



SFB/Transregio 266

ACCOUNTING FOR TRANSPARENCY

Exploring Discretionary Accruals

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TRR 266 Accounting for Transparency

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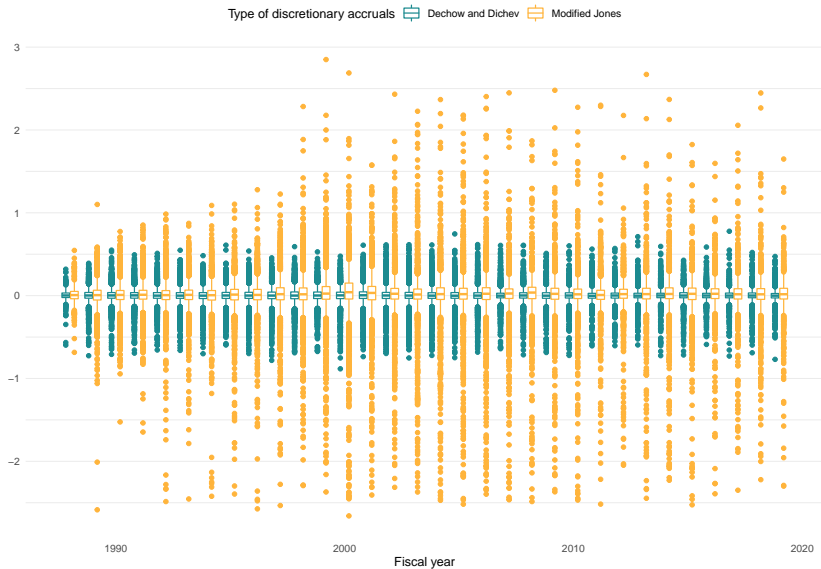
Motivation

- 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?

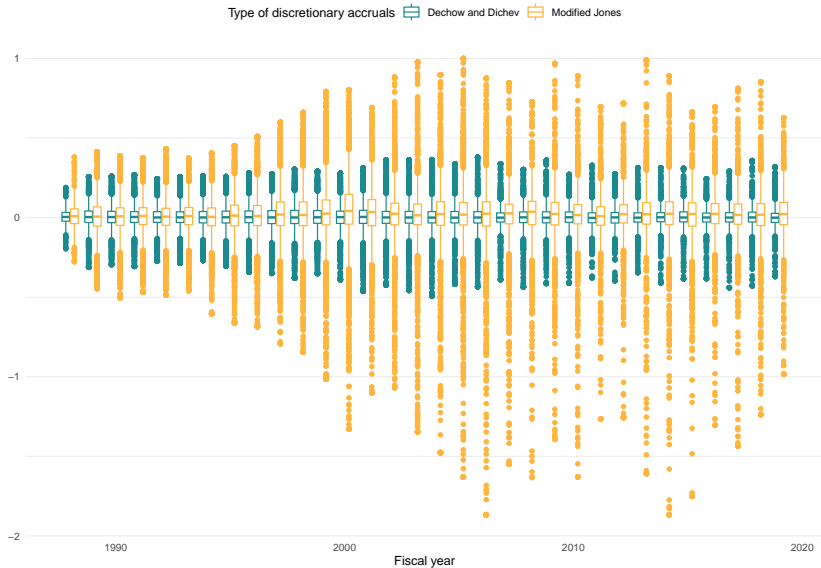
	N	Mean	Std. dev.	Min.	25 %	Median	75 %	Max.
Modified Jones DA	56,224	0.006	0.233	-1.868	-0.047	0.017	0.087	1.000
Dechow and Dichev DA	56,224	0.001	0.095	-0.491	-0.032	0.002	0.038	0.379
Ln(Total assets)	56,224	4.554	2.390	-1.972	2.864	4.453	6.191	11.743
Ln(Market capitalization)	56,224	4.537	2.410	-1.476	2.782	4.421	6.258	11.773
Market to book	56,224	2.769	8.016	-77.857	0.929	1.797	3.463	122.036
Return on assets	56,224	-0.121	0.618	-11.524	-0.101	0.042	0.088	0.893
Sales growth	56,224	1.013	0.456	-4.506	0.988	1.014	1.056	4.608

Note: The data is obtained from Compustat U.S. as provided by WRDS. The sample covers the period 1988 to 2019 and 8,781 unique firms.

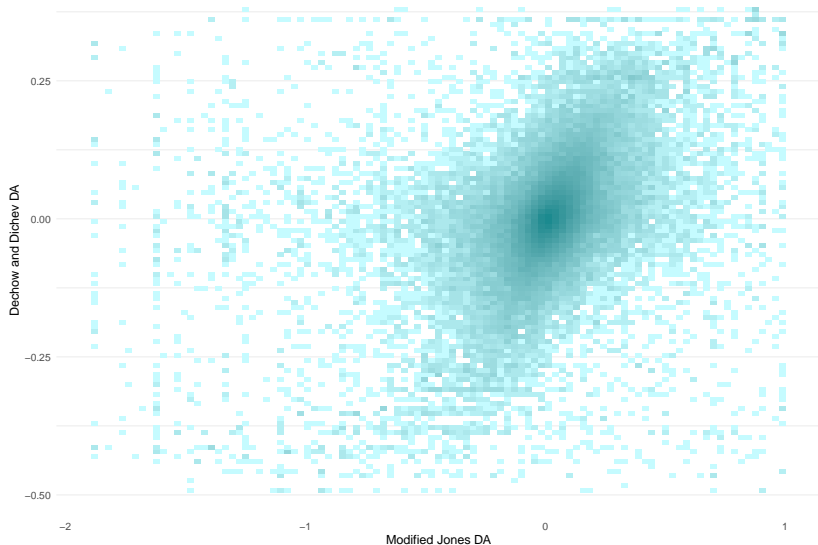
Distribution of Discretionary Accruals over time - unrestricted sample



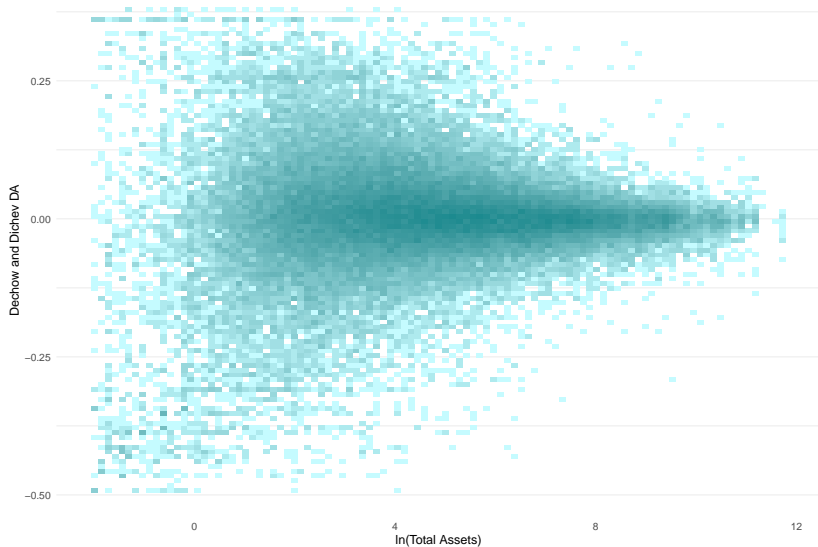
Distribution of Discretionary Accruals over time - analysis sample



Correlation of Modified Jones with Dechow and Dichev DA



Association of Dechow and Dichev DA with firm size



No presentation without correlation table...

	A	B	C	D	E	F	G
A: Modified Jones DA		0.38	0.04	0.01	0.02	0.44	0.04
B: Dechow and Dichev DA	0.43		0.06	0.09	0.07	0.22	0.07
C: Ln(Total assets)	-0.05	-0.01		0.88	0.02	0.39	0.05
D: Ln(Market capitalization)	-0.02	0.05	0.88		0.13	0.24	0.05
E: Market to book	0.07	0.13	0.13	0.41		0.06	0.01
F: Return on assets	0.28	0.19	0.38	0.36	0.19		0.08
G: Sales growth	0.10	0.22	0.00	0.10	0.21	0.21	

... and regression table

	Dependent variable:	
	Modified Jones DA	Dechow and Dichev DA
	(1)	(2)
Ln(Total assets)	-0.041*** (0.005)	0.003*** (0.001)
Market to book	0.00002 (0.0002)	0.001*** (0.0001)
Return on assets	0.244*** (0.024)	0.053*** (0.008)
Sales growth	0.009** (0.004)	0.011*** (0.002)
Estimator	ols	ols
Fixed effects	gvkey, fyear	gvkey, fyear
Std. errors clustered	gvkey, fyear	gvkey, fyear
Observations	56,224	56,224
R^2	0.197	0.063
Adjusted R^2	0.047	-0.112

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!