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KEY=OF - AVILA BOOTH

TOUGH-MINDED MANAGEMENT 1ST ED.

Pickle Partners Publishing In this book (originally published in 1963) author J. D. Batten, at the time himself the Chairman of the Board of a management consulting and human resources firm in Iowa, imparts sound advice and tips to aid managers and management in their important task of improving their effectiveness at all levels. “The excellence of the book lies in the basic information it has to give to the relatively new manager.”—Personnel Psychology “Must reading for anyone who thinks all management books are just a rehash of planning, organizing, staffing, controlling, etc....Especially recommended...”—NRHA Magazine “A totally fresh description of how to turn MBO into a ‘living system’....practical and highly motivational.”—Buffalo Law Journal “Many useful suggestions to offer the executive.”—West Coast Review of Books

EARNINGS QUALITY

Now Publishers Inc This review lays out a research perspective on earnings quality. We provide an overview of alternative definitions and measures of earnings quality and a discussion of research design choices encountered in earnings quality research. Throughout, we focus on a capital markets setting, as opposed, for example, to a contracting or stewardship setting. Our reason for this choice stems from the view that the capital market uses of accounting information are fundamental, in the sense of providing a basis for other uses, such as stewardship. Because resource allocations are ex ante decisions while contracting/stewardship assessments are ex post evaluations of outcomes, evidence on whether, how and to what degree earnings quality influences capital market resource allocation decisions is fundamental to understanding why and how accounting matters to investors and others, including those charged with stewardship responsibilities. Demonstrating a link between earnings quality and, for example, the costs of equity and debt capital implies a basic economic role in capital allocation decisions for accounting information; this role has only recently been documented in the accounting literature. We focus on how the precision of financial information in capturing one or more underlying valuation-relevant constructs affects the assessment and use of that information by capital market participants. We emphasize that the choice of constructs to be measured is typically contextual. Our main focus is on the precision of earnings, which we view as a summary indicator of the overall quality of financial reporting. Our intent in discussing research that evaluates the capital market effects of earnings quality is both to stimulate further research in this area and to encourage research on related topics, including, for example, the role of earnings quality in contracting and stewardship.

QUALITY OF EARNINGS

Simon and Schuster

EARNINGS QUALITY

Research Foundation of the Institute of Chartered Financial Analysts

EARNINGS QUALITY

DEFINITIONS, MEASURES, AND FINANCIAL REPORTING

Springer Nature This book provides an overview of earnings quality (EQ) in the context of financial reporting and offers suggestions for defining and measuring it. Although EQ has received increasing attention from investors, creditors, regulators, and researchers in different areas, there are various definitions of it and different approaches for its measurement. The book describes the relationship between EQ and earnings management (EM) since they can be considered related challenges, especially in the context of international financial reporting standards (IAS/IFRSs). EM occurs when managers make discretionary accounting choices that are regarded as either an efficient communication of private information to improve the informativeness of a firm's current and future performance, or a distorting disclosure to mislead the firm's true performance. The intentional manipulation of earnings by managers, within the limits allowed by the accounting standards, may alter the usefulness of financial reporting and lead to lower quality of earnings. The use of fair value in financial reporting has created a current debate about the impact it might have on EQ. At times, the high subjectivity in estimating fair value can allow opportunities for the exercise of management judgments and intentional bias, which can reduce the quality of financial reporting. Management discretion can result in high EM and hence in a reduction of EQ. Particularly during difficult financial periods, managers engage in EM to mask the negative effects of the turmoil, and in such circumstances accruals and earnings smoothing are attempts to reduce abnormal variations of earnings in such circumstances. This book is a valuable resource for those interested in wider perspectives on EQ and it adds to the research studies on this topic in the context of financial reporting.

VALUATION TECHNIQUES

DISCOUNTED CASH FLOW, EARNINGS QUALITY, MEASURES OF VALUE ADDED, AND REAL OPTIONS

John Wiley & Sons Analysis and insights from top thought leaders on a pivotal topic in investing and asset management Valuation is the cornerstone for investment analysis, and a thorough understanding and correct application of valuation methodologies are critical for long-term investing success. Edited by two leading valuation experts from CFA Institute, this book brings together the insights and expertise of some of the most astute and successful investment minds of the past 50 years. From Benjamin Graham, the "father of value investing," to Aswath Damodaran, you'll learn what these investment luminaries have to say about investment valuation techniques, including earnings and cash flow analysis. Features the best thinking on valuation from the industry's masters on the topic, supplemented with dozens of fascinating and instructive real-world examples Comprehensively discusses special valuation situations, such as real options, employee stock options, highly leveraged firms, corporate takeovers, and more Supplies you with the tools you need to successfully navigate and thrive in the ever-changing financial markets Is being produced with the full support and input of CFA Institute, the world's leading association of investment professionals

EARNINGS QUALITY AND EARNINGS MANAGEMENT

Rozenberg Publishers

LINE-ITEM ANALYSIS OF EARNINGS QUALITY

Now Publishers Inc Line-Item Analysis of Earnings Quality provides a comprehensive summary and analysis of the specific earnings quality issues pertaining to key line item components of the financial statements. After providing an overview of earnings quality and earnings management, Line-Item Analysis of Earnings Quality analyzes key line items from the financial statements. For each key line item, the authors: review accounting principles discuss implications for earnings quality evaluate the susceptibility of the item to manipulation describe analyses and red flags which may inform on the item's quality Line-Item Analysis of Earnings Quality will prove useful in conducting fundamental and contextual analyses through its analysis and evaluations"

ACCOUNTING CONSERVATISM, EARNINGS QUALITY, AND STOCKS MISPRICING

EARNINGS QUALITY

EVIDENCE FROM THE FIELD

The final working paper version: 'http://ssrn.com/abstract=2103384' http://ssrn.com/abstract=2103384.Presentation slides: "http://ssrn.com/abstract=2347428" http://ssrn.com/abstract=2347428.We provide insights into earnings quality from a survey of 169 CFOs of public companies and in-depth interviews of 12 CFOs and two standard setters. CFOs believe that (i) above all, high-quality earnings are sustainable and repeatable; specific characteristics include consistent reporting choices, backing by actual cash flows, and absence of one-time items and long-term estimates; (ii) about 50% of earnings quality is driven by non-discretionary factors such as industry and macro-economic conditions; (iii) in any given period, about 20% of firms manage earnings to misrepresent economic performance, and for such firms 10% of EPS is typically managed; (iv) earnings manipulation is hard to unravel from the outside but peer comparisons and lack of correspondence between earnings and cash flows provide helpful red flags. In addition, CFOs disagree with current standard setting on a number of issues including the sheer number of promulgated rules, the top-down approach to rule-making, the neglect of the matching principle, and the emphasis on fair value accounting. They indicate that a rules-based culture makes the audit function centralized and mechanical, and hinders the development of audit professionals. A summary impression from our work is that CFOs view earnings quality as more of a single and unconditional characteristic, in contrast to current research where measures of earnings quality are strongly conditional on the decision setting. This CFO view is related to their idea of “one number” - a single earnings metric that shapes both their interactions with external stakeholders and internal decision-making.

EARNINGS MANAGEMENT, CONSERVATISM, AND EARNINGS QUALITY

Now Pub This monograph reviews earnings management, conservatism, and their effects on earnings quality in an economic modeling framework. Both earnings management and conservative accounting introduce biases to financial reports. The fundamental issue addressed is what economic effects these biases have on earnings quality or financial reporting quality.

THE EFFECT OF EARNINGS QUALITY AND INTERNAL RESOURCE ON THE RELATIONSHIP BETWEEN TAX AVOIDANCE AND FIRM LEVEL INVESTMENT

GRIN Verlag Master's Thesis from the year 2019 in the subject Business economics - Investment and Finance, , language: English, abstract: The perception that corporate tax avoidance represents a shift of value from the government tax authority to shareholders has been questioned by recent studies that finds this perception to not be legitimate in the data. In this study, I point out the evidence of the positive relationship between tax avoidance and firm level investment so that to provide an evidence of the managers’ behavior of using savings from tax avoidance to fund firms’ investment activities. Furthermore, this study, examine the effect of earnings quality and internal resource on the relationship between tax avoidance and firm level investment. I collected data of 3085 firms from the KisValue database with accounting data for companies listed on the Korea Stock Exchange (KOSPI) from 2012 to 2017, to test the effect of earnings quality and internal resource on the relationship between tax avoidance and firm level investment. I start with year 2012 because in 2012, International Financial Reporting Standards (IFRS) adoption becomes compulsory to all listed companies in Korea. In contrast from previous research, this study looks at the relationship of tax avoidance and firm level investment from a different perspective by focusing on the effect of earnings quality and internal resource on this relationship. The evidence of this study suggests that tax avoidance is positively associated with firm level investment. In other words, when firms increase tax avoidance, the firm level investment also increases. Adding to Dobbins and Jacob (2016) and Axel and Joachim (2017) research that found lowered tax rates, induce higher investments. This study also finds the evidence that the relationship between tax avoidance and firm level investment depends on the availability of internal resource and the level of earnings quality. The relationship between tax avoidance and firm level investment is negative when the firm has greater internal resource and better earnings quality. These results suggesting that; firms with the presence of greater internal resource (i.e. internally generated cash flow) tend to rely less on tax avoidance to fund their investment than those firms with low internal resource. Similarly, firms with better earnings quality tend to rely less on tax avoidance to finance their investment than firms with poor earnings quality.

CAPITAL MARKET IMPLICATIONS OF EARNINGS QUALITY

BoD – Books on Demand In his speech from 1998 the former chairman of the United States Securities and Exchange Commission (SEC) Arthur Levitt pointed out that trust "is the bedrock of our capital markets" and that this must not be shaken by the erosion of earnings quality. He made clear that it is the challenge of the whole financial community to counteract such a development. This thesis deals with the question whether the importance of earnings for the capital market varies with its quality. The question arises, because in recent years a large number of firm scandals has shaken the trust in the reliability of reported earnings. In order to properly address the research questions, the literature on earnings quality definitions, quality measures as well as implications of earnings quality on capital markets is reviewed and critically discussed. The author investigates whether well known results concerning capital market implications of earnings quality remain stable for all measures considered. She answers the question of how earnings quality affects firm value, cost of equity capital, and the accuracy of analysts' forecasts taking into account the effects of determinants of earnings quality.

EARNINGS QUALITY AND SHORT SELLERS

A key measure of earnings quality is the deviation of net income from operating cash flows. Sloan (1996) finds that firms with high accruals (or a large gap between net income and operating cash flow) experience a decline in earnings performance not anticipated by investors, resulting in predictable future returns. In this paper, I examine whether investors short sell securities with high accruals. Such a strategy is able to directly profit from the predictable lower future returns. Using a sample of U.S traded firms from 1990-1998, I do not find evidence that short sellers trade on the basis of information contained in accruals.

ESSAYS ON THE EFFECTS OF VARIATION IN EARNINGS QUALITY ON THE COAST OF EQUITY CAPITAL

OCCUPATIONAL OUTLOOK HANDBOOK

A GUIDE TO EARNINGS QUALITY

This teaching guide is based on a comprehensive survey as well as in-depth interviews of Chief Financial Officers (CFOs). We ask the CFOs about the definition and drivers of earnings quality, with a special emphasis on the prevalence and detection of earnings misrepresentation. CFOs believe that the hallmarks of earnings quality are sustainability, absence of one-time items, and backing by actual cash flows. Earnings quality is determined in about equal measure by controllable factors like internal controls and corporate governance, and non-controllable factors like industry membership and macroeconomic conditions. On earnings misrepresentation, CFOs believe that in any given period a remarkable 20% of firms intentionally distort earnings, even though they are adhering to generally accepted accounting principles. The economic magnitude of the misrepresentation is large, averaging about 10% of reported earnings. While most misrepresentation involves earnings overstatement, interestingly, one third of the firms that are misrepresenting performance are low-balling their earnings or reversing a prior intentional overstatement. Finally, CFOs provide a list of red flags that can be used to detect earnings misrepresentation.Detailed tables and references are available at "http://ssrn.com/abstract=2103384" http://ssrn.com/abstract=2103384.

CASES IN FINANCIAL REPORTING

AN INTEGRATED APPROACH WITH AN EMPHASIS ON EARNINGS QUALITY AND PERSISTENCE

A collection financial accounting cases designed to help readers become financial statement users. Each case utilizes financial statement information (balance sheet, income statement, statement of cash flow and/or footnotes) and a number of topical questions. Financial statement information is used to infer and interpret the economic events underlying the numbers.

BUSINESS RATIOS GUIDEBOOK

SECOND EDITION

Ratios and other measurements play a valuable role in analyzing business information. A system of measurements can also be used to monitor and control operations. The Business Ratios Guidebook is full of ratios and other measurements that can assist in these interpretation and control tasks. General topics include measurements for performance, liquidity, cash flow, return on investment, and share performance. More specific functional analysis topics include measurements for such areas as cash management, credit and collections, fixed assets, inventory, and product design.

AN INVESTIGATION OF THE ASSOCIATION BETWEEN GOVERNANCE QUALITY AND ACCRUAL-BASED EARNINGS QUALITY

CARVE-OUT EARNINGS QUALITY IN CORPORATE SPINOFFS

This study examines earnings quality in carve-out financial statements prepared in spinoffs. Using accruals, I provide evidence that carve-out earnings in spinoffs are of low quality relative to the earnings of control groups. Next, I find higher quality carve-out accruals among spinoffs of segments and cross-industry spinoffs, consistent with managers using the lack of transparency involved in carve-out financial reporting to opportunistically assign lower quality accruals to newly spun-off entities. I also find that the relations between carve-out earnings quality and its determinants are moderated by investor sophistication and internal monitoring, consistent with the unique, competing reporting incentives in spinoffs. Additional results indicate that the predictive ability of carve-out earnings for post-spinoff cash flows is decreasing in the magnitude of accruals, suggesting that reduced decision usefulness is a consequence of low carve-out earnings quality. Finally, I find that the disclosure of income-decreasing carve-out accruals is associated with negative abnormal stock returns, which suggests that investors detect and price the signals that carve-out accruals provide about firm value. Overall, my results shed light on the unique financial reporting incentives in spinoffs, and the determinants and consequences of carve-out earnings quality.

THE EFFECT OF EARNINGS QUALITY ON THE ASSOCIATION BETWEEN INFORMATION PRECISION AND THE COST OF EQUITY CAPITAL

Open Dissertation Press This dissertation, "The Effect of Earnings Quality on the Association Between Information Precision and the Cost of Equity Capital" by Jia, Zhu, □□, was obtained from The University of Hong Kong (Pokfulam, Hong Kong) and is being sold pursuant to Creative Commons: Attribution 3.0 Hong Kong License. The content of this dissertation has not been altered in any way. We have altered the formatting in order to facilitate the ease of printing and reading of the dissertation. All rights not granted by the above license are retained by the author. Abstract: Abstract of thesis entitled The Effect of Earnings Quality on the Association between Information Precision and the Cost of Equity Capital Submitted by Zhu Jia For the Degree of Master of Philosophy At the University of Hong Kong In March

2007 Abstract A growing volume of literature on the association between information and the cost of equity capital has investigated various firm-specific factors that may affect the relationship between public disclosure and the cost of equity capital. My empirical study adds to this literature by showing that the earnings quality of firms might also play a determining role in the association between public information precision and the cost of equity capital. The earnings quality indicator in this study is used to proxy the value-relevance of public disclosure and is included as a control variable in the regression of the cost of equity capital estimates on the information precision. I document that public information is in general negatively associated with the cost of equity capital. However, when the earnings quality of firms is deteriorating to certain extent, the cost of equity capital goes up in response to more precise public information. Moreover, I find that the public and private information precisions act as complements. On the other hand, I do not find an unambiguous association between private information precision and the cost of equity capital, nor any reliable evidence about the direct impact of the earnings quality indicator on the cost of equity capital. (No. of words: 201) DOI: 10.5353/th_b3879143 Subjects: Corporate profits Disclosure of information Capital costs

INTERNATIONAL FINANCIAL REPORTING STANDARDS AND NEW DIRECTIONS IN EARNINGS MANAGEMENT

IGI Global The fiscal market is an unpredictable torrent of information that modern organizations strive to understand. Business professionals dedicate themselves to understanding uncertain results around economic performance to improve management, reporting standards, and predict trends in financial statements. International Financial Reporting Standards and New Directions in Earnings Management is an essential reference source that discusses identifying the behavioral patterns of managers and the accounting policies they use in different opportunistic circumstances. Featuring research on topics such as earnings quality, risk reports, and investor protection, this book is ideal for regulatory authorities, accountants, impression managers, auditors, academics, students, and researchers seeking coverage on the theoretical, empirical, and experimental studies that relate to the different themes within earnings management.

THE EFFECT OF EARNINGS QUALITY ON ANALYST FORECAST ACCURACY, DISPERSION, AND OPTIMISM AND IMPLICATIONS FOR CEO COMPENSATION

Extant research indicates that earnings attributes are important considerations to corporate decision makers and users of accounting information (e.g., Francis et al., 2004). One such attribute is earnings quality; often measured as the magnitude of accruals that do not convert to cash in a timely manner, where a poor match of cash flows and accruals indicates low earnings quality (e.g., Dechow and Dichev, 2002). Such accruals could be used to manage earnings, a practice that aims to achieve a pre-determined level of earnings by using accounting techniques rather than actual firm performance. This study consists of two essays and examines the effect of earnings quality on two groups of financial statement users; specifically financial analysts and CEO compensation setters. The first essay investigates the impact of earnings quality on earnings forecast accuracy, forecast dispersion, and forecast optimism of individual financial analysts. The primary model employed for analyst forecast accuracy is consistent with Barniv et al. (2005), Clement (1999), and Jacob et al. (1999). Further reduced model of forecast accuracy based on variables used by Bae et al. (2008) is also used. The forecast dispersion model is based on that of Behn (2008), and forecast optimism is measured following Cowen et al. (2006). The findings show that when earnings quality is higher, analyst forecasts exhibit greater accuracy and lower optimism. Higher earnings quality has some impact on forecast dispersion; however the affect largely disappears when correcting for correlation within firm clusters. The second essay examines whether earnings quality plays a role in CEO compensation when corporate earnings satisfy (or fail to satisfy) the market's expectations. Specifically, Essay II examines CEO bonus as the measure of compensation used to reward the CEO for performance. Because such rewards are often accomplished with cash compensation, and because salary is usually set before the start of the year, the bonus portion of the CEO's total pay package is likely to be affected by earnings quality (Matsunaga and Park (2001). The results provide evidence that lower earnings quality is associated with higher CEO bonus compensation for firms that have satisfied market earnings expectations.

INTRODUCTION TO EARNINGS MANAGEMENT

Springer This book provides researchers and scholars with a comprehensive and up-to-date analysis of earnings management theory and literature. While it raises new questions for future research, the book can be also helpful to other parties who rely on financial reporting in making decisions like regulators, policy makers, shareholders, investors, and gatekeepers e.g., auditors and analysts. The book summarizes the existing literature and provides insight into new areas of research such as the differences between earnings management, fraud, earnings quality, impression management, and expectation management; the trade-off between earnings management activities; the special measures of earnings management; and the classification of earnings management motives based on a comprehensive theoretical framework.

EFFECTS OF IFRS ADOPTION ON EARNINGS QUALITY

EVIDENCE FROM CANADA

This paper examines the effects of the IFRS adoption on earnings quality of 1245 Canadian firms. I analyze the effects IFRS adoption on earnings persistence, earnings predictability, persistence of earnings components, cash flow predictability, accruals quality, value relevance, earnings smoothness, conservatism, and timeliness. I find that earnings quality of Canadian firms, on average, improves following the adoption and the improvements are mostly driven not by U.S. adopters but by IFRS adopters, suggesting that IFRS has a positive impact on earnings quality. Partitioning the sample, I find that firms with incentives for transparent reporting have stable earnings quality throughout the sample period whereas firms without such incentives show an improvement in earnings quality following the adoption. I also find that earnings quality declines to a greater degree for firms in extractive/high-litigation-risk industries relative to firms in non-extractive/low-litigation-risk industries. Further analyses reveal that (1) earnings quality seems to deteriorate for firms with intense reliance on fair value accounting after the adoption but not for firms with minimal reliance on fair value accounting, that (2) R&D intensive firms see some weak improvements in earnings quality following the adoption in comparison to non-R&D intensive firms, and that (3) IFRS adoption is associated with a greater improvement in earnings quality for loss firms than for profitable firms. Finally, the effects of IFRS seem unlikely to be uniform across different measures of earnings quality. Taken all together, the findings suggest that standard setters and researchers should probably not consider the effects of IFRS in isolation of firms' reporting incentives and that the SEC, that the Financial Accounting Standards Board's (FASB) concerns about the lack of implementation guidance in extractive and high-litigation-risk industries are warranted, and that fair value accounting is likely to be harmful to earnings quality.

THE QUALITY OF ACCRUALS AND EARNINGS - AND THE MARKET PRICING OF EARNINGS QUALITY

MEASURING EARNINGS QUALITY

EVIDENCE FROM NEW ZEALAND

We utilize two basic approaches to measure the quality of earnings which control two different dimensions of earnings management. The research design is structured primary on the basis of calculating two different measures of the quality of earnings on the industry level and on the company level. We calculate earnings quality for New Zealand public firms from the OSIRIS database for 2004-2007. This research concludes that various stakeholders should apply more than one measure for the quality of earning in order to have strong evidence about the level of quality before taking any corrective action or making any decision related to that company. If one company is having low quality of earning according to one technique and high quality of earnings according to another, the stakeholders cannot have a final conclusion about that company and they need more investigations and analysis to assess the quality of earnings.

USING THE FASB'S QUALITATIVE CHARACTERISTICS IN EARNINGS QUALITY MEASURES*

In this study, I develop a measure of earnings quality by using qualitative characteristics of financial statement information specified in the Statement of Financial Accounting Concepts (SFAC) No. 2 (FASB 1980). I derive a summary measure of earnings quality by applying factor analysis on fifteen variables representing different components of two primary dimensions of earnings quality: relevance and reliability. I then test the validity of the earnings quality construct by examining whether the construct reflects decision usefulness that is operationalized in two ways: value relevance and cost of capital analyses. I provide empirical evidence suggesting that the earnings quality construct reflects decision usefulness to investors, which is consistent with the FASB's assertion. Finally, I explore the relative desirability of each dimension in light of decision usefulness of earnings information, and find that investors, in general, prefer relevance to reliability dimension of earnings.

CORPORATE GOVERNANCE AND ITS IMPLICATIONS ON ACCOUNTING AND FINANCE

IGI Global After the global financial crisis, the topic of corporate governance has been gaining momentum in accounting and finance literature since it may influence firm and bank management in many countries. Corporate Governance and Its Implications on Accounting and Finance provides emerging research exploring the implications of a good corporate governance system after global financial crises. Corporate governance mechanisms may include board and audit committee characteristics, ownership structure, and internal and external auditing. This book is devoted to all topics dealing with corporate governance including corporate governance characteristics, board diversity, CSR, big data governance, bitcoin governance, IT governance, and governance disclosure, and is ideally designed for executives, BODs, financial analysts, government officials, researchers, policymakers, academicians, and students.

EFFECT OF ACCOUNTING-BASED AND MARKET-BASED PROPERTIES OF EARNINGS QUALITY ON SHARE PRICE OF LISTED MANUFACTURING FIRMS IN NIGERIA

Earnings quality has emerged as an issue of interest to investors, managers, analysts and other market participants in view of its association with share price and returns. This study investigated the effect of accounting and market based earnings quality properties on share price of listed manufacturing firms in Nigeria. Using some filters to arrive at an adjusted population of 20 out of 37 listed firms as at 31st December, 2013, panel data were extracted from the firms' annual financial statements based on census approach for the period 2009 - 2013 to examine the effect of earnings quality properties represented by accruals quality, income smoothing, earnings variability, timeliness of earnings and earnings conservativism on share price. The result of the robust Ordinary Least Square (OLS) revealed that accruals quality and timeliness of earnings have significant inverse relationship with share price, while earnings variability has significant positive relationship with share price. The study further revealed that income smoothing and earnings conservativism have negative but insignificant association with share price of the firms. Based on the result, the study recommended among others that the Security and Exchange Commission (SEC) should continually subject the earnings of manufacturing sector to quality tests to insulate the investing public from possible rip off. Also, management of manufacturing firms should avoid undue earnings management practice by limiting their choice of accounting treatment alternatives to the provision of IFRS in order to improve financial information quality that will reduce information asymmetry and consequently lead to share price improvement.

HOW SHOULD WE THINK ABOUT EARNINGS QUALITY? A DISCUSSION OF 'EARNINGS QUALITY

EVIDENCE FROM THE FIELD'

Dichev, Graham, Harvey and Rajgopal (DGHR 2013) survey CFOs to elicit their views on earnings quality, broader trends in financial reporting, and the prevalence of earnings management. They provide some interesting insights on these issues. We discuss how CFOs' incentives in the financial reporting process are likely to affect what we can learn from them about earnings quality. We also discuss how DGHR's methodological choices regarding survey sample and question design affect their inferences, including what we can infer about the prevalence and magnitude of earnings management.

EARNINGS QUALITY, ACCRUALS AND SUBJECTIVE GOODWILL ACCOUNTING

This paper analyses accounting accruals that may relate to earnings quality and its information content. The characteristics specifying earning quality are discussed according to research surveys of earnings quality. These are compared with the characteristics of accounting income specified by the concept of 'released from risks' in ASBJ (2006). In this context, the conversion process of subjective goodwill, which is related to the allocation problem in accounting income and its relation to earnings quality, is focussed upon. The allocation problem is examined by clarifying the conversion process of subjective goodwill, and by highlighting the portion of the allocation error that reflects managerial discretion.

DISCLOSURE LEVEL, EARNINGS QUALITY AND COST OF CAPITAL

DOES EARNINGS QUALITY AFFECT INFORMATION ASYMMETRY? EVIDENCE FROM TRADING COSTS

Information asymmetry in financial markets relates to the idea that one party to a transaction has better information than the other. Since financial reporting involves the transmission of value relevant enterprise information, we investigate whether the quality of reported earnings can contribute to differentially informed financial market participants. Higher information asymmetry is costly as it increases the adverse selection risk for market participants and lowers liquidity. For a large sample of NYSE and NASDAQ firms, we show that (i) poor earnings quality is significantly and incrementally associated with higher information asymmetry, (ii) earnings quality disproportionately affects information asymmetry for firms with poor information environments, (iii) both innate and discretionary components of earnings quality increase information asymmetry, and (iv) poor earnings quality exacerbates the information asymmetry around earnings announcements. Our results suggest that the standard setters' efforts to develop accounting standards that improve earnings quality should contribute to a better information environment for market participants and increase stock liquidity.

EARNINGS MANAGEMENT, CONSERVATISM, AND EARNINGS QUALITY

This monograph reviews economic models that study earnings management and conservatism in an information economics framework. Both introduce a deliberate or a mandatory bias in financial reports. The fundamental issue this monograph addresses is what economic effects these biases have on earnings quality. We focus on models of managers in firms interacting with rational capital market participants, and briefly consider some contracting models. The models allow us to analyze earnings management and rational inferences by market participants in equilibrium in a variety of settings and to pinpoint costs and benefits of earnings management. We discuss how investors can elicit the maximum information from the biased reports and what potential remedies actually achieve in equilibrium. For example, accounting standards that reduce discretion for earnings management may be detrimental from a welfare point of view. In rational expectations models earnings quality can be defined as the information content in reported earnings. We discuss the earnings response coefficient, value relevance, and accounting-based earnings quality measures and how they reflect changes in earnings quality. Further, we review analytical work on conservatism of accounting standards and why conservatism can be welfare-enhancing even though it introduces a bias in the earnings reports. It is exactly through this bias that the benefit arises. Therefore, a differentiated view of earnings management and conservatism is warranted; neither is principally desirable or undesirable, but this depends on the circumstances. The benefit of equilibrium models is that they offer a rigorous explanation for the phenomena and show that sometimes conventional wisdom does not apply. There exist subtle interactions between accounting standards, the institutional environment, and earnings management that lead to several insights that challenge conventional wisdom. The models describe the economics behind these results and the particular circumstances.

IT'S EARNINGS THAT COUNT

McGraw Hill Professional An innovative way to see through a company's published numbers to discover its true investment potential This book gives you a blueprint for finding a great growth stock for the next decade without taking on a lot of risk in the process. Inspired by the writings of Benjamin Graham, It's Earnings That Count examines a firm’s earnings quality from the perspective of a “defensive” investor who wants to avoid committing ruinous mistakes as well as the “enterprising” investor who seeks Wall Street’s next great opportunities. Unfortunately, as recent market history has shown, the traditional income statement is ill-suited to meeting the needs of these sometimes opposing viewpoints. As a result, investors can buy shares of a seemingly profitable company that, in fact, has poor earnings quality. However, the author’s trademarked Earnings Power Chart combines Graham’s two personalities to reveal, in picture form, whether a company possesses authentic earnings power for long-term growth. Using the world-famous William Wrigley Jr. Company gum-maker as a case study, you will learn how to build these two alternate profit-and-loss statements to protect yourself. Since this book is written in plain English, you do not need to be an MBA or accountant to follow these step-by-step instructions. Giving investors the tools they need to turn the tables in their favor, It's Earnings That Count covers: The four limitations of the income statement found in every annual report, 10-K, and 10-Q A quick-hitting, five minute test to sift out the obvious losers so you can save time and focus on analyzing potential winners How to spot when a company is forging an Earnings Power Staircase—that’s your hallmark of a low-risk growth stock like Microsoft and Paychex Why the charts of Lucent Technologies, WorldCom, Enron, and Tyco signaled trouble ahead of traditional income statement. The 2 earnings power ratios you need before making your next investment 12 ways to check whether management’s interests are aligned with yours A list of 15 items to check for to make sure the companies in your stock portfolio have a competitive advantage. (Hint: Great growth stocks always have competitive advantages.) 16 kinds of companies to avoid 20 indicators that it may be time to sell

THE DEVELOPMENT OF EARNINGS QUALITY IN GERMANY AND ITS IMPLICATION FOR FURTHER RESEARCH

This paper investigates the development of earnings quality for a sample of 5,817 firm years during the period between 1997 and 2006 using seven different measures (accounting- and market-based). As a result, overall earnings quality of German firms improves over time. However, the measures of timeliness and value relevance indicate a decreasing earnings quality. These findings are tested by taking firm-specific accounting style into consideration using firm fixed effects.

INVESTMENT IN CHINA AND EARNINGS QUALITY

EARNINGS QUALITY, PROFIT AT RISK, CONSERVATISM, EARNINGS MANAGEMENT, OBJECTIVITY AND WHY ACCOUNTING ALLOCATIONS MATTER

A STATISTICAL PERSPECTIVE

Earnings quality, conservative accounting and earnings management, are interpreted in a variety of ways in theory and empirical research in the accounting literature. Little attention is paid, in defining these concepts, to the accounting measurement procedures that generate accounting numbers or to how they reflect the underlying economic fundamentals of firm activities. This paper focuses on the statistical properties imparted to accounting earnings by accounting measurement practices. Accuracy, objectivity and impartiality in making accounting allocations and honesty and timeliness in correcting errors determine the level of earnings quality and the extent of earnings management. Conservatism is seen as a concept that relates to the risk in profit, rather than to its return element. Statistically, greater precision in accounting allocations leads to greater quality of earnings as a naturally conservative estimate of profit. Inaccurate, subjective or dishonest capitalization of expenditure is the main threat to conservatism and the quality of earnings. Formulae necessary to construct confidence intervals for reported earnings are provided.