Exploring Discretionary Accruals
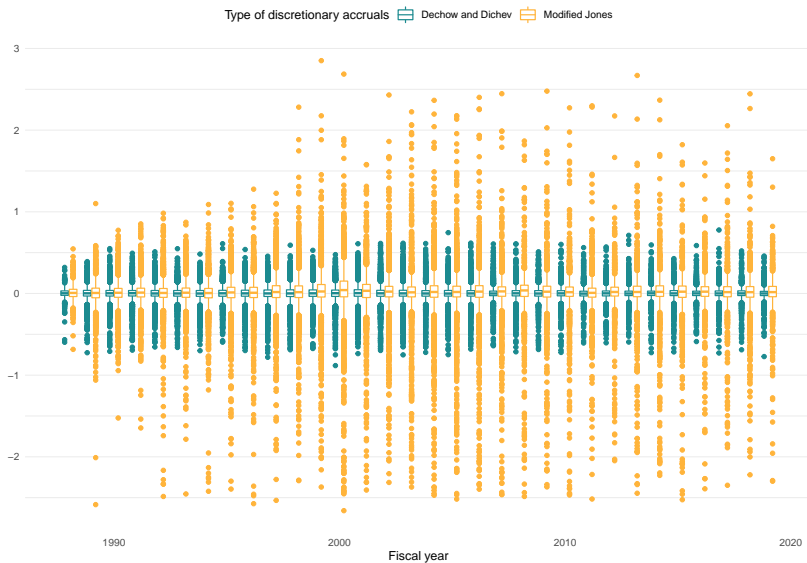
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Motivation

- Are used in tons of papers
- As measurement constructs for almost everything
    - Earnings Management
    - Earnings Quality
    - Audit Quality
    - Management Quality
- But how do they look like?

Data

	N	Mean	Std. dev.	Min.	25 %	Median	75 %	Max.
Modified Jones DA	37,061	0.001	0.255	-2.065	-0.054	0.019	0.091	1.075
Dechow and Dichev DA	37,061	0.002	0.103	-0.480	-0.037	0.002	0.044	0.396
Ln(Total assets)	37,061	4.330	2.295	-1.725	2.708	4.212	5.846	11.118
Ln(Market capitalization)	37,061	4.575	2.358	-1.357	2.877	4.457	6.219	11.799
Market to book	37,061	3.204	9.649	-146.049	1.042	2.091	4.072	124.861
Net Income	37,061	30.849	113.625	0.000	0.227	2.518	14.973	1,874.644
RD Expense	37,061	42.104	265.760	-1,028.522	-5.963	0.130	11.103	5,375.640

Note: The data is obtained from Compustat U.S. as provided by WRDS. The sample covers the period 1988 to 2019 and 5,738 unique firms.
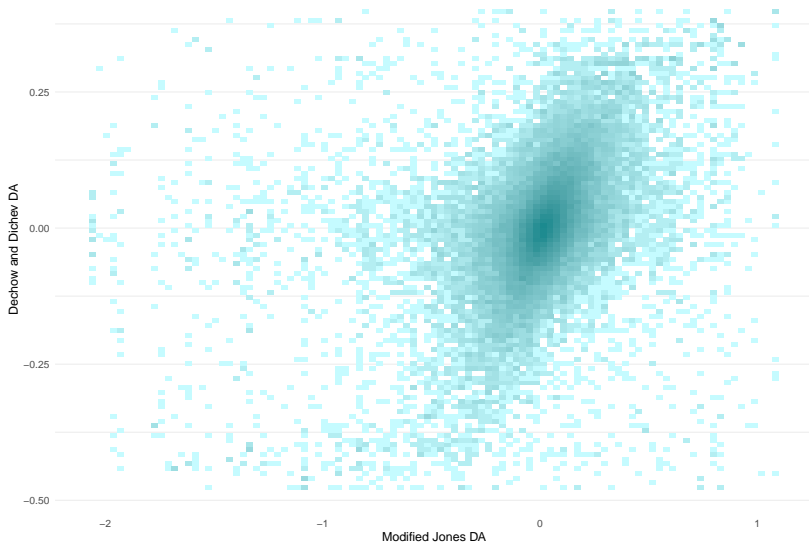
Type of discretionary accruals   Dechow and Dichev   Modified Jones
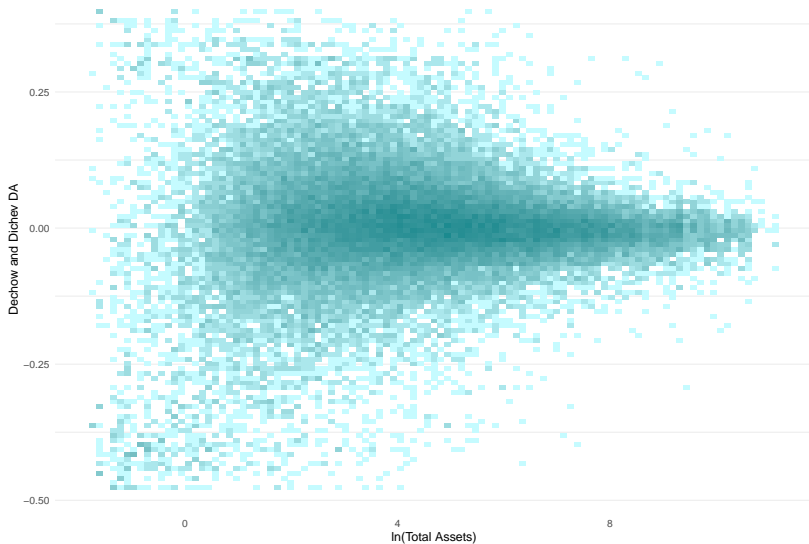
	A	B	C	D	E	F	G
A: Modified Jones DA		0.38	0.03	0.00	0.02	0.00	0.06
B: Dechow and Dichev DA	0.46		0.05	0.08	0.07	-0.02	-0.01
C: Ln(Total assets)	-0.05	-0.01		0.88	0.02	0.43	0.37
D: Ln(Market capitalization)	-0.03	0.04	0.88		0.13	0.44	0.38
E: Market to book	0.05	0.12	0.13	0.42		0.02	0.02
F: Net Income	-0.05	-0.00	0.47	0.56	0.24		0.60
G: RD Expense	0.23	0.07	0.42	0.40	0.11	-0.00	

	Dependent variable:	
	Modified Jones DA	Dechow and Dichev DA
	(1)	(2)
Ln(Total assets)	−0.005	0.013***
	(0.006)	(0.001)
Market to book	0.001**	0.001***
	(0.0002)	(0.0001)
n_i	0.0001***	0.00001***
	(0.00002)	(0.00000)
r_d	−0.0002***	−0.0001***
	(0.00005)	(0.00001)
Estimator	ols	ols
Fixed effects	gvkey, fyear	gvkey, fyear
Std. errors clustered	gvkey, fyear	gvkey, fyear
Observations	37,061	37,061
R^2	0.006	0.011
Adjusted R^2	-0.177	-0.171
Note:		*p<0.1; **p<0.05; ***p<0.01

Conclusion

- Discretionary accruals are simply wonderful!
- With these distributional properties and the power of large samples they will almost always be significant in one direction or the other regardless the setting or controls
- Use them for every economic construct under the sun!

This repository was built based on the 'treat' template for reproducible research.