

Artificial Intelligence and Corporate Earnings Management

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Abstract

The strengthening and revolutionized market surveillance through artificial intelligence to shrivel the stock market rapidly becoming ubiquitous to detect and predict corporate earnings management. This study explores the impact of artificial intelligence on corporate earnings management using a quantitative research design. Data were collected from 145 small and medium-sized manufacturing enterprises in Lagos State, Nigeria, comprising food production ($n = 113$) and beverage production ($n = 38$) firms, representing an 80.5% response rate. The paper employs Partial Least Squares Structural Equation Modelling (PLS-SEM) with a bootstrapping technique (5000 replicate samples) to analyse the causal relationships between constructs. The findings show that all five hypotheses are highly supported. This is because: the integration of artificial intelligence with the existing system portrays the highest positive correlation coefficient value with the corporate earning management, $r = 0.392$, $t = 15.054$, $p < 0.001$. This is followed by the challenges in the regulation of the use of artificial intelligence, $r = 0.346$, $t = 15.926$, $p < 0.001$. This study also found that the acceptance level by the users, the cost-effectiveness, as well as the consideration of the ethical aspect of the use of the AI, contribute less significantly to the corporate earning management, $r = 0.315$, $t = 16.368$, $p < 0.001$, $r = 0.164$, $t = 5.637$, $p < 0.001$, and $r = 0.104$, $t = 4.526$, $p < 0.001$, respectively. Hence, the model achieved excellent explanatory values, which stood at 99%, given that the value of $R^2 = 0.990$. This reveals that 99% of the variability that exists in corporate earnings management can be predicted by its five variables. In this, the values of Cronbach's exceeded 0.784 for all the variables, which reveals that each has exhibited appropriate values for the level of error. In the study, the values of the AVE stood beyond 0.609, which indicates that the variables possessed appropriate values for the level of error. These results indicate that artificial intelligence can substantially enhance the accuracy, reliability, and timeliness of financial reporting practices and render the ethical and regulatory considerations to be part of its responsible use.

Keywords: Artificial intelligence, Corporate earnings management, Ethical consideration, Cost effectiveness, User acceptance, Regulatory challenges

1. INTRODUCTION

Earnings management in a corporate context is one of the leading research areas in accounting and finance. With technological advancements and the development of AI, financial forecasting and risk management, like fraud analysis and enhancement of decision-making processes in

corporate earnings management tasks, all have popular applications in finance. As stated in [1] and [2], artificial intelligence in the identification and forecasting of corporate earnings involves targeted intervention in financial reporting in general, especially for the case of listed companies [3]. Artificial intelligence is an 'emergency skill' that will rapidly change the way new approaches are tried in the management of corporate earnings. Using algorithms in machine learning methods in finance allowed companies to identify those patterns that were somewhere in their financial data. According to [4, 5] and [6], in understanding this development in finance.

Despite all these, the use of AI in managing corporate profits is still in its infancy, though the interest and investments in this area are increasing to a massive extent. According to the report given by Deloitte, "70% of the CFOs believe that AI already has or soon will have a significant impact on their organisations." A study conducted by Rikhardsson et al. [7], involved the study of the effect of AI on earnings management in Chinese companies. According to the study, "AI can efficiently address earnings management in Chinese companies, especially those companies that have high financial constraints." In the scenario of the COVID-19 pandemic, the study conducted by Sani et al. [8], identified the role of AI in earnings management. According to the study, "The companies which used AI in their earnings management approach were extremely able to address the impact made by the pandemic on their financial performance."

Another key benefit is linked to the application of AI in earnings management; AI is said to handle huge amounts of information while it detects patterns that might appear unclear to the human eye. In this way, bias and inaccuracies in human decision-making are reduced. However, there are also challenges with the application of AI to earnings management, including ethical issues and ensuring that regulatory requirements are complied with. Such challenges need to be addressed by businesses to reap the full benefits of the use of AI in managing earnings.

1.1 Gap of the Study

The research focused on how corporate earnings management requires manipulating financial reports to present an impressive performance in order to reach the required targets by manipulating earnings to present a clearer financial situation that might look better than it actually is. It results in misleading financial statement presentations, thereby affecting the investors, stakeholders, and companies' reputations negatively. Recently, AI has appeared as one of the solutions to enhance the speed, efficiency, and accuracy in the financial statement presentation process and decision-making processes. But on the other hand, corporate earnings management using AI is also likely to result in risks and challenges most likely to be related to ethics, legalities, technicalities, acceptance, and efficiency in costs used in AI applications. Ethics, legalities, technicalities, and costs in using AI in corporate earnings management will look towards ensuring that the use of AI has accountability, responsibility, and ethics in its application and will also look to enhance the complete potential use of AI. The likely benefits of AI within corporate earnings management will thereby look to make use of the benefits to the fullest by minimising the risks and challenges likely to occur in the use of AI with the aim of developing better financial statement presentation processes and decision-making.

2. CONCEPTUAL REVIEW

2.1 Artificial Intelligence and Earnings Management

Earnings management in this study is conceptualised as the discretionary use of accounting judgments and reporting choices by management to influence reported financial performance, which may be opportunistic or efficiency-enhancing depending on intent and governance context. Within this framework, the application of artificial intelligence (AI) can play a dual role: as a tool for detecting and constraining opportunistic earnings management, and as a system that may be strategically used to shape reporting outcomes.

The use of artificial intelligence within earnings management processes can therefore be expected to improve the accuracy, consistency, and monitoring quality of financial reporting within business organisations [9, 10]. The reason is that AI can process large volumes of structured and unstructured financial information and generate predictive information that is more than what conventional manual systems can produce. The AI can in this instance expand the ability of both the managers and auditors to detect abnormal accruals and weird transactions.

The usefulness of AI can be attributed to the detection of financial anomalies and anomalous reporting practice, which are usually linked to earnings management and fraud [11]. As an illustration, the AI models can detect the suspicious financial activity that needs to be investigated. Through this, companies can be in a position to control matters that revolve around earnings management before the situation spirals out of control.

Nevertheless, there are some limitations to the use of AI in earnings management cases. To illustrate, the possible issues with the use of AI might be the error in algorithms and biases, the lack of interpretability that can result in unjust and/or misleading financial judgments with the high predictive power of the AI system [12, 13]. As an illustration, the non-transparency of some AI systems can result in the challenge of explaining the reason behind some earnings management decisions.

Moreover, despite the fact that the rules that apply to the process of financial reporting permit some level of managerial discretion, the introduction of AI systems can cause new difficulties to the regulations. To illustrate the point, Munoko et al. [14], believe that AI systems use in accounting should not only fulfill the currently existing regulations on financial reporting but also address the new regulations on data privacy, transparency, and competition. The consequence of not adhering to the rules of operation might be the unintended outcome of facilitating the earnings management instead of discouraging it.

2.2 Ethical View of Artificial Intelligence and Earning Management

The moral aspects of the application of artificial intelligence to the earnings management practices are also remarkable, as the possible impacts of AI-driven decisions regarding financial issues on different stakeholders may be significant. In this regard, ethical earnings management refers to the application of AI to fair and objective financial reporting, as opposed to earnings manipulation to the managerial self-interest [15]. The possibility of bias in the choices of earnings management because of AI use is another ethical question in this regard. Also, it might happen that AI can repro-

duce the already existing biases in financial data and thus make unfair and discriminatory earnings management decisions [14, 16]. The past information applied to train AI models could be biased in accounting practices and treatment of people in an organisation. Under these circumstances, the ethical issues are accountability and fair judgment in management of earning

Besides this, the AI-driven financial reporting and earnings management decisions can be easily manipulated, hacked, and abused, leading to misinterpreting the financial information [17]. This will affect investor confidence, efficiency in the capital markets and reputation of the company negatively. Thus, the necessity to guarantee the inclusion of humans in the decision-making process and the application of AI in the earnings management process may also be explained by the significance of the need to understand, challenge, and correct financial data as it is suggested by Kadhim and Al Ani [18].

Thus, ethical AI application in earnings management should be followed by the formulation of robust governance principles emphasizing on transparency, interpretability, accountability, and regulatory adherence. This will make the application of AI in financial reporting and earnings management useful and not allowing opportunistic behavior in earnings management.

2.3 Theoretical and Concept of Artificial Intelligence and Earnings Management.

The present study is supported by an Agency Theory, which, in its turn, considers the earnings management a consequence of the information asymmetry and existence of conflicting interests between a management team (the agent) and the owners of the company (the principals). The management team is capable of exploiting some opportunities to manage the earnings of the business in self-interest, thereby compromising the mechanisms of transparency and quality of financial reporting [19, 20]. In this paper, the strategy of artificial intelligence (AI) is considered as a resource which can be utilized to elevate corporate governance, which, in its turn, could be employed to control the income of the company. The success of AI in this regard, however, will hinge on other factors that will include regulatory environment, integration, acceptance of users, ethical governance and cost-effectiveness.

In this respect, the study has the following hypotheses on how the dimensions of artificial intelligence relate to the management of earnings in South-Western Nigeria.

2.3.1 Artificial intelligence regulatory challenges and earnings management

Artificial Intelligence Regulatory Problems and Earnings Management. The regulator is perceived as an external controller in the agency theory perspective that assists in restricting the opportunistic behaviour by managers. Nonetheless, when the regulator introduces AI systems in the earnings management process, it poses several challenges to the system. As an example, the question of transparency and accountability is present when applying AI systems in earnings management. Without proper regulation regarding the use of the AI systems in the earnings management process, the manager might have excessive flexibility regarding the system, and hence the essence of using AI systems to restrain earnings manipulation is nullified.

Kang and Park [21], claim that there is a shortage of proper regulations on the use of AI systems, which present a variety of ethical threats to the earnings management process. Shah and Wan [22], also say that proper regulation on the accuracy and reliability of AI systems is vital in the earnings management procedure. Consequently, the problem of regulatory challenges influences the utilisation of AI systems in the earnings management process in corporate organisations.

Hypothesis 1 (H1): Artificial intelligence regulatory challenges have a significant effect on corporate earnings management in South-Western Nigeria.

2.3.2 Artificial intelligence integration with existing systems and earnings management

The agency theory implies that internal control systems can only be effective when part and parcel of the system. How much AI systems are integrated into the current accounting and financial systems will determine how effective the system can be in limiting information asymmetry and managerial discretion. The absence of integration can cause a divided flow of information and internal control problems, which restrict the efficiency of AI in preventing earnings management practices [23].

According to the results of the empirical research, companies that have successfully developed AI systems enjoy improved monitoring, efficient investment, and reduction of the practices of earnings management [22]. The idea of well-aligned systems also implies the accuracy of reporting and lessening the practice of earnings management, according to Ahmad [15], and Kadhim and Al Ani [10].

Hypothesis 2 (H2): Artificial intelligence integration with existing systems has a significant effect on corporate earnings management in South-Western Nigeria.

2.3.3 Artificial intelligence user acceptance and earnings management

The overall effectiveness of AI in governance is to a great extent determined by the extent of acceptance by different participants in the system, such as accountants, financial managers, and auditors. According to the agency theory perspective, the low adoption of AI systems may preserve managerial discretion and minimise the usefulness of monitoring tools, thereby perpetuating the earnings management processes. Quite to the contrary, the transparency and accountability in financial reporting processes would be improved by high acceptance. Abrokwah-Larbi and Awuku-Larbi [24], observe that perceived usefulness, ease of use, and trust are the primary variables that determine the adoption of AI in accounting operations. However, the problem of algorithmic bias, complexity, and privacy of data could decrease the level of acceptance and, consequently, make AI less effective in tracking activities [25, 26]

Hypothesis 3 (H3): User acceptance of artificial intelligence has a significant effect on corporate earnings management in South-Western Nigeria.

2.3.4 Artificial intelligence cost effectiveness and earnings management

The cost factor is a factor of consideration in the decision making of the organisation as far as the adoption of AI technology is concerned. Agency theory suggests that the management could be unwilling to use governance technologies based on a large cost against the benefits. The implementation of AI technology is rather costly, but, its cost-efficiency may be regarded through the prism of efficiency, less reporting time, and increased accuracy [27, 28]. Odoh et al. [29], demonstrate that technology adoption in auditing assists in time and financial cost reduction, therefore, enhancing the control environment and reducing the extent of earning management. Nevertheless, the cost-effectiveness of AI technology, as argued by Umeorah et al. [30], depends on the type of the technology that will be used as well as the outcomes.

Hypothesis 4 (H4): The cost-effectiveness of artificial intelligence has a significant effect on corporate earnings management in South-Western Nigeria.

2.3.5 Ethical artificial intelligence perspective and earnings management

The issue of ethical governance plays an important role in clarifying the role of AI in earnings management. Ethical AI is concerned with ethical financial reporting that is just, transparent, accountable, and explainable. The ethical AI adoption, as per the agency theory, mitigates the amount of opportunism among the managers. However, AI can also perpetuate financial data bias and become a black box, and regulatory authorities cannot be responsible [13, 14, 18]. AI ethical concerns: the necessity of ethics in AI to be able to manage quality earnings.

Hypothesis 5 (H5): Ethical considerations in artificial intelligence have a significant effect on corporate earnings management in South-Western Nigeria.

3. METHODOLOGY

3.1 Research Design, Population and Sample Size.

The quantitative survey was done according to a structured survey instrument and information of interest obtained. The survey has been posted and this study is specifically aimed at the mentioned manufacturing firms in the Small and Medium Enterprise Business Directory also referred to as SMEDAN. Among the number of estimated businesses in the country which stood at more than 4 million, 200 businesses were sampled through sampling software which is the lowest estimated sample size. This sampling size was intentionally doubled to offset potential survey non-response to ensure that the sampling error regarding the recommendation is minimised according to the recommendation by Danie et al. [31].

The total of the 200 questionnaires used in the study were valid (145), which resulted in the study having a response rate of 63%. A post hoc analysis conducted on the G+ Power 3.1.9.7 tool was applied to determine the sufficiency of the sample size [32]. Power analysis results indicate that at 5 percent significance level and 0.14 effect size threshold, 200 participants will be the minimum

number of participants needed to obtain a statistical power of 0.90 with the structural model. Thus, the findings of the sample size calculated based on 320 individuals, who answered the questionnaire were an acceptable and sufficiently representative study in relation to the necessary sample size [33].

4. DATA ANALYSIS

4.1 Response Rate

The summary of a three-month questionnaire distributed to 200 respondents to small and medium-sized manufacturing enterprises in south-western Nigeria. Of the 180 responses returned, 35 were removed due to improper completion of the survey, while 145 were actually used for analysis, representing a response rate of 80.5%.

A total of 150 questionnaires were distributed to SMEs involved in food production in Lagos State, of which 140 were returned only 113 were usable, and 27 responses were invalidated due to invalid answers to the questions asked. A questionnaire was distributed to SMEs in the beverage industry. Of the 50 questionnaires distributed, 40 completed questionnaires were returned, 32 were usable, and 8 were discarded due to misinterpreted questions.

In the distribution of questionnaires, 10 different enterprises were selected from food production enterprises, and each enterprise distributed 15 questionnaires. During the distribution of the questionnaire, 10 different companies were selected from the small and medium beverage manufacturing industry in Lagos State, Nigeria, and five questionnaires were distributed to each company. Descriptive statistics tell researchers about the demographics of the people who responded to the survey, and whether they were the best population and sample for the job.

Table 1: Response rate

Industry	No distributed	No returned	No deleted	No usable
Food production	150	140	27	113
Beverages production	50	40	8	38
Total	150	180	35	145

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5. RESULTS DISCUSSION

5.1 Descriptive Statistics

The paper sample included 145 small and medium-sized food and beverage manufacturing companies in Lagos State, Nigeria’s largest business hub. Male respondents completed 55% of the total responses, while female respondents completed 45%. This indicates that the identified areas are mainly gender parity among respondents from Lagos State.

Table 2: Gender distribution

Gender	Figure	Percentage
Male	80	55
Female	65	45
Total	145	100

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According to the circulation of responses based on educational qualification, the majority with a total number of 85 (59%) have a postgraduate certificate, followed by undergraduate certificate with a total number of 60 (41%), and those with PHD certificate are with a total number of 10 (4%), as detailed in TABLE 3.

Table 3: educational qualification

Qualification	Frequency	Percentage
Postgraduate	60	41
Undergraduate	85	59
Total	145	100

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6. MEASUREMENT MODEL

6.1 Outer Loading of the Measurement Model

TABLE 4, shows the results of the measurement models by evaluating the data using Partial Least Squares Structural Equation Modelling (PLS-SEM) to examine the dimensions of the paradigms (AIEC, AIRC, AIES, AICE, AIUA, and CEM). As expected, all paradigms involving latent variables were examined by psychometric testing. The loading of the paradigm is described with the artificial intelligence ethical consideration, ranging from AIEC 4 with an outer loading of 0.845 to AIEC 1 with a loading value of 0.750. The second paradigm, outer loading of artificial intelligence regulatory challenges, ranged between AIRC 2 with the value of 0.838 and AIRC 1 with 0.676, which indicates that the outer loading is precise enough to continue to the subsequent analysis. The third paradigm is artificial intelligence integration with existing system ranged between the AIES 3 with 0.910 and the AIES 1 with 0.730. The fourth paradigm, outer loading of artificial intelligence, artificial intelligence cost effectiveness, which ranges from AICE 3 with the value of 0.874 and AICE 1 with 0.833, shows that the outer loading is comprehensive to proceed with the next analysis. The fifth paradigm is artificial intelligence users' acceptance, which ranged between the AIUA 3 with 0.880 and AIUA 4 with 0.809.

In the Artificial Intelligence regulatory challenges, we have an outer loading of 0.676, which is less than 0.70, but the item is a significant component in relation to the construct. On the dependent variable corporate earnings management, the outer loading ranges from CEM 3 with 0.920 and

Table 4: Measurement model. Note: *** = $p < 0.000$. -* during the algorithms analysis.

Construct	Indicators	Loadings(λ)	CA	rho_A	CR	AVE	p.value
	AICE1	0.833					
	AICE2	0.835	0.804	0.804	0.884	0.718	
	AICE3	0.874					
	AIEC1	0.750					
	AIEC2	0.750	0.786	0.791	0.861	0.609	
	AIEC3	0.771					
	AIEC4	0.845					
	AIES1	0.730					
	AIES2	0.775					
	AIES3	0.910	0.871	0.880	0.907	0.662	
	AIES5	0.864					
	AIES5	0.776					
	AIRC1	0.676					
	AIRC2	0.838	0.784	0.791	0.861	0.610	
	AIRC3	0.829					
	AIRC4	0.771					
	AIUA1	0.847					
	AIUA2	0.872	0.874	0.879	0.914	0.727	
	AIUA3	0.880					
	AIUA4	0.809					
	CEM1	0.824					
	CEM2	0.892	0.852	0.856	0.911	0.774	
	CEM3	0.920					

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CEM 1 with a loading of 0.824. The model shows that the outer loading is beyond the 0.5 threshold [34, 35].

6.2 Construct Reliability and Validity of the Model.

The average variance extracted (AVE) was further explicated with the paradigm score above the threshold value AIEC = 0.609, AIRC = 0.610, AIES 0.662, AICE 0.718, AIUA 0.727, and CEM = 0.774. The composite reliability (CR) is with the score ranging based on the paradigm as score for AIEC = 0.861, AIRC = 0.861, AIES 0.907, AICE 0.884, AIUA 0.914, and CEM = 0.911. Cronbach's alpha (@) with the score ranging based on the paradigm as AIEC = 0.786, AIRC = 0.784, AIES 0.871, AICE 0.804, AIUA 0.874, and CEM = 0.852. Cronbach's alpha exceeds the 0.7 threshold in the Composite Reliability (CR). This demonstrates that the dimension meets the criterion for convergent validity [36, 37]. The rho_A is with the value ranging based on the construct, as value AIEC = 0.791, AIRC = 0.791, AIES 0.880, AICE 0.804, AIUA 0.879, and CEM = 0.856. The Average variance extracted (AVE) exceeds a threshold of 0.7, showing a satisfactory fit index and high analytical impact [38]. The variances found were greater than the cross-correlations for

each construct in the provided measurement models (TABLE 4), and represented by the square root of each latent variable.

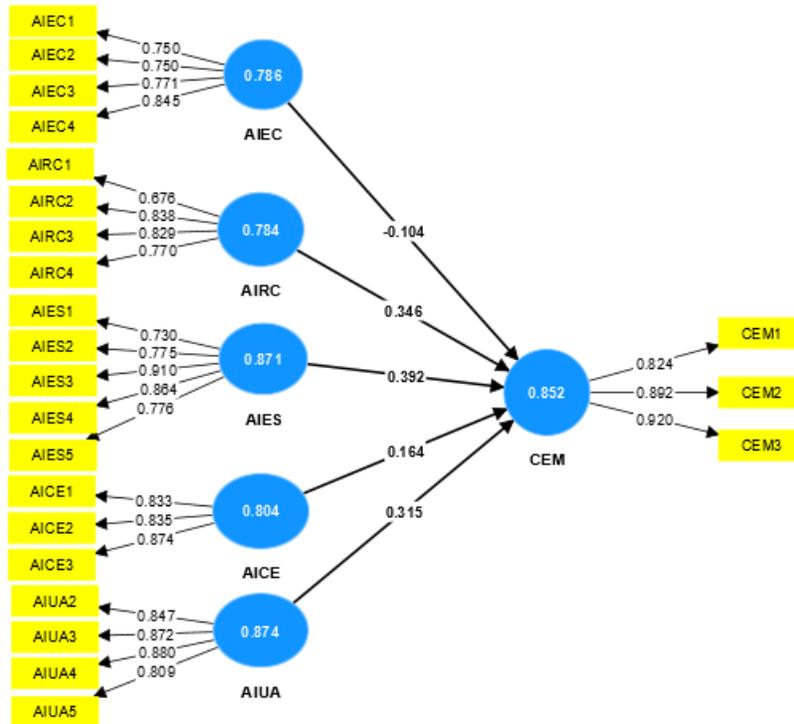


Figure 1: Measurement model

6.3 Discriminant Validity

Discriminant validity analysis is completed on the factors to checked issue of multicollinearity foreseeing the factors’ details in TABLE 5. There is a significant relationship that exists between the predictor and does not exceed the threshold value of 0.9 as recommended by Hair Jr et al. [39]. Therefore, there is no problem with multicollinearity among the factors.

Table 5: Discriminant validity (Fornell–Larcker Criterion)

	AICE	AIEC	AIES	AIRC	AIUA	CEM
AICE	0.847					
AIEC	0.884	0.780				
AIES	0.717	0.636	0.814			
AIRC	0.697	0.648	0.783	0.781		
AIUA	0.532	0.440	0.580	0.707	0.852	
CEM	0.763	0.654	0.897	0.823	0.829	0.879

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6.4 Structural Model Assessment

FIGURE 2 demonstrates that data analysis through structural equation modelling was employed to examine the liability and validity of the instrument besides assessing the predicted model between constructs. It displays the R^2 values, beta (β) values, and t-values of the paper and its effect sizes (f^2) which were obtained by bootstrapping as nonparametric which allows testing the statistical significance of different PLS-SEM results, including path coefficients, Cronbach’s alpha and R^2 values, as recommended by Memon and Rahman [40].

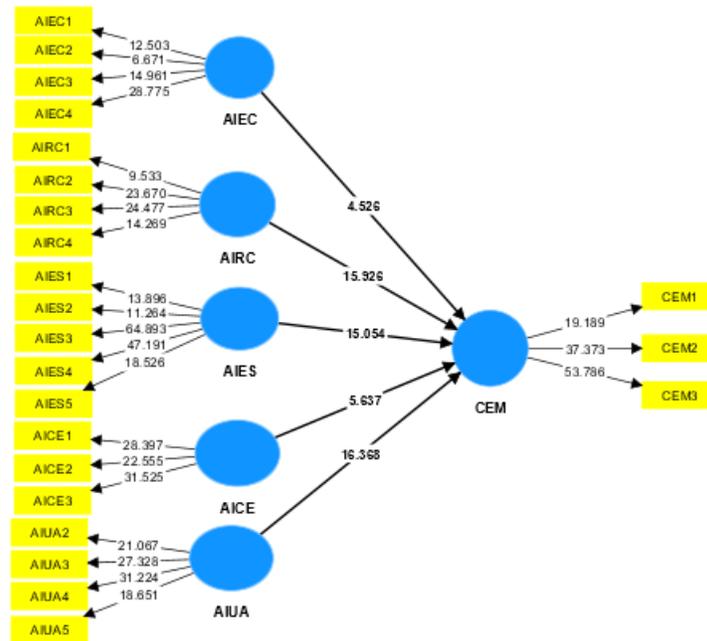


Figure 2: structural model

The results of the structural model using PLS-SEM are presented, as well as the measurement model, which are all details in TABLE 6, below. Bootstrapping technique with 5000 replicate samples is used with a structural model to analyse the causal relationship between the constructs of the instrument by estimating the path coefficient, R-square, t-statistic, p-value, standard beta and standard error.

Table 6: Hypotheses Test

Relationship	Std.beta	Std.error	t.value	p.value	R ²	Decision
AICE → CEM	0.164	0.029	5.637	0.000	0.990	Supported
AIEC → CEM	0.104	0.023	4.526	0.000	0.990	Supported
AIES → CEM	0.392	0.026	15.054	0.000	0.990	Supported
AIRC → CEM	0.346	0.022	15.926	0.000	0.990	Supported
AIUA → CEM	0.315	0.019	16.368	0.000	0.990	Supported

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The direct relationship between the predictor variables and outcome variables was examined, and the first hypothesis indicates that artificial intelligence cost effectiveness has a positive relationship with corporate earnings management, with a significant p. value of 0.000, t. value = 5.635 and R-square value of 0.990. justify the positive relationship between AI cost effectiveness and corporate earnings management. [10].

The second hypothesis finding indicates there is a significant positive relationship between Artificial Intelligence ethical consideration on corporate earnings management, with p.value of 0.000, t.value = 4.526 and R-squared value of 0.0.990. [41], support the argument, drawing on existing literature and case studies of ethical AI integration in various industries, including finance and accounting, with a positive relationship between AI ethical considerations and corporate earnings management.

The third hypothesis narrate there is a positive relationship between artificial intelligence integration with existing systems on corporate earnings management, with p.value of 0.000, t.value = 15.054 and R.square value of 0.0.990. [29], argue that the Impact of Artificial Intelligence on Financial Accounting Evidence by drawing on case studies and examples of AI integration in financial accounting practices in China, such as the use of AI for financial statement analysis and auditing. That provides empirical evidence to support the positive relationship between AI integration with existing systems and corporate earnings management, and highlights the potential benefits of AI integration for financial accounting practices. The fourth hypothesis shows there is a positive relationship between artificial intelligence regulatory challenges and corporate earnings management, with p. value of 0.000, t. value = 15.926 and R. square value of 0.0.990. [41], argue that AI integration can pose significant regulatory challenges, such as data privacy and security, fairness and non-discrimination, transparency and explainability, and human oversight and control. It gives a theoretical base for understanding why a positive relationship exists between challenges in AI regulation and earnings management in corporations, as well as emphasising risks and challenges faced in integrating AI technology in this field. Hypothesis Empirical evidence in support of a positive relationship between challenges in AI regulation and earnings management in corporations has been confirmed in this research.

The fifth hypothesis indicates the positive relationship between the user acceptance of artificial intelligence in the context of the corporate management of earnings, with p. value of 0.000, t. value of 16.368, and the R. Square value of 0.0990. Zulkifley et al. [17], adopt the survey method targeting the accounting and finance community in China. Using the Structural Equation Model analysis method, the authors conclude that perceived usefulness, perceived ease of use, trust, and social influence have emerged as significant determinants of AI user acceptance in accounting and finance practices. The empirical results of this research prove the existence of the strong positive link between the user acceptance of AI and the corporate management of earnings. The results of this research have confirmed the hypothesis proposed in the context of the strong positive link between the user acceptance of AI and the corporate management of earnings.

This high value of R^2 may be attributed to the fact that this research was based on perception because the respondents evaluated highly related issues on the use of artificial intelligence in corporate accounting settings. High values of the R^2 are common in such research based on common cognitive frames, homogeneity in the situation, and similar perceptions of technology [42, 43]. Nevertheless, to mitigate potential doubts about overestimation, we have also conducted further tests, which include variance inflation factor (VIF), predictive relevance (Q^2), and these tests do not indicate any severe problems with multicollinearity and model specification.

7. DISCUSSION AND THEORETICAL CONTRIBUTIONS

The good correlation between cost effectiveness and earnings management in companies, that has over the years been maintained by theories and findings can be explained in the light of cost effectiveness. Besides, the value creation principles that could be implemented in the context of AI incorporate the capability of AI to generate value to its stakeholders depending on its performance in making sure the financial reporting accuracy. Besides, the tenets of value creation that may be implemented in the context of AI entails that AI can be used to generate value to its stakeholders depending on its functionality in optimizing the business performance and decision making. Additionally, the value creation tenets that can be applied in the context of AI include the ability for AI to create value for its stakeholders based on its functionality in discovering hidden patterns in financial reporting. Thus, the various AI technology tools will be able to facilitate the earnings management of corporations.

AI ethics can be viewed broadly as the incorporation of ethics and values that exist and occur in the course of AI technology development and use. Ethical AI will play a significant role in improving corporate reputation and enhancing stakeholder trust toward the ethical use of AI. In addition, ethical AI technology use will eliminate biases and discrimination that can exist and occur within decision-making procedures to provide accuracy and fairness of financial reporting. Ethical AI will also ensure that financial reporting procedures occur according to ethical standards and guidelines. As a result, ethical AI will contribute toward enhancing corporate earnings management practices because ethical AI will facilitate ethical use of AI technology.

With the integration of AI, financial reporting can even become more effective and reliable, and even minor tasks can be made automatic, while fraud can be simply identified. Furthermore, incorporating AI will also benefit in creating efficiency and speed in carrying out financial reporting. This will lead to more timely and well-informed decision-making. Moreover, the integration of AI will also enable the ability to detect distinctive hidden insights and trends in financial data at hand. This will bring an improvement in performance and will lead to the achievement of effective financial results. Therefore, it can be said that incorporating AI in the system generally promotes good management of corporate earnings.

In this specific instance, it does seem that the total integration of AI within the framework of financial reporting could be constrained in a limited manner by the obligation to comply with regulations related to data privacy, security, and ethics. As made clear within the notion of regulatory compliance, the capability of the organisation in complying with all types of regulations leads to obtaining an enhanced corporate reputation, as well as decreased risks. In this context, the matter of regulatory compliance arises, which plays its own part in ensuring the alignment of all processes related to the aspect of financial reporting within the framework of all related ethical principles. In this specific instance, it appears that the matter of regulatory compliance can play its own part in obtaining strategies within the framework of corporate earnings management.

User Acceptance is an important factor as it can influence the usage and adoption of AI technology in financial reporting. Favourable user acceptance of AI technology can create an opportunity for enhanced accuracy, reliability, and swift speeds in financial reporting processes, and thus an improvement in and faster decision-making processes and decisions in companies. Additionally, favourable user acceptance can create an innovation and improvement trend in financial reporting

in companies. In general, favourable user acceptance of AI technology can create an opportunity for efficient and effective earning management practices in companies and their benefits to companies due to an improvement in financial performance.

8. CONCLUSION

The article succeeds in establishing that the application of AI in managing corporate earnings and the great potential for offering improvements in the practices linked to financial reporting are positively and significantly related. Through the results, it is clear that the ethics and the integration of the system and the potentials for challenging the regulations, as well as the acceptance of the users, are all linked to the positive influence on the management of corporate earnings. There is an obvious outcome that the application of AI technologies brings improvements and enhancements related to the accuracy, efficiency, and effectiveness of the practices linked to financial reporting, and therefore influences the financial performance and ultimately the superior decision-making processes and practices linked to financial reporting. Further, it is clear that the AI technologies, along with the practices linked to ensuring the ethics and regulation of the application and adoption, will ensure the development of trust and confidence and ultimately the improvement of the corporate image and financial performance. Additionally, it is noted that the application and adoption of the technologies, along with the potential for ensuring the continuous positive improvements and developments, ensure the emergence and development of innovation and improvements and therefore ultimately contribute to the increased financial performance and success of the corporation. Analysis and discussion of the findings and investigation have noted the great potential linked to the application and adoption of AI technologies for enhancing financial practices linked to the management of corporate earnings. Through the application and adoption of the technologies, improvements and developments resulting in positive outcomes and success have been achieved and ensured and also the developments and improvements arising from the increased accuracy, efficiency, and effectiveness of the practices and processes linked to financial reporting.

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