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The effect of bonus schemes on accounting decisions

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Abstract

Studies examining managerial accounting decisions postulate that executives rewarded by earnings-based bonuses select accounting procedures that increase their compensation. The empirical results of these studies are conflicting. This paper analyzes the format of typical bonus contracts, providing a more complete characterization of their accounting incentive effects than earlier studies. The test results suggest that (1) accrual policies of managers are related to income-reporting incentives of their bonus contracts, and (2) changes in accounting procedures by managers are associated with adoption or modification of their bonus plan.



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