



SFB/Transregio 266

ACCOUNTING FOR TRANSPARENCY

Exploring Discretionary Accruals

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TRR 266 Accounting for Transparency

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Motivation

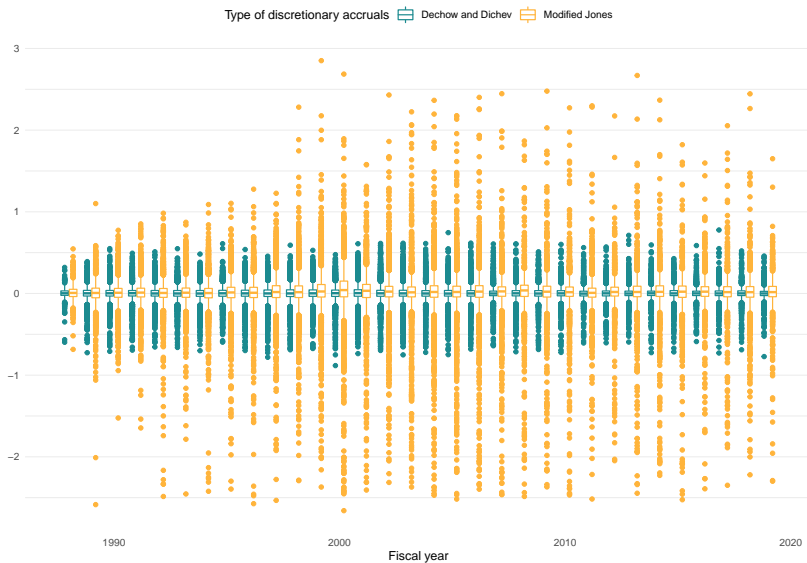
- Are used in tons of papers
- As measurement constructs for almost everything
 - Earnings Management
 - Earnings Quality
 - Audit Quality
 - Management Quality
- But how do they look like?

Data

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

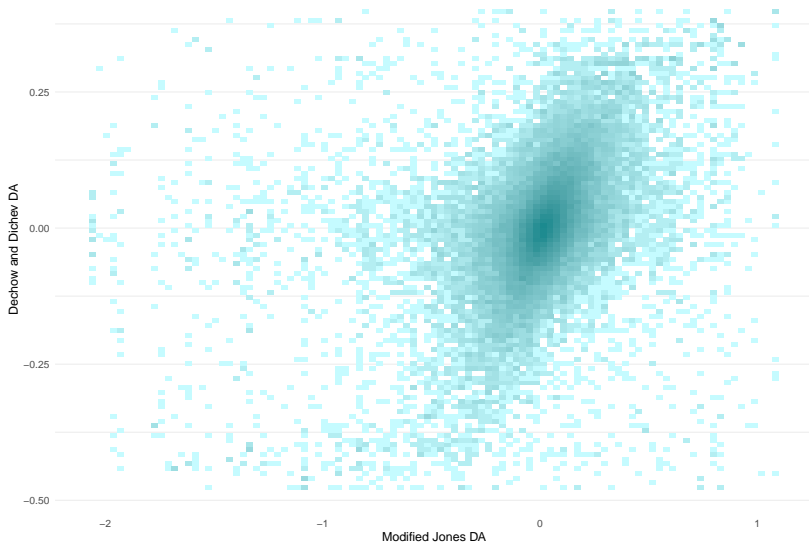
Distribution of Discretionary Accruals over time - unrestricted sample



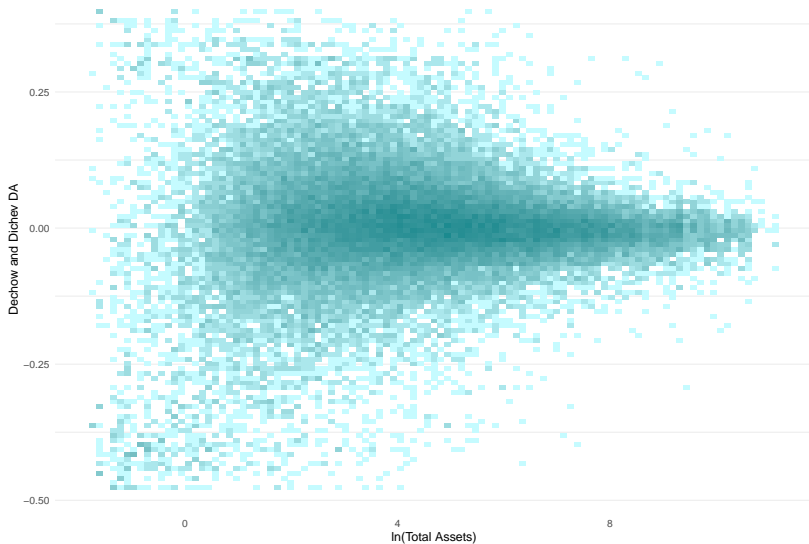
Distribution of Discretionary Accruals over time - analysis sample



Correlation of Modified Jones with Dechow and Dichev DA



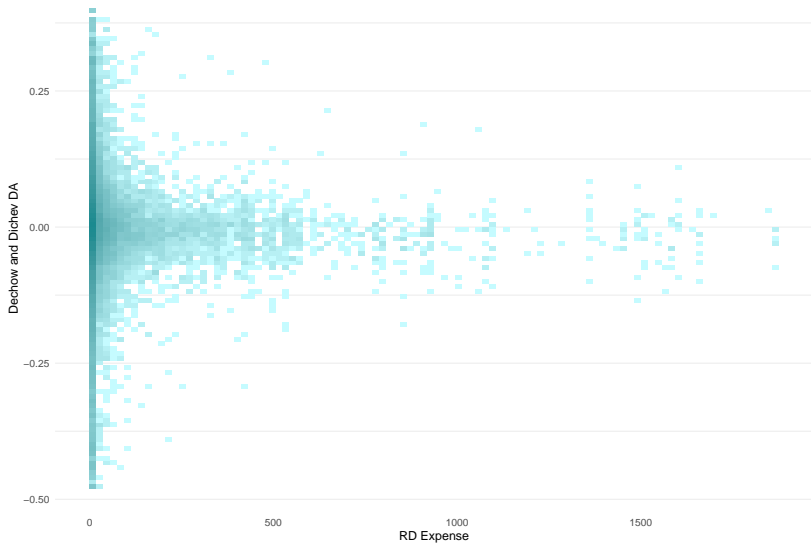
Association of Dechow and Dichev DA with firm size



Association of Dechow and Dichev DA with net income



Association of Dechow and Dichev DA with R&D expense



No presentation without correlation table...

	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	

... and regression table

	<i>Dependent variable:</i>	
	Modified Jones DA	Dechow and Dichev DA
	(1)	(2)
Ln(Total assets)	-0.005 (0.006)	0.013*** (0.001)
Market to book	0.001** (0.0002)	0.001*** (0.0001)
n_i	0.0001*** (0.00002)	0.00001*** (0.00000)
r_d	-0.0002*** (0.00005)	-0.0001*** (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

- 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](#).