

Financial Factors that Affect Cash Holdings and Earnings Management Using a Simultaneous Approach: Case of Jordan

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Abstract

The objective of this research is to conduct a simultaneous investigation into firm's financial factors of cash holdings and earnings management. The population of this research is comprised of all Jordanian service companies listed on the Amman Stock Exchange (ASE) during the period from 2012 to 2019. This research used simultaneous modelling using the 2SLS regression model. The results showed that accrual earnings management (AEM) and firm size affect positively cash holdings. On the other hand, leverage (LEV) and Growth affects negatively cash holdings. Return on assets (ROA) and dividends (DIV) have no impact on cash holdings. Whilst firm size has a negative impact on (AEM) contrary of growth. Further, cash holdings, (ROA), (LEV), and (DIV) do not have a significant impact on (AEM). The results of this research could assist the managers to reduce the levels of financial leverage and the debt ratios to improve the level of cash holding in these companies.

Keywords: Financial Factors, Cash Holdings, Earnings Management, Simultaneous Approach.