

**THE EFFECT OF FINANCIAL CONSTRAINTS ON ACCOUNTING RESTATEMENTS:
SPANISH EVIDENCE****Pascual Garrido Miralles**

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The effect of financial constraints on accounting restatements: Spanish evidence

Abstract

This paper studies the effect of financial constraints and financial distress on accounting restatements, in particular we empirically analyze whether several firms' specific characteristics, such as the cost of debt, the level of leverage or if the company experience losses influence the likelihood of accounting restatements. We use a sample of Spanish listed companies from the period of 2000 to 2017. The results show that the level of debt, cost of debt and financial distress are associated with higher accounting restatements. Our evidence is consistent with the argument that firms with higher levels of leverage, especially in the short-term, and with financial distress, probably undertake more aggressive accounting practices or opportunistic reporting to clean up their financial restatements, leading to an increase in accounting restatements. The motivation for manage accounts for financially constrained firms could be to prevent debt covenants violation, obtain new financing or obtain financing at a lower cost. And in the case of financially distressed firms, to prevent bankruptcy costs. Moreover, it is consistent with previous literature, which has shown that firms employ accounting restatement as an instrument for earnings management.