ΔRV-ΔAR/TA	-.169	.003					-.125	-2.970	.003	1.010
	PPE/TA	-.042	.250					.004	.789	.431	1.742

Source: Data collected from the annual reports of select companies.

In addition to this shows regression results between the dependent variable and the independent variables, where the value of R 0.226, determination parameter value R Square 0.051, that is, the independent variables explain 5% of the variance in total accrual and this weak percentage.

Also shows the results of the ANOVA analysis to test the significance of the regression. The value of the significance is 0.004, which is less than 0.05, and therefore the regression is significant, and the (F) is equal to 4.577 that value greater than (F-Table) it is equal to 3.949 which means there is an effect of the independent variables on the dependent variable.

Moreover, the value of the variance inflation factor coefficients showed that there is no problem of linear multiplicity between the variables where the inflation coefficients were less than (3).

Through the previous analysis, the significance of the estimator t-value was shown, as the level of statistical significance is less than 0.05, between total accruals and (total assets and the change in revenue minus change account receivable) and (t) value greater than t-table where the value of (t) are equal -2.282, -2.970 and t-table is 1.984. It is also clear that no significant between total accruals and fixed Assets because the level of significance is greater than 0.05, and this indicates a negative relationship between accruals and total assets and the change in revenue minus change in account receivable.

- Finally, the regression equation can be written as:

$$\frac{ACC_{it}}{ASSET_{it-1}} = (.006) + (-4.596)\frac{1}{ASSET_{it-1}} + (-.125)\frac{\Delta SALES_{it} - \Delta AR_{it}}{ASSET_{it-1}} + (.004)\frac{PPE_{it}}{ASSET_{it-1}} + \varepsilon_{it}$$

4.2 Measurement of Profitability Ratios

Table (3) shows the descriptive statistics of dependent variables (profitability ratios), as the sample (260) Since the number of companies is 52 and the period of study 5 years. The maximum value of return on assets (ROA) is 29.6% for the Damac Properties Dubai Co. PJSC is 2014 and the minimum value for (ROA) is -115% to Drake And Scull International PJSC company in 2018, addition The maximum value of return on equity (ROE) is 74.4% for the Damac Properties Dubai Co. PJSC is 2014 and the minimum value for (ROE) is -1197.8% to Drake And Scull International PJSC company in 2018, also the highest value of return on investment (ROI) is 29.6% to the Damac Properties Dubai Co. PJSC is 2015 and the minimum value for (ROI) is -44.8% to UNIKAI Foods (P.J.S.C) company in 2014. Furthermore, the maximum value of return on capital employed (ROCE) is (206.8%) to Drake and Scull International PJSC company in 2018 the minimum value for (ROCE) is -103.6% to UNIKAI Foods (P.J.S.C) company in 2014.

In addition, the maximum value of operating cash flow margin (OCFM) is 804.1% to Ekttitab Holding Company K.S.C.C in 2018 and the minimum value of (OCFM) is -1285.7% for Al Madina for Finance and Investment Company in 2016, also the maximum value of operating income margin (OIM) is 348.4% to Al Salam Group Holding Company in 2015 and the minimum value of (OIM) is -2030.6% for Ekttitab Holding Company K.S.C.C in 2018.

Moreover, the maximum value of gross profit margin (GPM) is 100% to several companies and the minimum value of (GPM) is -1936.77% for AL Salam Bank-Soudan in 2018, also the maximum value of net profit margin (NPM) is 471.2% to Emirates Investment Bank in 2014 and the minimum value of (NPM) is -2805.2% for Al Madina for Finance and Investment Company in 2014.

Table3 : Descriptive Statistics for The Profitability Ratios

Variables	ROA	ROE	ROI	ROCE	OCFM	OIM	GPM	NPM
Mean	1.27	-1.35	2.71	3.90	-23.09	5.97	35.66	-7.62
Median	2.00	6.65	3.40	4.85	8.90	12.50	37.74	18.08
Mode	1.50	6.70	5.40	3.20	4.60	10.70	100.00	0.00
Standard Deviation	10.40	77.95	7.36	19.66	183.40	143.97	163.66	248.88
Standard Error	0.65	4.83	0.46	1.22	11.37	8.93	10.15	15.43
Minimum	-115.00	-1197.80	-44.80	-103.60	-1285.70	-2030.6	-1936.8	-2805.2
Maximum	29.30	74.40	29.60	206.80	804.10	348.40	100.00	471.20
Count	260.00	260.00	260.00	260.00	260.00	260.00	260.00	260.00

Source: Data collected from the annual reports of select companies.

4.3 The Effect of Earnings Management on Profitability Ratios

Companies' profitability is the most important performance measure, so at this stage measured the effect of earnings management through discretionary accruals and real earnings management on profitability ratios separately, using simple regression analysis, and the following are the results of the analysis:

4.3.1 The **Effect of Earnings Management Through Discretionary Accruals on Return on Assets (ROA).**

The table (4) shows the summary of the regression model, where the correlation coefficient between return on assets (ROA) and Earnings Management by discretionary accruals (modified Jones model) where the value is (0.311) and significant (0.000) less than (0.05) that means there is a statistical significance between the earnings management through discretionary accrual and return on assets and correlation between the variables.

Table 4: Effect of Earnings Management Through DA on ROA

Dependent variable	Independent variable	Pearson Correlation	Sig	R	R^2	F	F Sig	Beta	t-Value	t-Sig	VIF
ROA	EM	.311	.000	.311	.097	27.606	.000	33.836	5.254	.000	1.00

Source: Data collected from the annual reports of select companies.

The previous table shows regression results effect of earnings management through discretionary accrual on return on assets, where the value of R 0.311, determination parameter value R^2 is 0.097.

As it is known statistically that the value of (R) measures the extent of the strength of the relationship (correlation) between the dependent variable and the independent variables included in the model, while R^2 measures the percentage of change in the dependent variable due to the change in the independent variables included in the model, the more this indicates the significance of the effect. Based on this, the following results can be drawn, that is, the independent variable (earnings management through discretionary accrual) explains 9.7% of the variance in return on assets (ROA)

Additionally shows the results of the ANOVA analysis to test the significance of the regression the value of the significance is 0.000, which is less than 0.05, and therefore the regression is significant, and the (F) is equal to 27.606 that value greater than (F-Table) it is equal 3.8415 that means there is an effect of the Earnings Management through discretionary accrual on Return on Assets (ROA).

Also, the value of the variance inflation factor coefficients showed that there is no problem of linear multiplicity between the variables where the inflation coefficients were less than (3).

Through the previous analysis, the significance of the estimator t-value was shown, as the level of statistical significance is less than 0.05, Earnings Management through discretionary accruals and Return on Assets (ROA), also (t) value greater than t-table where the value of (t) is equal 5.254 and t-table 1.660.

By this result accepted alternative there is a positive effect of Earnings management through discretionary accrual on Return on Assets (ROA) in DFM and rejected the null hypothesis**.**

- At last, the regression equation can be written as:

$$ROA = (1.271) + (33.836)DAMJ$$

4.3.2 The **Effect of Earnings Management Through Discretionary Accruals on Return on Equity (ROE).**

The table (5) shows the summary of the regression model, where the correlation coefficient between return on equity (ROE) and Earnings Management by discretionary accruals (modified Jones model) where the value is (0.321) and significant 0.000 less than 0.05 this means that there is a statistical significance between the variables and correlation.

Table 5: Effect of Earnings Management by Discretionary Accrual on ROE

Dependent variable	Independent variable	Pearson Correlation	Sig	R	R^2	F	F Sig	Beta	t-Value	t-Sig	VIF
ROE	EM	.321	.000	.321	.103	29.648	.000	33.836	5.445	.000	1.00

Source: Data collected from the annual reports of select companies.

The previous table shows regression results between the dependent variable (return on equity) and the independent variable (Earnings Management by discretionary accruals), where the value of R 0.321, determination parameter value R^2 is 0.103. The relationship between the return on equity (ROE) and Earnings Management by discretionary accruals (modified Jones model) in this model appears to be a weak relationship. That is, earnings management by discretionary accruals explains 10.3% of the variance in return on equity (ROE).

Additionally shows the results of the ANOVA analysis to test the significance of the regression the value of the significance is 0.000, which is less than 0.05, and therefore the regression is significant, and the (F) is equal to 29.648 that value greater than (F-table) it is equal 3.8415 that means there is an effect of the Earnings Management through discretionary accruals on return on equity (ROE)

Also, the value of the variance inflation factor coefficients showed that there is no problem of linear multiplicity between the variables where the inflation coefficients were less than (3).

Through the previous analysis, the significance of the estimator t-value was shown, as the level of statistical significance is less than 0.05, Earnings Management by discretionary accruals and Return on Assets (ROA), also (t) value greater than t-table where the value of (t) is equal 5.445 and t-table 1.660.

By this result accepted the alternative hypothesis there is a positive effect of Earnings management through discretionary accruals on return on equity (ROE) in DFM.

- At last, the regression equation can be written as:

$$ROE = (-1.347) + (261.805)DAMJ$$

4.3.3 The Effect of Earnings Management Through Discretionary Accruals on Return on Investment (ROI).

The table (6) shows the summary of the regression model, where the correlation coefficient between return on investment (ROI) and Earnings Management by discretionary accruals (modified Jones model) where the value is 0.295 and significant 0.000 less than 0.05 this means that there is a statistical significance between the variables and correlation between the variables.

Table 6: Effect of Earnings Management by Discretionary Accrual on (ROI)

Dependent variable	Independent variable	Pearson Correlation	Sig	R	R^2	F	F Sig	Beta	t-Value	t-Sig	VIF
ROI	EM	.295	.000	.295	.087	22.706	.000	33.836	4.958	.000	1.00

Source: Data collected from the annual reports of select companies.

The previous table showed regression results between the dependent variable and the independent variables, where the value of R 0.295, determination parameter value R^2 is 0.087. The relationship between the return on investment (ROI) and Earnings Management by discretionary accruals (modified Jones model) in this model appears to be a weak relationship. That is, earnings management by discretionary accruals explains 9% of the variance in return on investment (ROI).

Additionally shows the results of the ANOVA analysis to test the significance of the regression the value of the significance is 0.000, which is less than 0.05, and therefore the regression is significant, and the (F) is equal to 22.706 that value greater than (F-table) its equal 3.8415 that means there is an effect of the Earnings Management by discretionary accruals on return on investment (ROI).

Also, the value of the variance inflation factor coefficients showed that there is no problem of linear multiplicity between the variables where the inflation coefficients were less than (3).

Through the previous analysis, the significance of the estimator t-value was shown, as the level of statistical significance is less than 0.05, which mean there is the effect of Earnings Management by discretionary

accruals on return on investment (ROI), also (t) value greater than t-table where the value of (t) is equal 4.958 and t-table 1.660.
By this result accepted the alternative hypothesis there is a positive effect of Earnings management by discretionary accruals on return on investment (ROI) in DFM.

- At last, the regression equation can be written as:

$$ROI = (2.710) + (22.706)DAMJ$$

4.3.4 The Effect of Earnings Management Through Discretionary Accruals on Capital Employed (ROCE).

By looking at the results of the regression analysis in Table (7), it is noted that there is no statistically significant effect, and there is no effect of earnings management by Discretionary Accrual on the return on capital employed (ROCE). That is because the (F-sig) greater than 0.05 it is means no effect from earnings management on the return on capital employed (ROCE).

Table 7: Effect of Earnings Management by Discretionary Accrual on (ROCE)

Dependent variable	Independent variable	Pearson Correlation	Sig	R	R^2	F	F Sig	Beta	t-Value	t-Sig	VIF
ROCE	EM	-.001	.490	.001	.000	.001	.981	-.306	-.024	.981	1.00

Source: Data collected from the annual reports of select companies.

Thus, accepting the null hypothesis there is no effect of earnings management by Discretionary Accrual on return on capital employed (ROCE).

4.3.5 The **Effect of Earnings Management Through Discretionary Accruals Operating Cash Flow Margin (OCFM).**

The table (8) shows the summary of a regression model, where the correlation coefficient between operating cash flow margin (OCFM) and earnings management by discretionary accruals (modified Jones model) where the value is -.456 and significant 0.000 less than 0.05 this means that there is a statistical significance between the variables and correlation between the variables.

Table 8: Effect of Earnings Management by Discretionary Accrual on (OCFM)

Dependent variable	Independent variable	Pearson Correlation	Sig	R	R^2	F	F Sig	Beta	t-Value	t-Sig	VIF
OCFM	EM	-.456	.000	.456	.208	67.870	.000	-875.7	-8.24	.000	1.00

Source: Data collected from the annual reports of select companies.

The previous table shows the regression analysis results between the dependent variable and the independent variables, where the value of R 0.456, determination parameter value R^2 is 0.208. It's clear the effect between Earnings Management by discretionary accruals (modified Jones model) and the operating cash flow margin (OCFM) in this model appears to be a weak effect. That is, earnings management by discretionary accruals explains 21% of the variance in operating cash flow margin (OCFM).
Additionally shows the results of the ANOVA analysis to test the significance of the regression the value of the significance is 0.000, which is less than 0.05, and therefore the regression is significant, and the (F) is equal to 67.870 that value greater than (F-table) it is equal 3.8415 that means there is an effect of the earnings management on operating cash flow margin (OCFM).
Also, the value of the variance inflation factor coefficients showed that there is no problem of linear multiplicity between the variables where the inflation coefficients were less than (3).
Through the previous analysis, the significance of the estimator t-value was shown, as the level of statistical significance is less than 0.05, Earnings Management by discretionary accruals and operating cash flow margin (OCFM), also (t) value greater than t-table where the value of (t) is equal -8.24 and t-table is 1.660.
By this result accepted alternative hypothesis there is a negative effect of Earnings management on operating cash flow margin (OCFM).

- At last, the regression equation can be written as:

$$OCFM = (-23.089) + (-875.682)DAMJ$$

4.3.6 The **Effect of Earnings Management Through Discretionary Accruals on Operating Income Margin (OIM).**

By looking at the results of the regression analysis in Table (9), it is noted that there is no statistically significant relationship, and there is no effect of earnings management by Discretionary Accrual on the operating income margin (OIM). This is because the (F) value is lower than (F-table), also the (F-sig) greater than 0.05 it is mean no effect from earnings management on the operating income margin (OIM).

Table9: Effect of Earnings Management by Discretionary Accrual on (OIM)

Dependent variable	Independent variable	Pearson Correlation	Sig	R	R^2	F	F Sig	Beta	t-Value	t-Sig	VIF
OIM	EM	.045	.234	.045	.002	.530	.467	68.193	.728	.467	1.00

Source: Data collected from the annual reports of select companies.

Thus, accepting the null hypothesis there is no effect of earnings management by discretionary accrual on operating income margin (OIM) in DFM.

4.3.7 The **Effect of Earnings Management Through Discretionary Accruals on Gross Profit Margin (GPM).**

Table (10) shows the results of the regression analysis, it is noted that there is no statistically significant relationship, and there is no effect of earnings management by discretionary accrual on gross profit margin (GPM). This is because the (F) value is lower than (F-table), also the (F-sig) greater than 0.05 it is mean no effect from earnings management on gross profit margin (GPM).

Table 10: Effect of Earnings Management by Discretionary Accrual on (GPM)

Dependent variable	Independent variable	Pearson Correlation	Sig	R	R2	F	F Sig	Beta	T Value	T Sig	VIF
GPM	EM	.116	.031	.116	.013	3.515	.062	198.52	1.875	.062	1.00

Source: Data collected from the annual reports of select companies.

Thus, accepting the null hypothesis there is no effect of earnings management on gross profit margin (GPM).

4.3.8 The **Effect of Earnings Management Through Discretionary Accruals on Net profit Margin (NPM).**

Table (11) shows the results of the regression analysis, it is noted that there is no statistically significant relationship, and there is no effect of earnings management by discretionary accrual on net profit margin (NPM). That is because the (F) value is lower than (F-table), also the (F-sig) greater than 0.05 it is mean no effect from earnings management on net profit margin (NPM).

Table 11: Effect of Earnings Management by Discretionary Accrual on (NPM)

Dependent variable	Independent variable	Pearson Correlation	Sig	R	R^2	F	F Sig	Beta	t-Value	t-Sig	VIF
NPM	EM	.073	.120	.073	.005	1.390	.239	190.64	1.179	.239	1.00

Source: Data collected from the annual reports of select companies.

Thus, accepting the null hypothesis there is no effect of earnings management by discretionary on net profit margin (NPM) on DFM.

5. Conclusion

This paper, reviewed the effect of Earnings Management by Discretionary Accruals on Profitability ratios (ROA, ROE, ROI, ROCE, OCFM, OIM, GPM, and NPM). The Earnings Management value was calculated for (52) companies listed on the Dubai Financial Market; the results showed that companies practiced Earnings Management activities in varying proportions. In addition, this paper includes the calculation of the profitability ratios for all sample companies.

On the other hand, to test the validity of the hypothesis, regression analysis for the Dubai financial market was applied to confirm the hypothesis (Earnings management has no significant effect on Profitability Ratios in DFM). The results of the analysis were as follows:

- **Effect of Earnings Management on Return on Assets (ROA)**

Accepted the alternative hypothesis earnings management by discretionary accruals has a significant positive effect on Return on Assets (ROA) and rejected the null hypothesis.

- **Effect of Earnings Management on Return on Equity (ROE)**

Accepted the alternative hypothesis earnings management by discretionary accruals has a significant positive effect on Return on Equity (ROE) and rejected the null hypothesis.

- **Effect of Earnings Management on Return on Investment (ROI).**

Accepted the alternative hypothesis earnings management by discretionary accruals has a significant positive effect on Return on Investment (ROI).

- **Effect of Earnings Management on Return on Capital Employed (ROCE)**

Accepted the null hypothesis earnings management by discretionary accruals has no significant effect on Return on Capital Employed (ROCE).

- **Effect of Earnings Management on Operating Cash Flow Margin (OCFM)**

Accepted the alternative hypothesis earnings management by discretionary accruals has a significant negative effect on Operating Cash Flow Margin (OCFM).

- **Effect of Earnings Management on Operating Income Margin (OIM)**

Accepted the null hypothesis earnings management by discretionary has no significant effect on Operating Income Margin (OIM) and rejected the alternative hypothesis.

- **Effect of Earnings Management on Gross Profit Margin (GPM)**

Accepted the null hypothesis earnings Management by discretionary accruals has no significant effect on Gross Profit Margin (GPM), and rejected the alternative hypothesis.

- **Effect of Earnings Management on Net profit Margin (NPM).**

Accepted the null hypothesis earnings management by discretionary has no significant effect on Net profit Margin (NPM), and rejected the alternative hypothesis.

Through the foregoing, it is clear that there is an effect of earnings management on some profitability ratios, but not all of them, as shown in the results of the analysis.

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