Abstract:

We examine whether firms with complex accounting are more likely to meet or beat analysts’ earnings expectations. We proxy for accounting complexity using the firm’s industry and year adjusted accounting policy disclosure length. Our results suggest that firms with complex accounting are more likely to just beat expectations than just miss expectations (i.e., they can meet expectations at the margin), but are not more likely to beat expectations overall. Positive abnormal accruals do not explain the increased propensity to meet expectations at the margin for complex firms. However, there is evidence of complex firms using expectations management. These results suggest managers take advantage of accounting complexity to meet analyst expectations in limited circumstances.

Keywords: accounting policies, disclosure, analyst expectations, earnings management, expectations management
JEL classification: D82, G12, M41

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