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DISRUPTING CONSISTENCY IN ACCOUNTING

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ABSTRACT

I show that the issuance of a new accounting standard disrupts the cycle of consistency within accounting organizations, leading to improved accounting information. For the recent FASB Revenue Recognition and Leases standards, I show they lead to more error disclosures and more updates to legacy policies within the standards' topic areas before the accounting standard change is implemented. I do not find a difference in the effects between firms more or less affected by a standard, consistent with the standards being broadly disruptive for all firms. However, I do find stronger effects for more decentralized firms following the Leases standard, implying a mechanism of the disruption: a centralized standard implementation effort that unifies historically dispersed accounting practices. I further demonstrate that the policy updates identified following the disruption result in improvements to accounting information. My results show that accounting standard-setting activity affects financial reporting processes and outcomes even prior to the adoption of the standard in a way that is distinct from the effects of the actual changes in accounting guidance.

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CHAPTER 1

INTRODUCTION

Organizations are subject to high levels of structural inertia: the tendency to resist changes to existing routines. This inertia can exist for a variety of reasons, including resource constraints within organizations, limited attention of individuals, and individual behavioral biases favoring the “status quo” (Gilbert (2005), Longman et al. (2014), Hannan and Freeman (1984)). Structural inertia is further heightened within accounting organizations because of existing accounting and auditing rules mandating consistency. Consistency is a foundational value in accounting: it facilitates comparability in financial reports and establishes an efficient framework for performing accounting work (FASB (2018)). However, consistency brings with it the inseparable drawback of inertia, which can result in carrying forward errors and resisting improvements in accounting practices. In this paper, I examine how disruptions to consistency in accounting allow firms to overcome these inertial forces and make changes to financial reporting processes.

Inertia in accounting organizations shapes firms’ incentives by making self-identified changes to accounting policies and procedures (henceforth, “accounting changes”) costly in a variety of ways (Watts and Zimmerman (1978)). For example, changing an accounting practice imposes several costs on a firm: training employees; updating accounting policy manuals and documentation; updating internal controls; renegotiating contracts that make use of accounting measures; and explaining and justifying changes to shareholders, auditors, and regulators (Christensen and Nikolaev (2013)). These fixed costs reduce the incentives for accounting organizations to identify areas in need of change and enact those changes once they are identified. As a result, firms are incentivized to maintain their existing accounting practices and resist changes.

What can disrupt the inertia that prevails in accounting? I examine two recently issued FASB accounting standards, the Revenue Recognition standard and the Leases standard, as

disruptors to inertial forces. Accounting standards serve as an ideal setting to study this phenomenon for several reasons. First, unlike other disruptive events, such as executive or auditor turnover, which are self-selected by firms, a regulator can impose a disruption on firms in the form of an accounting standard change. Second, a new standard has broad reach, affecting all firms that use U.S. Generally Accepted Accounting Principles (GAAP), unlike firm-specific or industry-specific disruptions. Third, the issuances of the two standards in my study are plausibly exogenous. The FASB deliberated each standard for approximately a decade, and the significant forthcoming changes in accounting guidance were known prior to issuance as a result of the FASB's transparent deliberation process. Finally, a new accounting standard is a disruption specific to the accounting function. This allows me to assess how a disruption to the accounting system affects the outputs of that system (e.g., financial reporting), unlike other types of events, such as COVID-19 or natural disasters, which are generally disruptive and are not specific to accounting.

A new standard increases the likelihood both that firms identify the need for an accounting change and that they enact the change. In terms of identification of changes, firms' significant implementation efforts (including hiring new employees and investing in information systems) result in learning (Shroff (2017), Enache et al. (2022), Roh (2023), Gelsomin (2022)). This learning includes gathering new information and reassessing prior conclusions, which can result in identifying the need for an accounting change. In terms of enacting changes, the incremental fixed cost of enacting an accounting change is lower when bundled with an already high fixed cost of compliance with the new standard that has been imposed on the firm (Christensen and Nikolaev (2013)). Therefore, I hypothesize that, as a result of revised incentives following the issuance of a new standard, firms are more likely to disrupt the inertia of their accounting practices by identifying and enacting accounting changes.

I test my main hypothesis by examining the frequency of accounting changes made during the implementation periods for the FASB Revenue Recognition and Leases standards. I

focus on accounting changes that are separate from the changes made for compliance with the new standard, since the standards do not require firms to reassess prior accounting choices or search for historical errors. I identify two kinds of accounting changes using public disclosures: 1) disclosures of errors (restatements, out-of-period adjustments, and material weaknesses in internal controls) and 2) updates to legacy policies (changes in accounting estimates, changes in accounting principles, and impairments).

My main hypothesis is not without tension. I examine implementation periods following the issuance of a standard when firms are aware that the accounting guidance will change significantly in several years and may not have incentives to make any further proactive changes prior to standard adoption. Further, if firms wanted to conceal any disclosures of errors or updates to legacy policies, bundling these changes with the adoption period disclosures could be optimal. However, my period of study excludes the post-adoption period; therefore, such concealment would work against me. Lastly, the main provisions of both the Revenue Recognition and Leases standards were known well in advance of each standard's respective issuance, meaning firms could have begun implementation prior to issuance, which would be reflected in my chosen pre-period. It is therefore an empirical question whether firms disclose more accounting changes during standard implementation periods.

Because the two standards in my study disrupted all firms, I rely on a within-firm design to test my main hypothesis. I compare accounting topic areas within a firm that are “directly affected,” “adjacently affected,” and “unaffected” by the issuance of each standard. The issuance of a new accounting standard is generally topic-specific, meaning it changes the accounting rules around a specific topic and set of transactions. I consider those topics specifically addressed in the standard to be directly disrupted (e.g., revenue recognition, leases). However, accounting topics do not exist in silos. There are certain connections between topics that are well-established in accounting. I use these ties to identify topics adjacently affected by each accounting standard (e.g., inventories for the Revenue Recognition

standard, fixed assets for the Leases standard) to examine spillover effects. Finally, I use less-related accounting topics as a control group in my study, as they are not disrupted by the issuance of either standard.

I first show descriptive evidence that, while accounting changes are relatively infrequent events, they are made at least once by most firms during my sample periods. Approximately 80% of firms in my sample enact a change in at least one fiscal quarter, and a change occurs in approximately 12% of fiscal quarters in my sample. These results are in line with consistency as the predominant practice for accounting organizations.

I next test my main hypothesis and find that firms are more likely to make accounting changes in topic areas directly affected by a new accounting standard, as compared to accounting changes in topic areas unaffected by the standard. I find evidence of this effect for both the Revenue Recognition and Leases standards and for both types of accounting changes (disclosures of errors and updates to legacy policies). I find evidence of a positive spillover effect for topics adjacently related to a standard, though there is also some evidence of negative spillover effects (e.g., a reduction in effort spent on topics unaffected by a standard).

Next, I consider whether each type of accounting change made during the implementation periods resulted in improved accounting information. When a firm discloses an error, this disclosure provides users of financial statements with improved information through the correction of previously misstated financial information. Further, prior work has shown that disclosures of errors (including immaterial errors) serve as a signal of underlying accounting deficiencies (Choudhary et al. (2021)). Therefore, the observed increase in error disclosures during the implementation periods provides useful information to users of financial statements.

For the observed increase in legacy policy updates, its effect on accounting information is not as clear. These updates may result in accounting that better represents the economics of

transactions, which would lead to more informative accounting earnings. However, it is also possible that firms opportunistically change policies to boost short-term earnings or take a “big bath.” I test this empirically and find evidence of higher earnings response coefficients (ERCs) following an update to legacy policies during the standard implementation periods. However, I do not find significant effects for analyst or management guidance forecast accuracy. These findings imply that the interruptions in accounting practices following the disruption of the two standards may result in more informative measures of earnings for market participants.

Finally, I try to infer the mechanism of the disruption created by the two accounting standards by conducting cross-sectional tests across firms. A new accounting standard may be more disruptive to those firms for which the accounting guidance has changed more significantly, making implementation more time-consuming and costly (i.e., the fixed cost of compliance is lower than the variable cost). However, I do not find a significant difference in effect between firms that were more or less affected by either standard. This indicates that the fixed cost of compliance is high and applicable to all firms.

I next try to understand if the disruptive effect differs between the two standards I study based on the financial reporting incentives created by each standard. Firms generally implement new accounting standards in a centralized manner with oversight at the Chief Financial Officer (CFO) level (EY (2021)). Whether this centralization is a bigger disruption depends on the historical level of centralization in firms’ practices. While some firms may have had historically centralized oversight over certain leases (e.g., real estate or finance leases), most operating leases were managed and overseen at the local level (Tysiac (2017b)). Firms, on the other hand, have already had incentives to analyze and oversee revenue centrally, given executives’ and analysts’ focus on top-line growth and the existence of revenue metrics in executive compensation contracts (Lorenz and Homburg (2018), Dichev et al. (2013)). I therefore expect the disruption of the Leases standard to have a larger effect on more

decentralized firms. I find evidence consistent with this hypothesis—specifically, that the disruptive effect is larger for more decentralized firms following the Leases standard, but not the Revenue Recognition standard.

My paper contributes to the literature on managerial learning and the acquisition of information during the implementation of new accounting standards by specifically considering learning by accountants. Much of the prior work in this area looks at the effects of new accounting standards on the operational decisions of firms. For example, Shroff (2017) finds effects on corporate investment following the adoption of new accounting standards, Cheng et al. (2018) finds an improvement in management forecast accuracy following SFAS 142, and Chatterjee (2021), Ma and Thomas (2023), and Christensen et al. (2023) look at corporate investment, operating profitability, and changes in the use of operating leases following the issuance of the new Leases standard. However, these previous studies overlook a more immediate link between a new accounting standard and the specific system or function it directly disrupts—financial reporting. My results speak to how a new accounting standard affects accountants’ actual practice and how a disruption to accounting consistency can affect financial reporting processes and outcomes prior to the mandated change taking effect.

My paper also contributes to the burgeoning literature on the costs and benefits of new accounting standards by providing evidence of ancillary and, likely unintended, effects of new standards. Prior work in this area focuses on the costs associated with adopting new accounting standards, including increased labor costs (Enache et al. (2022), Roh (2023)) and investments in information systems (Gelsomin (2022)). My paper shows that the issuance of a new standard is a positive disruption to topic areas related to the standard, although there is also some evidence of a negative disruption to topics unrelated to the standard (e.g., more attention is paid to affected areas during standard implementation, but this takes away from efforts and resources for other areas). Thus, my study introduces additional considerations for accounting standard-setters to deliberate in their cost-benefit analyses.

My paper is also one of the first to consider and discuss both positive and negative spillover effects of new accounting standards on untargeted, but related accounting topic areas. Christensen et al. (2024) model a positive spillover effect theoretically and show empirical results consistent with this theory. My paper is consistent with their concept, while focusing on the implementation periods of standards as opposed to the post-implementation period. Furthermore, I show novel results on negative spillover effects indicating that firms may focus on one accounting area at the cost of another.

My paper further contributes to the literature on inertia in management accounting, which qualitatively discusses management accounting practices as routine-based, recurrent, and subject to inertia, as well as describes the forces that can lead to changes in these practices (Burns and Scapens (2000), van der Steen (2009), Quinn (2011)). To the best of my knowledge, my paper is the first to use empirical evidence to study these concepts in a financial reporting context, demonstrating how a new accounting standard can act as a disruptive event, overcoming the inertia in accounting practices.

Finally, my paper also contributes methodologically to studies that evaluate the effects of new accounting standards. By demonstrating that a disruption to accounting processes occurs *prior* to a new standard taking effect, I show that it is important for researchers to carefully consider standard implementation periods in their work. For example, prior research has often included standard implementation periods as part of the pre-period in comparing effects before and after the adoption of a new standard. Because disruptive effects of an accounting standard occur prior to a standard's adoption, it is important to consider how the inclusion of a standard implementation period as part of a comparative pre-period may affect any identified empirical results.

CHAPTER 2

INSTITUTIONAL BACKGROUND

2.1 Consistency and Inertia in Accounting

Structural inertia, a concept derived from sociology, exists broadly across organizations in a multitude of settings and for a variety of reasons. For example, Colombo and Delmastro (2002) find that sunk costs and organizational politics contribute to firms' resistance to enacting organizational change. Polites and Karahanna (2012) find that organizations do not adopt new technological systems due to perceived transition costs and the creation of habits or routines around the legacy systems. It is natural to assume that accounting organizations are also subject to these inertial forces. In fact, structural inertia within accounting organizations is likely exacerbated because financial reporting and auditing rules mandate that firms be consistent in their accounting policies and practices.

Consistency has historically been and continues to be an important principle in accounting. As early as 1932, accounting regulators and practitioners understood the importance of consistency, as shown in a report issued by the American Institute of Accountants that posited the following: “... it is relatively unimportant to the investor what precise rules of conventions are adopted by a corporation in reporting its earnings if he knows what method is being followed and is assured that it is followed *consistently* from year to year” (emphasis added).¹ The FASB, the IASB, and the Public Company Accounting Oversight Board (PCAOB) all require firms to maintain consistency in accounting policies. For example, the FASB conceptual framework describes consistency as “the use of the same methods for the same items, either from period to period within a reporting entity or in a single period

1. Source: Audits of Corporate Accounts: Correspondence between the Special Committee on Cooperation with Stock Exchanges of the American Institute of Accountants and the Committee on Stock List of the New York Stock Exchange, 1932-1934. 1934. New York: American Institute of Accountants. I am grateful to Jing Wang, who included this source in her 2018 dissertation, *Essays on Accounting Consistency* (Wang (2018)).

across entities ... help[ing] to achieve [the] goal [of comparability]” (FASB (2018)). The PCAOB requires auditors to evaluate the consistency of clients’ financial statements with a specific focus on changes in accounting principles and adjustments to correct misstatements in previously issued financial statements (PCAOB (2008)).

Consistency is not only mandated by accounting and auditing rules, but it is also deeply ingrained in the practice of accounting. Consistency can be a cost-effective and efficient way of performing accounting work. For example, it is more efficient for publicly traded firms that produce financial statements each quarter to rely on prior work than to “recreate the wheel” by starting over each period. As a result, “status quo” approaches are the default in accounting and auditing (Havens (2017)). “SALY” (Same as Last Year) is a phrase popular in public accounting, where it is common practice for auditors to use the prior period’s audit plan or working papers as the starting point for the current period (Bedard (1989), Mock and Wright (1999)). Within firms’ financial reporting functions, consistency is also the norm. Accountants maintain accounting policy manuals that are rarely updated, perform a rollforward of prior memoranda and working papers, and begin with the prior year’s financial statements as a baseline for the current year’s reports (Tysiac (2017a)). The repeated nature of the work is apparent; for example, Cohen et al. (2020) document that the average within-firm textual similarity of quarterly and annual financial reports is quite high (cosine similarity of approximately 0.87).

While consistency is fundamental to accounting, it can be accompanied by adverse effects: inertia and complacency. For example, psychological research has documented an increased error rate when subjects relied on a default answer when making judgments (Fleming et al. (2010)). More specifically to accounting, Bonner et al. (2018) find that auditors using pre-populated workpapers are less accurate in assessing risks than those using blank workpapers. Because these default approaches result in individuals making more errors, it is feasible that a disruption to these inertial forces would be beneficial. In fact, Bonner et al. (2018) pro-

pose that there is a “critical need for an intervention.” My paper focuses on new accounting standards as one such intervention. In the next section, I discuss the specific standards I leverage in my study.

2.2 Revenue Recognition and Leases Standards

The two standards I leverage in my paper, the Revenue Recognition standard and the Leases standard, are two of the most significant changes to accounting in the past few decades (Newell (2019)). The Revenue Recognition standard, issued in May 2014, represented a shift from rules-based to principles-based accounting standards. Prior revenue recognition guidance was more prescriptive and had specific guidance for selected industries, including software, contractors, and airlines. The new standard includes a single framework that is applicable to all firms across all industries.

Firms’ revenue recognition implementation efforts were significant and included detailed contract review, drafting of technical white papers, implementation of new internal controls, collecting information for new disclosure requirements, and updates to information systems (Deloitte (2017)). This increased focus on revenue recognition likely resulted in learning by accountants, who, in addition to learning about the new standard, also evaluated a firm’s historical revenue recognition practices and better understood a firm’s revenue-generating process.

The new Leases standard, issued in February 2016, was intended to address a concern that significant noncancelable lease obligations (valued at approximately \$1.25 trillion) were not recognized on firms’ balance sheets (SEC (2005)). The legacy guidance required only the disclosure of a firm’s operating lease commitments for each of the five years subsequent to the year of an annual report, as well as an aggregate amount thereafter. The new standard now requires lessee firms to capitalize operating lease obligations and right-of-use assets on the balance sheet based on the present value of future cash outflows.

This standard represented a significant change for firms. Because the accounting changed from disclosure-only to financial-statement-recognition requirements, this increased the importance of identifying all relevant leases (including embedded leases, which are leases contained within other contracts, such as supply contracts) and properly accounting for them (Plante Moran (2022)). Firm implementation efforts included identifying all leases, collecting information for new disclosure requirements, and adopting new information systems to facilitate financial reporting for leases (Shumsky (2016)). These efforts also spurred learning by accountants through the focus on a firm’s complete lease portfolio as well as its historical accounting practices for leases.

These two new standards represented significant and comprehensive changes for firms in the areas of revenue recognition and leases. It is therefore likely that the implementation of each of the new standards disrupted the inertia within accounting organizations, leading to an increase in the identification and enactment of accounting changes, which I describe in the following section.

CHAPTER 3

ACCOUNTING CHANGES

Although I am unable to directly observe internal accounting changes made by firms and auditors, I can observe public disclosures that indicate ex post that an accounting change occurred.¹ I categorize these indicators into two groups—disclosures of errors and updates to legacy policies—and describe them in more detail below.

3.1 Disclosures of Errors

Organizational inertia in accounting practices creates conditions where errors are made and carried forward through time. The discovery and disclosure of an error indicates a change in internal accounting practices, and therefore a shift away from prior routines. If the inertia had been maintained, the error likely would not have been identified. I am unable to identify specifically when an error is discovered and only when it is publicly disclosed. Although it is possible that there is a lapse between the discovery and the disclosure of an error, I assume that firms disclose errors in a timely manner based on the SEC and FASB guidance for material and immaterial errors.²

Under U.S. GAAP, the guidance relating to error corrections falls under Accounting Standards Codification (ASC) Topic 250. If an error is identified, a firm performs a materiality assessment. First, a firm considers whether the error is material to the financial statement(s) containing the error. If the error is material, the firm is required to file an 8-K Item 4.02 (Non-Reliance on Previously Issued Financial Statements or a Related Audit

1. I note that I cannot distinguish between accounting changes that are identified by firms and those that are identified by auditors. Throughout the paper, I generalize to a discussion of firms, though this discussion applies to both firms and their auditors.

2. I discuss the disclosure and filing requirements for material errors in the subsequent paragraph. SEC Staff Accounting Bulletin (SAB) 108 and a December 2008 speech by Mark Mahar (<https://www.sec.gov/news/speech/2008/spch120808mm.htm>) discuss the disclosure and correction of immaterial errors in a timely manner.

Report or Completed Interim Review) filing, reissue corrected financial statements as part of an amended filing or a subsequent filing, and obtain a revised audit opinion, in accordance with SEC Rule 33-8400 and ASC paragraph 250-10-45-23. This type of error correction is commonly referred to as a “Big R” restatement.

If an error is not determined to be material to the financial statement(s) containing the error, a firm subsequently considers whether correcting the error in the current period would be material to the current-period financial statements. If the correction of the error is material to the current-period financial statements, this is known as a “little r” restatement. In accordance with SEC SAB 108, these errors are corrected by adjusting the opening balance of retained earnings for the current period and correcting comparative financial statements provided in the current period report. In my study, I consider any restatements from the Audit Analytics restatement database where a firm did not file an 8-K filing to be a “little r” restatements, while I consider restatements requiring 8-K filings to be “Big R” restatements (consistent with Choudhary et al. (2021)).

If a firm determines that the error is not material to the financial statement(s) containing the error and that the correction of the error in the current period would not be material to the current-period financial statements, this is known as an out-of-period adjustment. The correction of this type of error is recognized directly in the financial statements of the current period. Choudhary et al. (2021) provide the first archival evidence on these types of immaterial errors, which have been increasing in frequency since 2004.

Finally, I also include disclosures of material weaknesses in internal controls in the group of disclosures of errors. Although these occurrences do not fall under the U.S. GAAP guidance on error corrections, I consider them errors because firms are expected to maintain effective internal controls over financial reporting. As such, I consider the disclosure of a material weakness in internal controls to be similar to the disclosure of an error. Material weaknesses are publicly disclosed in firms’ audit opinions, and I focus specifically on newly

revealed material weaknesses (i.e., I remove observations from my sample where a disclosure of a material weakness was preceded in the prior year by a material weakness).

Although the four types of observations that I consider to be disclosures of errors differ in their assessed materiality as well as in the nature of the error, I consider all four to be ex post indicators that an accounting change has occurred.

3.2 Updates to Legacy Policies

In addition to disclosures of errors, I also consider other types of accounting changes. Although consistency is important in accounting, it does not mean that companies cannot make changes to their policies and procedures. There are specific rules in U.S. GAAP for when a firm can change its accounting practices and how it reports these changes.³ The three types of updates to accounting policies I focus on in this study are material changes in accounting estimates, changes in accounting principles, and material impairments. Each of these types of observations is indicative that an accounting change has occurred as there likely would not be a change in estimates, principles, or impairment considerations without a departure from the typical “status quo” approach to accounting.

Accrual accounting requires firms to make many subjective estimates. For example, these estimates can include useful lives of fixed assets, expected warranty obligations, and expected uncollectible accounts. Changes in these estimates likely stem from new information that was either not available or not used at the time the most recent estimate was made. As such, a change in estimate is indicative of a shift away from a previous consistency in practices. Changes in accounting estimates are accounted for on a prospective basis in accordance with ASC paragraph 250-10-45-17, and disclosure of changes in estimates is required if the effect of a change is material.⁴

3. The U.S. GAAP guidance for changes in accounting estimates and changes in accounting principles is in ASC section 250, *Accounting Changes and Error Corrections*.

4. ASC paragraph 250-10-50-4

Accounting principles differ from accounting estimates in that firms can typically choose only one of several acceptable accounting principles as compared to a multitude of estimation methods or techniques. For example, inventory valuation method is a common choice of accounting principle that firms must make (e.g., First-In-First-Out [FIFO], Last-In-First-Out [LIFO], Weighted Average). Firms typically elect an accounting principle and consistently use that principle. However, changes in accounting principles are allowed under U.S. GAAP. Firms can report a change in accounting principle if they show that “the use of an allowable alternative accounting principle ... is preferable” in accordance with ASC paragraph 250-10-45-12. Furthermore, SEC SAB 103 requires a firm to obtain a preferability letter from its auditor to indicate the auditor’s agreement with the firm’s belief that the change in accounting principle is preferable.⁵ The preferability letter must be filed along with the firm’s financial report for the period in which the change takes effect. Because of this SEC requirement, I search for preferability letters in quarterly and annual filings to identify instances of changes in accounting principles.

Finally, impairment of an asset is another accounting policy that is highly subject to inertia. Assets are evaluated for impairment regularly, although the specific requirements differ by asset type (EY (2023)). Broadly speaking, all impairment assessments require a qualitative evaluation of the business as a whole to identify events or circumstances that may indicate the need for impairment. This assessment is highly subjective and therefore very prone to inertia, such that firms carry over prior working papers and conclusions (with an assumed “status quo” of no impairment). As such, I consider an impairment to be an accounting change because it represents a departure from the inertia in accounting practices. My study includes observations of impairments that have been disclosed by firms and, therefore, are presumably material.

5. For a preferability analysis, firms and auditors consider how the change affects business judgment and planning, as well as if the change results in an improvement to financial reporting (ASC paragraph 250-10-S99-4). Further, the SEC specifically states that merely “conforming to industry practice may not justify a change” in terms of preferability (SEC (2022)).

Although the three types of updates to accounting policies that are the focus of my study (material changes in accounting estimates, changes in accounting principles, and material impairments) differ in terms of the specific updates that occur, all three are ex post indicators that an accounting change has occurred.

CHAPTER 4

HYPOTHESIS DEVELOPMENT AND RESEARCH DESIGN

4.1 Direct and Spillover Effects

I hypothesize that disruptive accounting events interrupt the consistency of firms' historical accounting practices. To test this hypothesis, I use the setting of two recent accounting standards (Revenue Recognition and Leases) as disrupting events. To proxy for interruptions to historical accounting practices, I measure accounting changes as described in the previous section.

One obstacle in testing this hypothesis is that the new standards apply to all firms that follow U.S. GAAP, and that the IFRS standards on the same topics were issued around the same time. It is therefore difficult to create a "clean" control group of firms that were unaffected by the new standards. However, because each of the accounting standards is topic-specific, I can consider the disruption of each standard to be more impactful for certain accounting topics as compared to others.

I use an example of an accounting function within a firm to conceptually explain my research design. It is likely that only a subset of individuals within the accounting function (e.g., a revenue team, a leases team) actively work on adopting the new accounting standard. The work of these teams is directly disrupted by the issuance of the accounting standard, and I expect these teams to make more accounting changes within their topic areas during standard implementation.

Additionally, these teams regularly communicate and cooperate with other teams that may be adjacently affected by the accounting standard issuance. Although the accounting guidance for these related teams' topics has not changed, their interconnectedness with the focal team adopting a new standard provides incentives and opportunities for accounting

changes in their topic areas as well.¹ For example, a team assessing indicators of goodwill impairment uses revenue forecasts as a significant input for their conclusions, which may change as a result of revenue standard implementation efforts. A team may reconsider the appropriate useful life of a piece of owned equipment given new information on the useful lives of leased assets. This concept is consistent with the model introduced in Christensen et al. (2024), which shows that managers underinvest in accounting information, new accounting standards increase information acquisition, and these activities can spur information acquisition for related and untargeted topic areas.

However, it is not clear that the disruption of a new accounting standard will result in more accounting changes to directly and adjacently related topic areas. Considering the inertia that dominates accounting practices, a disruption must change firms' incentives to identify areas for accounting changes and enact those changes. The accounting changes that are the focus of my study are a result of voluntary actions undertaken by firms. They occur prior to the adoption of the new standard and relate to policies and procedures that exist under the legacy guidance. Therefore, it is possible that a firm could choose to take these actions at any time — for example, prior to the new standard being issued, in conjunction with the adoption of a new standard, or, perhaps, not at all. Further, it is possible that firms view the implementation of new accounting standards as a compliance exercise. In this case, the disruption I propose may not be significant enough to change a firm's incentives to make accounting changes. It is thus an empirical question whether a new accounting standard is a sufficient disruption to the consistency of firms' accounting organizations to result in an increase in accounting changes. I state my hypotheses as follows:

H1a: *During an accounting standard implementation period, there is an increased frequency of accounting changes directly related to the topic of the accounting standard.*

1. This example is meant to be illustrative, and I do not necessarily claim that this is how all accounting departments or teams function. The same concept could potentially apply to a hypothetical firm with a single accountant.

H1b: During an accounting standard implementation period, there is an increased frequency of accounting changes adjacently related to the topic of the accounting standard.

4.2 Improved Accounting Information

An increased frequency of accounting changes based on H1a and H1b indicates that an accounting standard disrupted the consistency of firms' accounting functions. However, it is unclear if an increase in accounting changes necessarily improves financial reporting. I consider each type of accounting change separately (disclosures of errors and updates to legacy policies).

The disclosure of an error provides useful information in the form of a correction to previously misstated financial information. An increase in this kind of information would provide users of financial statements with improved and more accurate information. Another informational facet of error disclosures is providing a signal of a firm's underlying accounting issues (Choudhary et al. (2021)). Therefore, it seems clear that an increase in disclosures of accounting errors is an improvement in accounting information.²

However, it is less apparent whether an increase in updates to legacy policies during an accounting standard implementation period improves financial reporting. Prior work has shown that impairments and changes in accounting estimates are associated with improvements in a firm's accounting information environment (Albrecht et al. (2023), Haggard et al. (2015)). Firms are required to justify the preferability of changes in accounting principles, meaning the new accounting better reflects the underlying economic transactions of firms. On the other hand, consistency is a foundational quality of accounting and, therefore, a

2. I note that the likelihood of the disclosure of an error is a function of two events: the commitment of an error and the subsequent detection of the error. I assume here that the rate of error commitment remains constant through my sample and that any identified effect on the likelihood of error disclosure can be attributed to an increased rate of error detection. I collected disclosure data for a random sample of 20 implementation period errors in my data and found evidence of an average several-year gap in the time between error commitment and detection. This is consistent with my assumption, as an increase in the error commitment rate would result in a shorter gap between error commitment and detection.

departure from consistency may be detrimental to the usefulness of accounting information to investors. Moreover, it is possible that firms opportunistically time accounting changes for earnings management purposes, resulting in “convenient” changes for firms with adverse effects on accounting information.

In addition to evaluating whether the updates to legacy policies provide improved reporting for investors, I also consider whether the accounting information improves prediction accuracy for both analysts and management. Specifically, it may be that managers have acquired new information in making the decision to change a legacy policy and that this information better helps them to understand and predict firm performance, as has been shown following a goodwill accounting standard in 2001 by Cheng et al. (2018)). Similarly, analysts may also be able to learn from the information and disclosures associated with the policy update. However, it is again possible that any departure away from consistency will make predictions harder. It is consequently an empirical question whether the updates to legacy policies during the standard implementation periods in my study provide decision-useful information. I state my hypotheses as follows:

H2a: *An update to directly related or adjacently related legacy policies and procedures during an accounting standard implementation period is associated with more informative future earnings.*

H2b: *An update to directly related or adjacently related legacy policies and procedures during an accounting standard implementation period is associated with improved guidance and forecast accuracy by managers and analysts.*

4.3 Cross-Sectional Predictions

Finally, I try to better understand the mechanism behind the direct effect I identify in H1a by looking across groups of firms. One possible mechanism through which the disruption of a new standard manifests in more accounting changes is the amount of effort a firm exerts

to comply with the standard. For example, many firms were able to preserve the same accounting policies under the old and new Revenue Recognition guidance, and their financial statements were not materially affected by the standard. Similarly, for the Leases standard, some firms operate in less lease-intensive industries and had fewer leases to identify and account for under the new standard as compared to firms in more lease-intensive industries. It is possible that the additional effort exerted in adopting a new standard results in a larger disruptive effect because of an increased opportunity for learning.

On the other hand, the implementation of the Revenue Recognition and Leases standards was a significant effort for all firms. Each standard required many changes for all firms, including new disclosures and changes in internal controls. All firms likely also faced increased scrutiny from their auditors in regard to new standard implementation. In other words, it is possible that all firms faced a high fixed cost of compliance that was sufficient to create a disruption in firms' consistency in accounting practices.³ It is therefore an empirical question whether firms more affected by a standard experienced a larger disruption from a standard. I state my hypothesis as follows:

H3a: *There is a larger increase of directly related accounting changes during an accounting standard implementation period for firms that are more affected by the new standard.*

One other potential mechanism for the disruption is the unification of dispersed practices resulting from a centralized approach to implementing a new standard. This centralization results in cooperation and communication across disparate business units that may increase learning across the organization and result in an increased identification of accounting changes. However, whether this centralization is a change away from prior practice is a

3. On a personal note, I worked as a consultant with several clients in helping them to adopt the new Revenue Recognition standard. Many of them eventually disclosed that their financial statements were not materially affected by the standard. However, they still underwent significant implementation efforts (including hiring Big 4 consultants, leading training on the new standard, building new teams to manage the implementation effort, reading and assessing revenue contracts to understand the appropriate accounting under the new standard, etc.). My experience speaks to the fact that firms for which the accounting guidance did not change as a result of the new standard still experienced a significant disruption in accounting practices.

function of whether a standard changes financial reporting incentives for affected accounting topics.

For example, revenue is a significant component of firms' financial statements that is a focus of investors and analysts and, therefore, management. While the Revenue Recognition standard changed the amount and timing of revenue recognized for some firms, it did not change the already high financial reporting incentives for management to centrally oversee and analyze revenue. However, operating leases have historically not comprised a significant component of firms' financial statements. Prior to the new standard, periodic rent expense was recognized in the income statement and aggregate operating lease obligations were disclosed in the footnotes. This lack of incentives for centralization is consistent with the historically prevalent practice of accounting for operating leases in a dispersed manner (Shumsky (2016)). The Leases standard created new, powerful financial reporting incentives for the oversight of operating leases by requiring capitalization of operating lease assets and liabilities on the balance sheet.⁴ Based on these modified incentives, I expect a larger disruptive effect of centralization following the Leases standard, but not the Revenue Recognition standard. I use organizational complexity as a proxy for the level of decentralization in a firm's accounting practices. Simpler firms, such as those with a single operating segment, likely already operate in a very centralized manner and would not benefit from the unification of practices. I state my hypothesis as follows:

H3b: *There is a larger increase of directly related accounting changes during the Leases standard implementation period for more decentralized firms, but not during the Revenue Recognition implementation period.*

Lastly, I look to more directly test whether firms' susceptibility to inertia can magnify the disruption of the issuance of a new accounting standard. Specifically, a firm that has

4. During a June 2024 joint FASB and IASB meeting discussing post-implementation review activities of the Leases standard, a FASB staff member indicated that they heard from many constituents that they adopted more centralized leasing systems as part of their standard implementation efforts.

been consistent in its accounting practices throughout time may be more impacted by a disruption because it has not revisited or re-considered its accounting choices in some time. However, a firm that has more recently experienced a disruption (such as a change in auditor or a previous accounting change) may be less impacted. However, this hypothesis is not without tension. A firm that has been proactive in re-evaluating its accounting decisions may invest even more when prompted by a significant disruption, such as the issuance of a new accounting standard. On the other hand, a firm that has previously been resistant to change may continue to resist change even after a significant disruption. Therefore, it is unclear how previous accounting consistency will affect how a firm responds to a new disruption. I state my hypothesis as follows:

H3c: *There is a larger increase of directly related accounting changes during an accounting standard implementation period for firms that have had more historical continuity in their accounting processes.*

CHAPTER 5

DATA

I base my main sample on Russell 3000 firms between January 1, 2017, and March 31, 2021, which are included in the Audit Analytics accounting standard adoption data for the Revenue Recognition and Leases standards.¹ My initial sample consists of 5,223 firms. For each firm and for each of the two standards, I construct a firm-specific implementation period beginning from the fiscal quarter that contains the date of the standard issuance (May 2014 for Revenue Recognition and February 2016 for Leases) and ending in the fiscal quarter immediately preceding the adoption of the standard.² I use both Audit Analytics and Compustat data, as well as some manual verification, to determine each firm's adoption date for both standards.

For comparison purposes, I create a pre-period of equal length for each firm and each standard immediately preceding the implementation period. I then obtain fiscal-quarter data from Compustat for both the pre-period and the implementation period for each firm for each standard. Refer to Figure ?? for a visual depiction of an example of the calculation of the implementation period and pre-period. Following these steps, the number of firms (firm-quarters) in each sample is as follows: 4,189 (109,814) for Revenue Recognition and 4,043 (91,572) for Leases. Most lost observations are a result of missing Compustat data during the focal periods or difficulty in determining a firm's adoption date for a standard.

1. Audit Analytics collected data from Russell 3000 firms' disclosures relating to the Revenue Recognition and Leases standards. These disclosures consist of both SEC SAB 74 disclosures (pre-standard adoption) and standard adoption disclosures (post-standard adoption). SAB 74 disclosures require firms to describe the potential effects of a new accounting standard when a recently issued standard has not yet been adopted. Audit Analytics collected data between January 1, 2017, and March 31, 2020, for the Revenue Recognition standard (ASU 2014-09) and between January 1, 2018, and March 31, 2021, for the Leases standard (ASU 2016-02).

2. I note here that, for some emerging growth companies, adoption was required for the annual period of the first year of adoption, but not for quarterly periods within the annual period (similar to what was allowed for private company adoption). For example, a firm would report revenue in its 10-K filing in the year of adoption under the new standard, but the firm reported revenue under legacy guidance in the previously issued quarterly reports within the year of adoption. To err on the side of caution, for these cases, I opt to use the first day of the adoption year as the adoption date.

I next create a sample of accounting changes. This sample includes both disclosures of errors (i.e., restatements, out-of-period adjustments, and material weaknesses in internal controls) as well as updates to legacy policies (i.e., material changes in accounting estimates, changes in accounting principles, and material impairments). All of the data for the accounting changes come from various datasets available through Audit Analytics, except for the disclosures of changes in accounting principles.³ I collect these observations using specific search terms in SeekEDGAR to identify auditor preferability letters issued in firms' quarterly or annual filings.⁴ From the Audit Analytics data, I exclude a) observations relating to fraud, b) observations disclosed in offering-related statements (e.g., S-1), and c) observations as part of a series of unresolved material weaknesses in internal controls (i.e., I require a gap of at least 1 year from the prior material weakness disclosure).⁵

I classify each observation based on the related accounting topic in Audit Analytics and additional textual analysis for observations with available disclosure text.⁶ A topic can be directly related, adjacently related, or unrelated to each standard. Refer to Appendix ?? for a classification table of the Audit Analytics accounting topics relating to both standards.⁷ I subsequently match the accounting change observations to the corresponding firm-fiscal quarters. Following the matching to the firm-fiscal quarter data, the number of firm-quarters in each sample with at least one accounting change observation is as follows: 13,228 for Revenue Recognition (12% of firm-quarters) and 11,319 for Leases (12%).

3. Specifically, I use the Restatements, Adjustments, Internal Controls, Changes in Estimates, and Impairments datasets provided by Audit Analytics.

4. I search for the following terms in annual and quarterly filings: preferability letter—letter of preferability—exhibit18—exhibit 18—KXEX18—KXEX 18.

5. I distinguish between errors and irregularities in my observations because prior work has shown an important difference between the two in restatements research (Hennes et al. (2008)). Further, my paper does not study whether the disruption of a new accounting standard affects the commitment or detection of irregularities or fraud.

6. I note that I manually classify the changes in accounting principles as part of the collection process.

7. I note that I externally validated these classifications with two licensed CPAs, each of which currently works at a Russell 1000 firm in a financial reporting and/or technical accounting role.

For my cross-sectional analyses, I create variables of organizational complexity using Compustat historical segment data and WRDS Exhibit 21 subsidiary data. I create firm-specific variables for each firm’s degree of affectedness by each standard. My results below include two measures for each standard. Firms that chose to adopt the Revenue Recognition standard using the modified retrospective approach were required to recognize an adjustment to Retained Earnings on the first day of the year of adoption for the cumulative effect of applying the new guidance.⁸ I scale this adjustment by the opening balance of Retained Earnings to calculate one measure of affectedness. My other measure is the difference between the revenue recognized in the firm’s year of adoption under the new standard as compared to legacy guidance.⁹ For the Leases standard, I calculate two measures of operating lease intensity: one based on Compustat data for the fiscal year preceding the issuance of the standard and the other based on Audit Analytics data for firms’ day-0 adoption of the standard. The at-issuance measure is based on the sum of the present value of 5-year and thereafter lease commitments (discounted using an implied interest rate for the firm), scaled by total liabilities, consistent with Bratten et al. (2013). The at-adoption measure is based on the day-0 operating lease liability recognized by a firm upon adoption of the new standard, scaled by total liabilities.

For my tests of firms’ susceptibility to inertia, I create two firm-specific variables. The first measures the number of accounting changes, executive turnover events, and auditors turnover events for each firm in the two years preceding the pre-period. The second measure is based on the accounting consistency measured introduced in Wang (2018), which seeks to measure the consistency of the accounting “piece” of the function firms use to map economic events into the financial statements. Finally, for my tests of the usefulness of earnings

8. This adjustment, known as a “cumulative catch-up,” represents the increase or decrease in Retained Earnings that results from the application of the new standard to incomplete contracts at the time of adoption.

9. I can only construct this variable for firms that adopted the guidance using the modified retrospective method and that disclosed this difference in their adoption-year financial statements.

following updates to legacy policies, I use data from Compustat, CRSP, and I/B/E/S to create additional control variables and matching variables for the propensity score matching. Descriptions of all variables are included in Appendix ??.

Descriptive statistics for firm-quarter level data are included in Tables 1 and 2, where Table 1 describes the Revenue Recognition sample and Table 2 describes the Leases sample.¹⁰ Across both samples, we see that firms are relatively large, though the sample is clearly right-skewed with some very large firms. About 12% of firm-quarters across both samples have at least one observation of an accounting change, with 4% having a disclosure of an error and approximately 10% having a policy update. The most frequent types of accounting changes across both samples are impairments and changes in accounting estimates. For the Revenue Recognition sample, 2% of firm-quarters have an accounting change directly related to revenue recognition, and 4% of firm-quarters have an accounting change adjacently related to revenue recognition. For the Leases sample, 0.3% of firm-quarters have an accounting change directly related to leases, and 4% of firm-quarters have an accounting change adjacently related to leases.

Descriptive statistics for firm-level data are included in Table 3, where Panel A describes the Revenue Recognition sample of firms and Panel B describes the Leases sample of firms. Each panel includes variables related to a firm's implementation of each standard, as well as firm-characteristic variables that are used for cross-sectional tests. For the Revenue Recognition sample of firms, approximately 20% disclose that their financial statements were materially affected by the Revenue Recognition standard. The median values of the day-0 retained earnings adjustment (1%) and the change in adoption-year revenues under the new standard (1%) appear relatively small.¹¹ These statistics introduce tension in my main hy-

10. I include some firms that have missing data for revenues in the Revenue Recognition samples. These firms are primarily financial institutions that do not generate a significant amount of revenue from contracts with customers. However, I retain these firms in the Revenue Recognition sample because banks were not unaffected by the new standard. Deposit-related fees (e.g., ATM fees, account maintenance fees) were within the scope of the new standard (EY (2017)).

11. In fact, the sample median is likely not representative of the population median, given the data avail-

potheses because it appears that the financial statement effect of the Revenue Recognition standard was not very material for a majority of firms. I observe a different picture for the Leases sample of firms, where virtually all firms disclosed that their financial statements were materially affected by the Leases standard.

ability required to calculate these variables. Firms that did not disclose this information either adopted the standard using the full retrospective method or did not consider the information material enough for disclosure.

CHAPTER 6

EMPIRICAL RESULTS

6.1 Direct and Spillover Effects

I first test H1a and H1b separately using the Revenue Recognition and Leases datasets. I estimate the following regression:

$$\begin{aligned} \mathbb{1}\{AccountingChange\}_{fqt}^s &= \alpha_f + \beta_{fq} + \mu_{fq} + \gamma_1 Treated_t^s + \gamma_2 IMPL_{fq}^s \\ &+ \gamma_3 Treated_t^s * IMPL_{fq}^s + \delta CONTROLS_{fq}^s + \varepsilon, \end{aligned} \quad (1)$$

for $s \in \{RevRec, Leases\}$

where the dependent variable is an indicator variable for whether a firm f disclosed an accounting change in fiscal quarter q for topic group t . I manually create three topic groups within my data for each firm-quarter observation: directly treated, adjacently treated, and untreated. To test H1a (the direct effect), $Treated$ is an indicator variable that equals 1 for topics that are directly treated by accounting standard s and equals 0 for topics that are unaffected by accounting standard s . To test H1b (the spillover effect), $Treated$ is an indicator variable that equals 1 for topics that are adjacently treated by accounting standard s and equals 0 for topics that are unaffected by accounting standard s .¹ Adjacently treated topics are therefore omitted in the test of the direct effect and directly treated topics are omitted in the test of the spillover effect.

$IMPL$ is an indicator variable for whether the fiscal quarter q is in firm f 's standard implementation period for standard s . I also include a firm, fiscal-quarter, and accounting topic fixed effect $(\alpha_f, \beta_{fq}, \mu_{fq})$. I estimate each regression separately for each standard

1. For each standard, I remove topics that directly or adjacently relate to the other standard. That is, for the regression of Equation 1 where $s = RevRec$, I compare topics directly treated by the standard (i.e., revenue recognition, warranties) to topics unaffected by both the Revenue Recognition and Leases standards (e.g., debt, consolidation).

(Revenue Recognition and Leases). I include control variables for other potentially disruptive events: auditor turnover and executive (CEO or CFO) turnover.

Based on H1a and H1b, I expect the coefficient on the interaction term (γ_3) to be positive in Equation 1. That is, I expect a higher likelihood of accounting changes during the standard implementation period for policies directly (or adjacently) affected by the accounting standard as compared to policies that were unaffected.

6.1.1 Results — Direct Effect

I report the main results on the direct effect in Table 4, where Panel A includes results for the Revenue Recognition sample and Panel B includes results for the Leases sample.² Columns (1) and (2) report the results based on the occurrence of an accounting change as the dependent variable. I further segment this result based on the two types of accounting changes: disclosures of errors (columns (3) and (4)) and updates to legacy policies (columns (5) and (6)). Columns (1), (3), and (5) include firm fixed effects, whereas columns (2), (4), and (6) include firm-quarter fixed effects.

The negative coefficient on *Directly Treated* in columns (1) through (6) is a mechanical result of my design, indicating that revenue- or lease-related accounting changes are less likely to occur compared to accounting changes for topics unaffected by either standard. This relation is mechanical because revenue or leases are one of many topics for which firms have policies and procedures; inherently, the likelihood of a change in a single topic is less likely than a change in one of twenty topics.

I begin by describing my results in Panel A for the Revenue Recognition sample. Based on the value of the coefficient in column (1), a firm is 3 percentage points less likely to disclose an accounting change relating to revenue (for reference, the average likelihood in my

2. Because my dependent variable is binary, I also estimate the same specification using conditional Logit regression and find similar results. For all of my direct and spillover effect tests, I estimate the same specifications using conditional Logit regression and find similar results.

sample of any accounting change in a firm-quarter is 12%). However, the positive and significant coefficient on my variable of interest (the interaction term, *Directly Treated x IMPL*) indicates that accounting changes directly related to revenue are more likely to occur during the implementation period than during the pre-period, as compared to accounting changes unrelated to revenue. Specifically, based on the column (1) coefficient on the interaction variable, revenue-related accounting changes are approximately 1 percentage point (30%) more likely to happen during the implementation period. I compare this to topics unaffected by the Revenue Recognition standard, which are statistically no more likely to occur during the implementation period. This effect exists for both disclosures of errors and updates to legacy policies, as shown in columns (3) through (6). About 1/3 of the main effect size can be explained by an increase in disclosures of errors, with the remaining 2/3 explained by an increase in updates to legacy policies. My results are robust to the inclusion of firm and firm-quarter fixed effects.

One other consideration in assessing the results in Panel A is whether there is a negative spillover effect of the disruption to the control group of accounting topics. Specifically, if an accounting group's resources, efforts, or attention are limited and the issuance of a standard redirects these toward the topic addressed in the standard, this may result in reduced efforts on topics unrelated to the standard. The significant, negative coefficients on *IMPL* in columns (1), (3), and (5) do provide some suggestive evidence of a negative spillover effect during the implementation period on unrelated topic areas. That is, this result is consistent with firms focusing their energies on revenues, taking away focus from other accounting topic areas.

I next focus on the results of the direct effect for the Leases sample, reported in Panel B of Table 4. *Directly Treated* is now indicative of topics that are directly related to leases. The positive and significant coefficient on the interaction term in column (1) indicates that accounting changes relating to leases are approximately 1 percentage point (18%) more

likely to be disclosed during the implementation period (this magnitude is similar to that of the Revenue Recognition coefficient). However, the magnitudes of the coefficients between disclosures of errors and updates to legacy policies differ here from the Revenue Recognition test. Whereas the combined effect in the Revenue Recognition test came more from the updates to legacy policies, the combined effect in the Leases test seems to come equally from both the disclosures of errors and updates to legacy policies. However, the main effect is present in all specifications for both types of accounting changes.

There is evidence of a negative spillover effect to unrelated topics during the Leases implementation period, as indicated by the significantly negative coefficient on *IMPL*. This may indicate that effort and resources are being shifted away from unrelated accounting topic areas to leases as part of the standard implementation effort. Taking together the findings from both the Revenue Recognition and Leases tests, these results are evidence of a disruptive effect of an accounting standard specific to policies directly related to the standard and are consistent with H1a. I do find some evidence for the Leases sample of negative spillover effects resulting from the disruption.

6.1.2 Results — Spillover Effect

I next test H1b. The purpose of these tests is to understand if there is also an increase in the frequency of accounting changes during the implementation period for topics adjacently related to the accounting standard (e.g., a positive spillover effect). For the Revenue Recognition standard, I consider other revenue cycle topics (e.g., Accounts Receivable, COGS) and goodwill and other intangibles to be adjacently related topics. For the Leases standard, I consider topics relating to fixed assets (e.g., PP&E, Depreciation) and asset retirement obligations to be adjacently related topics. Refer to Appendix ?? for further detail on the categorization of accounting topics.

I report results for the spillover effects in Table 5, where Panel A includes results for the

Revenue Recognition sample and Panel B includes results for the Leases sample. Beginning with Panel A (Revenue Recognition), the coefficient on the interaction term in column (1) shows evidence consistent with a spillover effect. Specifically, although accounting changes for topics adjacent to revenue recognition are approximately 1 percentage point less likely to occur in the baseline, they are more than 1 percentage point (133%) more likely to occur during the implementation period. This effect persists across both error disclosures and updates to legacy policies, though the spillover effect seems stronger in updates to legacy policies (as shown by the coefficients in columns (3) through (6)).

Interestingly, the results on the spillover effects for the Leases sample (reported in Panel B of Table 5) differ slightly. The coefficients on the interaction term in columns (1) and (2) indicate that accounting changes for lease-adjacent topics are more likely to occur during the implementation period as compared to the pre-period. However, when comparing the two types of accounting changes, there is evidence of spillover effects specifically relating to disclosures of errors, but not to updates to legacy policies. Specifically, the coefficients on the treatment term and the interaction term in column (3) indicate that although disclosures of errors in lease-adjacent topics are generally about 3 percentage points less likely to occur in the pre-period, there is a statistically significant increase in the likelihood of these error disclosures in the implementation period of about 0.6 percentage points (26%).

Similar to the results for the direct effect, I also find some evidence for negative spillover effects in Table 5 for the Leases and Revenue Recognition samples, as evidenced by the significant, negative coefficient on *IMPL*. This suggests that the issuance of both standards had both a positive and negative spillover effect. Overall, I find some evidence consistent with H1b and the existence of a positive spillover effect. Although these results are not conclusive for all kinds of accounting changes, they do suggest that there are some spillover effects of the implementation of a new accounting standard to other accounting topic areas that were not directly affected.

I visually show the direct effect, positive spillover effect, and (potential) negative spillover effect for the Revenue Recognition sample in Figure 2A and for the Leases sample in Figure 2B. Figure 2A shows the percentage of firms in my sample that have an accounting change (i.e., a disclosure of an error or an update to legacy policies) relating to revenue recognition, revenue recognition-adjacent topics, and the control group set of topics in event time relative to the issuance of the Revenue Recognition standard. Figure 2B shows the percentage of firms in my sample that have an accounting change relating to leases, lease-adjacent topics, and the control group set of topics in event time relative to the issuance of the Leases standard. I note that both figures use two different axes because different topic groups have different frequencies of occurrence in my sample. Further, I include the pre-period and implementation-period averages for each topic group as horizontal lines.

Consistent with my empirical results, Figure 2A shows an increase in revenue and revenue-adjacent accounting changes (an average increase of approximately 50% for each) during the implementation period. I also note an average increase in changes for the control group of topics, though the magnitude is smaller (approximately 30%). For the Leases standard, shown in Figure 2B, I note an average increase in lease and lease-related accounting changes of 20%, but an average decrease in control group accounting changes (indicative of a negative spillover effect). There is some evidence of a pre-trend in both figures, which is to be expected, given that my events of interest are the issuance of two accounting standards. The main provisions of each standard were known well ahead of the issuance dates, meaning there may have been increased attention by firms, auditors, and regulators on these topics even in advance of standard issuance. Overall, these figures are consistent with the direction and magnitude of the effects in my empirical results.

6.2 Improved Accounting Information: Policy Updates

While an increase in disclosures of errors during a standard implementation period reasonably improves accounting information through the correction of misstated financial information and by serving as a signal of a firm’s underlying accounting issues, it is not as apparent whether an increase in updates to legacy policies improves accounting information. I test this question in the following section. I use a propensity-score-matched sample of firms to account for relevant economic observable factors to ensure I am comparing similar firms given the endogenous choice of firms to make updates to legacy policies. I perform two tests on this matched sample: one comparing earnings response coefficients (ERCs) in the periods before and after the policy updates, and a second comparing analyst forecast errors and management guidance errors in similar periods.

I first identify updates to legacy policies in my sample that occur during the standard implementation period and that directly or adjacently relate to the standard. Next, because I look at earnings informativeness for the fiscal year subsequent to the year in which the policy update occurred, I keep only observations for which the subsequent fiscal year does not overlap with the firm’s adoption of a new standard. That is, I do not want to commingle the effects of the adoption of either the Revenue Recognition or Leases standard in my test.

A firm’s choice to update its legacy policies is endogenous. In order to control for the effect of other economic events that may have resulted in the decision of a firm to update its legacy policies, I match update firms to non-update firms using propensity score matching, based on data for the fiscal year preceding the year of the update in legacy policies. I generate a propensity score for each firm-year by regressing a policy update indicator variable on several firm characteristics: size (log of total assets), book-to-market ratio, return on assets (net income/total assets), total revenues (scaled by total assets), cumulative annual stock returns, Amihud liquidity measure (Amihud (2002)), and average monthly stock turnover. These matching variables are similar to those used in Haggard et al. (2015) and Francis et al.

(1996), and are meant to control for observable economic factors that may affect a firm's choice to update its legacy policies. I estimate a logistic regression to create the propensity scores and include the results of this regression in Table 14 in Appendix ??.

I match firms based on the propensity scores generated in this regression, such that matched firms have the same fiscal year and operate in the same 2-digit SIC code. My final matched sample consists of 1,855 update firm-years and 1,855 matched firm-years. Descriptive statistics on the matched sample of firms are included in Table 15 in Appendix ??. I am able to match firms well, although some differences still exist between the two samples. Namely, the policy update firms are larger, experience larger cumulative annual stock returns, and have slightly higher share turnover.

I test H2a by comparing the earnings response coefficients (ERCs) in the year following the policy update to the ERCs in the year preceding the update using an OLS regression, in a manner similar to the earnings responsiveness test in Haggard et al. (2015). For each firm-year t (the year of the update in policies), I identify quarterly earnings announcement dates in fiscal years $t-1$ and $t+1$. I calculate the unexpected earnings and the cumulative abnormal return (CAR) for the 3 days surrounding the earnings announcement date.³ Refer to Appendix ?? for descriptions of all variables. I aim to determine whether earnings responsiveness differs between the fiscal year preceding the update year and the fiscal year following the update year, as compared to a group of matched firms. I test H2a by estimating

3. I require data to be available for at least 3 quarterly earnings announcement dates in both the pre-period fiscal year and the post-period fiscal year.

the following regression:

$$\begin{aligned}
CAR_{[-1,+1],fq} = & \alpha_f + \beta_1 UE_{fq} + \beta_2 UE_{fq} * UpdateFirm_f * PostPeriod_{fq} \\
& + \beta_3 UE_{fq} * UpdateFirm_f + \beta_4 UE_{fq} * PostPeriod_{fq} \\
& + \beta_5 UpdateFirm_f * PostPeriod_{fq} + \beta_6 UpdateFirm_f \\
& + \beta_7 PostPeriod_{fq} + \gamma_1 CONTROLS_{fq} \\
& + \gamma_2 CONTROLS_{fq} * UE_{fq} + \varepsilon
\end{aligned} \tag{2}$$

where the dependent variable is the three-day *CAR* for the earnings announcement date for quarter q . *UE* is the unexpected earnings for firm f in quarter q , calculated based on the difference between the actual earnings per share and the mean forecasted consensus earnings per share in I/B/E/S, scaled by the stock price at the end of the preceding month. *Update Firm* is an indicator variable that equals 1 if firm f disclosed an update to legacy policies and procedures during the implementation period of either the Revenue Recognition or the Leases standard in year t . *Post Period* is an indicator variable that equals 1 if period p is in fiscal year $t+1$ (i.e., either the fiscal year following a policy update or a corresponding matched year). I also include a firm fixed effects (α_f) and a variety of control variables that prior work has shown to be important determinants of a firm's ERC (e.g., Gipper et al. (2019)). These control variables include *Loss*, *Market-to-Book*, *Size*, and *Leverage*. Based on H2, I expect β_2 to be positive in Equation 2, meaning that ERCs are higher in the fiscal year following an update to legacy policies, as compared to a matched sample of firms.

My results are shown in Table 6. Column (1) shows results without the inclusion of control variables or fixed effects; column (2) adds control variables (interacted with *UE*); and column (3) includes both control variables and a firm fixed effect. The positive and significant coefficients on the variable of interest, *UE x Update Firm x Post-Period*, in all specifications indicate that ERCs increase following a policy update. This result is consistent with earnings being more informative following the change in policies. In the tightest specification in

column (3), the results show that the ERC for policy update firms in the post-period is approximately 1.4 times larger than in the pre-period, as compared to the post-period ERC for non-update firms, which is relatively stable but declines slightly in the post-period.⁴

Overall, these results support H2a and indicate that the updates to legacy policies that I identify during standard implementation periods improve accounting information for market participants. Investors are more responsive to accounting earnings in the fiscal year following the update as compared to the fiscal year preceding the update. There is clear empirical evidence that the accounting changes elicited as a result of the disruption of a new accounting standard provide improved accounting information to investors.

I next test H2b by using the same sample of matched firms to compare absolute analyst forecast errors and absolute management guidance errors in periods preceding and following each accounting policy update. For each firm-year t (the year of the update in policies), I identify quarterly analyst forecasts of earnings per share (EPS) in I/B/E/S in fiscal years $t-1$ and $t+1$. I use I/B/E/S summary statistics to obtain the mean and median of analysts's forecasted EPS for each quarter, and I also calculate a range of analyst forecasts (i.e., difference between the maximum and minimum forecast). For the management guidance forecasts, I use I/B/E/S Guidance to obtain management's annual guidance metrics for both EPS and total revenues. I use the guidance for the closest date preceding the end of the fiscal year. Refer to Appendix ?? for descriptions of all variables. I aim to determine whether analyst forecast accuracy and management guidance accuracy differ between the fiscal year preceding the update year and the fiscal year following the update year, as compared to a group

4. The baseline ERC for non-update firms is 0.142 in the pre-period and 0.134 (0.142-0.008) in the post-period. The baseline ERC for update firms is 0.104 (0.142-0.038) in the pre-period, and 0.146 (0.142-0.038-0.008+0.050) in the post-period. I calculate the 1.4 times figure by dividing 0.146 by 0.104.

of matched firms. I test H2b by estimating the following regression:

$$\begin{aligned}
 \text{AbsoluteErrorVariable}_{f,t} = & \alpha_f + \beta_1 \text{UpdateFirm}_f * \text{PostPeriod}_{f,t} + \\
 & \beta_2 \text{UpdateFirm}_f + \beta_3 \text{PostPeriod}_{f,t} + \varepsilon
 \end{aligned}
 \tag{3}$$

where the dependent variable is one of the following: average absolute forecast error for firm f in quarter q , median absolute forecast error for firm f in quarter q , range of the analyst forecasts for firm f in quarter q , absolute EPS management guidance error for firm f in year t or absolute Sales management guidance error for firm f in year t . *Update Firm* is an indicator variable that equals 1 if firm f disclosed an update to legacy policies and procedures during the implementation period of either the Revenue Recognition or the Leases standard in year t . *Post Period* is an indicator variable that equals 1 if period p is in fiscal year $t+1$ (i.e., either the fiscal year following a policy update or a corresponding matched year). I also include a firm fixed effects (α_f). Based on H2b, I expect β_1 to be positive in Equation ??, meaning that prediction errors (accuracy) are lower (higher) in the fiscal year following an update to legacy policies, as compared to a matched sample of firms.

My results are shown in Table 7. Columns (1) through (3) show results based on quarterly analyst forecasts and columns (4) and (5) show results based on annual management guidance for both EPS and total sales. The negative coefficients on the variable of interest, *Update Firm x Post-Period*, in columns (1) through (3) are conceptually consistent with an increase in analyst forecast accuracy and precision, though my results lack statistical significance in columns (1) and (2). However, in columns (4) and (5), I find results that are inconsistent with my hypothesis. Namely, there is suggestive evidence based on the positive coefficients on the interaction term that management guidance accuracy actually worsened (i.e., errors increased). However, I approach these latter results with caution, given that my sample size for management guidance is quite small (only 160 unique firms).

Overall, these results provide mixed support for H2b and indicate that the updates to

legacy policies that I identify during standard implementation periods have mixed effects on the quality and precision of analyst and management prediction of future firm performance.

6.3 Cross-Sectional Tests

Finally, I perform cross-sectional tests to better understand the potential mechanisms at play in strengthening the disruptive effect of a new standard.

6.3.1 *Standard-Related Measures*

I next test H3a to determine if the disruptive effect is stronger for firms that are considered to be more affected by a standard. I report my results for the Revenue Recognition sample in Table 8. In columns (1) and (2), I compare firms with below- and above-median values of day-0 retained earnings adjustments. In columns (3) and (4), I compare firms with below- and above-median values of differences in adoption-year revenue due to the new standard. Finally, in columns (5) and (6), I compare firms that operate in at least one industry that was considered to be more affected by the Revenue Recognition standard with those that do not.⁵

Comparing columns (1) and (2), there is suggestive evidence that the disruptive effect on accounting changes is stronger for firms that were *less* affected by the new standard (based on the amount of the retained earnings adjustment). However, the reported Wald test p-value indicates that this difference is not statistically significant. When comparing columns (3) and (4), there does not appear to be a significant difference in the disruptive effect for firms that had a larger change in their revenues recognized under the new standard in the adoption year. Finally, comparing columns (5) and (6) again seems to indicate that

5. I consider the following industries (SIC codes) to be more affected by the Revenue Recognition standard, based on prior literature and industry articles on the effect of the standard: 2834 (Pharmaceuticals), 3674 (Semiconductors), 3711 (Automobiles), 3812 (Aerospace & Defense), 4500-4599 (Air Transportation), 4800-4899 (Communications), 5800-5899 (Food Establishments), and 7370-7372 (Software).

the effect is stronger for firms that were less affected by the Revenue Recognition standard, with a statistically significant difference. Overall, Table 8 seems to suggest that the Revenue Recognition standard had a disruptive effect on all firms. I do not find evidence that firms whose accounting changed more under the new guidance experienced a larger effect. This result is consistent with a high fixed cost of compliance of the standard for all firms.

I report the results for the Leases dataset in Table 9. Columns (1) and (2) compare firms with below- and above-median values of operating lease intensity, calculated prior to the issuance of the standard. Columns (3) and (4) similarly compare firms with below- and above-median values of operating lease intensity, calculated at the time of adoption of the standard. Finally, columns (5) and (6) compare firms that operate in at least one industry that was considered more affected by the Leases standard with those that do not.⁶ The results in Table 9 echo some of the same conclusions from the Revenue Recognition results in Table 8. Namely, there is no consistent evidence to indicate that firms with more leases experienced a bigger disruption.

Overall, there is not conclusive evidence in Tables 8 and 9 to support H3a. My results speak more to the fact that the Revenue Recognition and Leases standards had a disruptive effect on *all* firms, and not only those that were more affected from an accounting perspective.

6.3.2 Financial Reporting Incentives for Centralization

My next set of tests looks to see if firms that are more decentralized experience a larger disruption following the Leases standard, but not the Revenue Recognition standard, because of the differences in financial reporting incentives for centralization between the two standards. I create several variables as measures of organizational complexity that are intended to proxy for the level of decentralization within a firm. The first is whether the firm

6. I consider the following industries (SIC codes) to be more affected by the Leases standard, based on prior literature and industry articles on the effect of the standard: 4500-4599 (Air Transportation), 4200-4299 (Motor Freight Transportation), 4700-4799 (Transportation Services), and 5200-5999 (All Retail).

has a single segment or multiple segments. I use the Historical Compustat segments dataset and apply filters consistent with Botosan et al. (2020) to identify reporting segments. My second measure calculates the number of unique industries (4-digit SIC codes) in which a firm operates, using both the primary and secondary SIC codes for each segment provided in the Compustat data. My third measure calculates the number of legal subsidiaries of a firm based on WRDS Subsidiary data, which makes use of 10-K Exhibit 21 filings. I split each sample into groups above and below the median number of subsidiaries (approximately 57). Finally, my fourth measure calculates the number of unique countries in which a firm has legal subsidiaries. I again split each sample into groups above and below the median number of distinct countries (approximately 9).

My results for the Revenue Recognition sample are shown in Table 10. The coefficients in the even-numbered columns (more decentralized firms) are nearly all larger in magnitude than those in the respective odd-numbered columns (less decentralized firms), but these differences generally are not statistically significant. Therefore, there is limited evidence that the Revenue Recognition standard changed financial reporting incentives for the centralized oversight of revenues, as I do not show a difference in effect size between more and less decentralized firms.

I report the results for the Leases sample in Table 11. I use the same variables for organizational complexity to distinguish between less and more decentralized firms, though these variables are now calculated in relation to the issuance of the Leases standard. The coefficients on the interaction terms in the even-numbered columns (more decentralized firms) are all greater in magnitude than those in the respective odd-numbered columns (less decentralized firms), and the differences are statistically significant across all variables. The results for the Leases sample clearly demonstrate that there is a differential effect for more decentralized firms. This suggests that the accounting consistency of these firms was more disrupted by the issuance of the Leases standard as compared to less complex firms. These

results are consistent with a change in financial reporting incentives for the centralized oversight of operating leases. The disruption of the standard created the need for a centralized implementation effort to track and account for operating leases, resulting in a stronger effect for more complex and decentralized firms.⁷

Overall, I find strong empirical evidence for a differential disruption effect for more decentralized firms following the Leases standard, but not the Revenue Recognition standard, consistent with H3b. These results are consistent with firms responding to changed incentives from the Leases standard with a centralized implementation that united historically dispersed accounting practices for operating leases.

6.3.3 Susceptibility to Inertia

My last set of tests looks to see if firms that previously had more consistency in the accounting function experience a larger disruption following both the Leases and Revenue Recognition standards, per H3c. I create two variables that are intended to proxy for a firm's susceptibility to inertia. The first is the number of accounting changes (error corrections and policy updates), executive turnover events, and auditor turnover events the firm experienced in the two years preceding my pre-period. The more prior disruption a firm has experienced, the less susceptible it may be to inertia. My second measure uses the novel measure of accounting consistency implemented in Wang (2018), which seeks to isolate the accounting consistency piece of the function that maps firm's economic events into its financial statements. The less consistent a firm has been historically, the less I predict it to be susceptible to inertia.

My results for the Revenue Recognition sample are shown in Table 12. Comparing the coefficients in columns (1) and (2), I find that firms with lower historical accounting consistency experience a larger disruption, which is not consistent with my prediction in H3c.

7. I cannot rule out the possibility that organizational complexity, as I measure it in my study, may be a proxy for other firm characteristics that can affect my outcome of interest (i.e., the disruption to historical accounting practices, which I measure based on accounting changes). As such, I do not make a causal claim relating to the results in Table 11, but I do explain how these findings connect with my proposed mechanism.

However, in comparing the coefficients in columns (3) and (4), I do not find a significant difference in the magnitude of the disruption between groups based on the Wang (2018) consistency measure. Therefore, it appears that inertia is not a differentiating driving force for the disruption that I study, and both historically high- and low-consistency firms experience the disruption. I report the results for the Leases sample in Table 13. I use the same variables for prior disruptions and consistency, though these variables are now calculated in relation to the issuance of the Leases standard. I find consistent results for the Leases standard as I do for the Revenue Recognition standard. Namely, based on the historical measure of disruptions, historically less consistent firms experience a larger disruption. Again, I do not find a significant difference between low and high-consistency firms in columns (3) and (4).

Overall, I do not find evidence consistent with inertia as a leading mechanism for my results. However, it is important to note that my results based on the Wang (2018) consistency measure do show that firms that are more susceptible to inertia do experience significant disruption. As such, inertia may be at play in my setting, though it does not solely explain all of my results.

CHAPTER 7

OTHER POSSIBLE EXPLANATIONS

While I have taken care in using a research design intended to carefully identify my effects, there are possible alternative explanations for my results. First, as shown by my mixed results in Tables 12 and 13, it appears that inertia is not the only explanation for my results. Firms that have previously been proactive in identifying and enacting accounting changes or have experienced organizational change (e.g., auditor or executive turnover) are also disrupted by the issuances of the two standards in my study. While it is difficult to pinpoint the specific mechanism driving my results, it can perhaps be more broadly described as a change to firms' cost-benefit analyses for identifying and enacting accounting changes. My direct effect and spillover effect results both indicate that something changes following the issuance of an accounting standard, leading firms to identify and enact more accounting changes as compared to the prior period.

Another alternative explanation for my results is that firms enact real changes to their contract as part of their implementation efforts for the standards I study. Thus, perhaps it is the effects of these real contract modifications that lead to my results and not my proposed channel of learning and information acquisition and processing. I attempt to address this alternative explanation for my Leases standard results by performing an additional cross-sectional test comparing firms with below-median variable lease expense to firm with above-median variable lease expense. Because the variable portion of leases was not required to be capitalized on the balance sheet as operating leases, prior work shows that firms shifted their leasing activity and contracts towards variable leases (Heese et al. (2024)). In untabulated results, I find no difference in my main effect between firms with few or many variable leases. I believe this is suggestive evidence that my results are not mainly driven by real changes to contracts, at least as they relate to the Leases standard.

Overall, I believe my results, including my cross-sectional tests of standard affectedness

and centralization, are consistent with a change in mindset experienced by employees and executives of the accounting function through learning and information acquisition as part of the standard implementation process. However, it is difficult to rule out alternative explanations based on available data, which is mostly provided by firms in their public disclosures. I am comforted that my results comport with the theoretical model and empirical findings of Christensen et al. (2024), which indicate that managers acquire more decision-relevant information when adopting new standards. My paper is unique in that I focus on the implementation periods of accounting standards and that my outcome of interest is accounting changes that firms make separately from the actual changes mandated in the accounting guidance.

CHAPTER 8

CONCLUSION

Although consistency is a foundational value of accounting, it is intertwined with inertia, which is often accompanied by adverse effects, including complacency, lack of innovation, and the carryforward of historical errors. It is therefore important to understand what can interrupt accounting inertia. I show that two recently issued accounting standards, the Revenue Recognition and Leases standards, disrupt firms' accounting practices. Further, the accounting changes made by firms following the disruptions provide improved accounting information to investors.

I find that firms are more likely to disclose errors and updates in legacy policies for topics that relate to a new standard during that standard's implementation period, as well as some evidence for positive spillover effects to adjacent topics. I also find some evidence of negative spillover effects to unaffected topic areas during the implementation period of the Leases standard. I further demonstrate that the increase in accounting changes during the standard implementation period improves firms' accounting information environments. The increase in disclosures of errors corrects previously misstated financial information, and the updates to legacy policies are followed by higher earnings responsiveness.

I do not find evidence that the disruption created by a new accounting standard differs between firms that are more or less affected by the new guidance in the standard. Instead, my evidence is consistent with a high fixed cost of compliance and a broad disruptive effect of standards on all firms. Finally, I show evidence that more decentralized firms experienced a larger disruption following the Leases standard, which I attribute to the centralization of historically dispersed accounting practices for operating leases as a result of a change in financial reporting incentives for centralized oversight.

Overall, I document properties of accounting standard implementation periods and the effects that a new standard can have even before the standard becomes effective. The

findings in my paper demonstrate that standard-setting activity can affect firms' accounting systems (i.e., how accounting is practiced), which then affects the outputs of that system (i.e., financial reports). My work therefore has policy implications in terms of the timing and frequency of standard-setting activity. However, it is important to note that I do not attempt to conclude that the new standards I study are net beneficial from a welfare perspective. My findings should be interpreted in conjunction with other existing work on the costs and benefits of new accounting standards. More broadly, my results speak to the repercussions of a disruption in organizational inertia within the accounting profession, where inertia is deep-seated.

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FIGURES AND TABLES

Figure 1: Visualization of Implementation Period and Pre-Period

Figure 1A: Calculation of Revenue Recognition (RR) implementation period and pre-period for an example firm with a 12/31 fiscal-year-end firm that adopts the standard “just-in-time” (i.e., no early adoption)

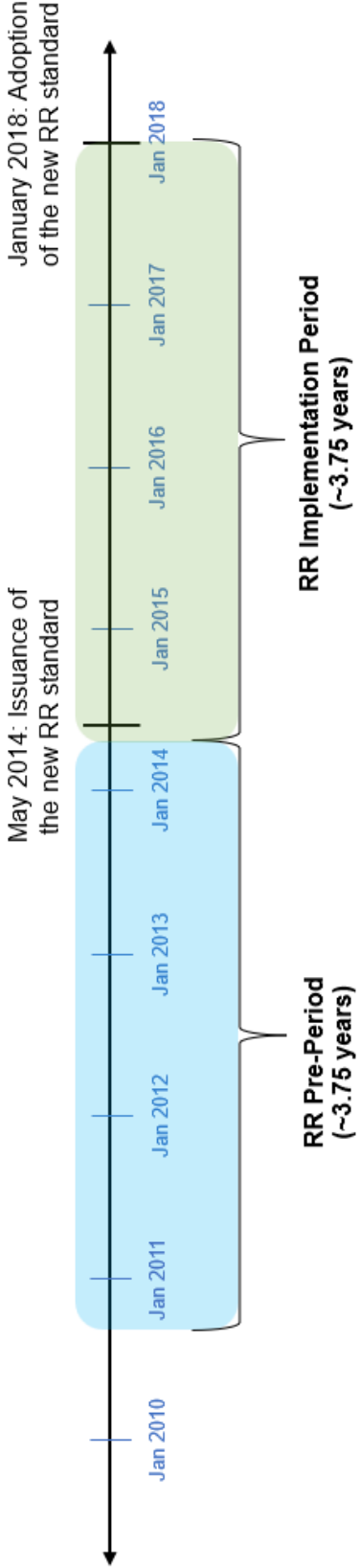


Figure 1B: Calculation of Leases implementation period and pre-period for an example firm with a 12/31 fiscal-year-end firm that adopts the standard “just-in-time” (i.e., no early adoption)

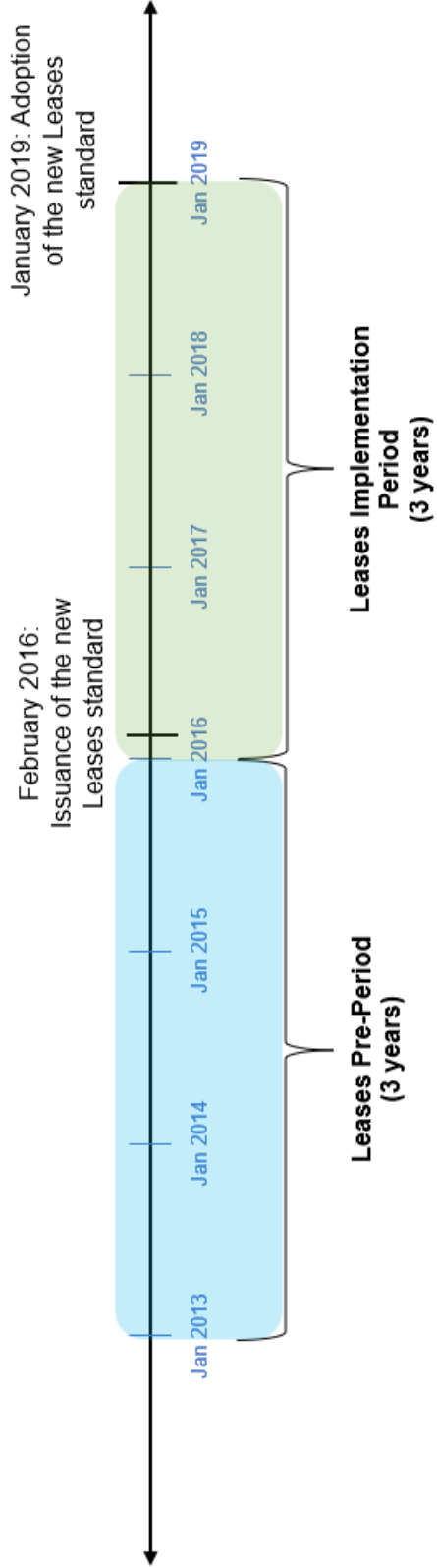


Figure 2: Graphical Depiction of Direct, Positive Spillover, and Negative Spillover Effects

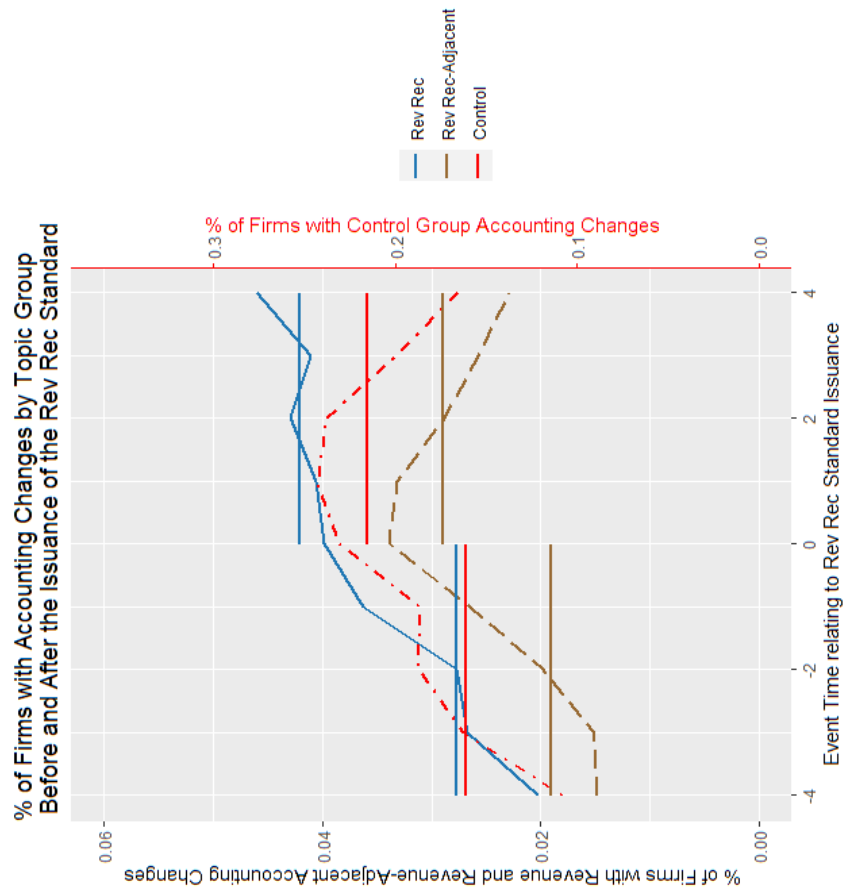


Figure 2A

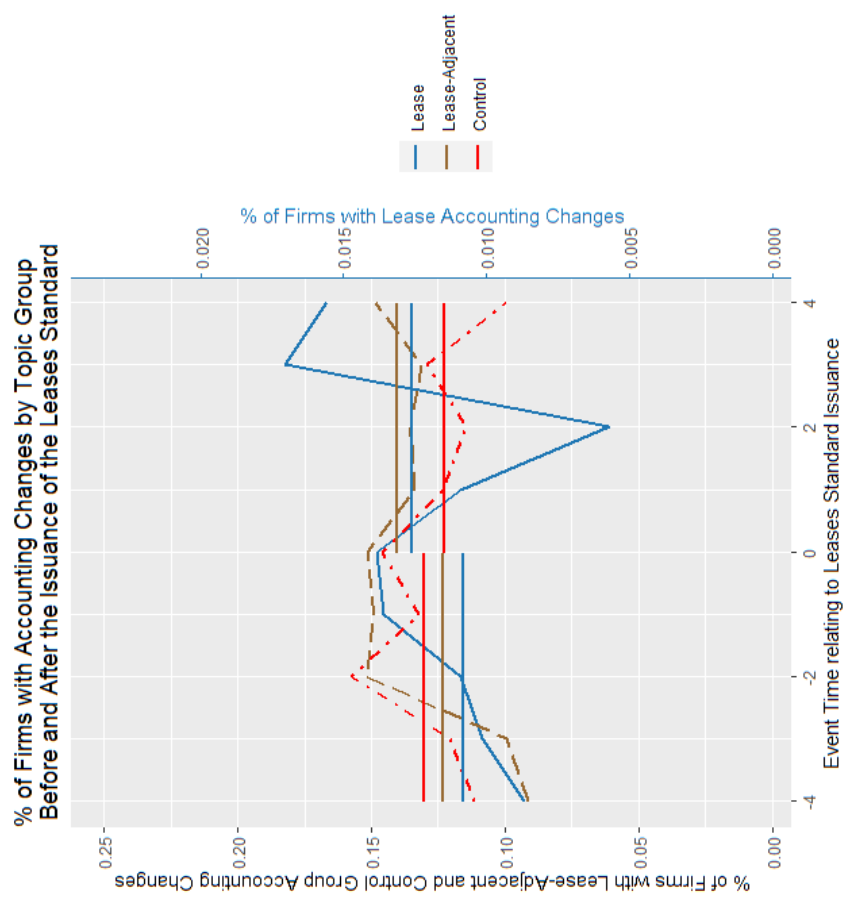


Figure 2B

Table 1: Descriptive Statistics (Revenue Recognition dataset - firm-quarter variables)

	Mean	St. Dev.	Min	Pctl(25)	Median	Pctl(75)	Max	N
Financial Variables								
Assets (millions USD)	14,603	103,627	0	305	1,313	5,078	2,579,729	104,748
Revenue (millions USD)	1,241	4,688	-3,038	38	192	737	136,267	94,103
Net Income (millions USD)	85	545	-18,893	-1	7	42	32,551	104,748
Any Accounting Change								
$\mathbb{1}\{\text{Any Accounting Change}\}$	0.12	0.33	0	0	0	0	1	104,748
# of Accounting Changes	0.14	0.40	0	0	0	0	5	104,748
$\mathbb{1}\{\text{Any Accounting Change - RR Direct}\}$	0.02	0.13	0	0	0	0	1	104,748
$\mathbb{1}\{\text{Any Accounting Change - RR Adjacent}\}$	0.04	0.19	0	0	0	0	1	104,748
Disclosures of Errors (Subset of Accounting Changes)								
$\mathbb{1}\{\text{Any Error Disclosure}\}$	0.04	0.19	0	0	0	0	1	104,748
$\mathbb{1}\{\text{Any Error Disclosure - RR Direct}\}$	0.01	0.07	0	0	0	0	1	104,748
$\mathbb{1}\{\text{Any Error Disclosure - RR Adjacent}\}$	0.01	0.07	0	0	0	0	1	104,748
$\mathbb{1}\{\text{Big R Restatement}\}$	0.003	0.06	0	0	0	0	1	104,748
$\mathbb{1}\{\text{Big R Restatement - RR Direct}\}$	0.001	0.03	0	0	0	0	1	104,748
$\mathbb{1}\{\text{Big R Restatement - RR Adjacent}\}$	0.0005	0.02	0	0	0	0	1	104,748
$\mathbb{1}\{\text{Little R Restatement}\}$	0.02	0.13	0	0	0	0	1	104,748
$\mathbb{1}\{\text{Little R Restatement - RR Direct}\}$	0.002	0.05	0	0	0	0	1	104,748
$\mathbb{1}\{\text{Little R Restatement - RR Adjacent}\}$	0.002	0.05	0	0	0	0	1	104,748
$\mathbb{1}\{\text{Adjustment}\}$	0.01	0.11	0	0	0	0	1	104,748
$\mathbb{1}\{\text{Adjustment - RR Direct}\}$	0.002	0.04	0	0	0	0	1	104,748
$\mathbb{1}\{\text{Adjustment - RR Adjacent}\}$	0.002	0.04	0	0	0	0	1	104,748
$\mathbb{1}\{\text{IC Weakness}\}$	0.01	0.08	0	0	0	0	1	104,748
$\mathbb{1}\{\text{IC Weakness - RR Direct}\}$	0.001	0.04	0	0	0	0	1	104,748
$\mathbb{1}\{\text{IC Weakness - RR Adjacent}\}$	0.001	0.03	0	0	0	0	1	104,748
Policy Updates (Subset of Accounting Changes)								
$\mathbb{1}\{\text{Any Policy Update}\}$	0.09	0.29	0	0	0	0	1	104,748
$\mathbb{1}\{\text{Any Policy Update - RR Direct}\}$	0.01	0.11	0	0	0	0	1	104,748
$\mathbb{1}\{\text{Any Policy Update - RR Adjacent}\}$	0.03	0.18	0	0	0	0	1	104,748
$\mathbb{1}\{\text{Chg. in Estimate}\}$	0.03	0.17	0	0	0	0	1	104,748
$\mathbb{1}\{\text{Chg. in Estimate - RR Direct}\}$	0.01	0.11	0	0	0	0	1	104,748
$\mathbb{1}\{\text{Chg. in Estimate - RR Adjacent}\}$	0.001	0.04	0	0	0	0	1	104,748
$\mathbb{1}\{\text{Impairment}\}$	0.07	0.25	0	0	0	0	1	104,748
$\mathbb{1}\{\text{Impairment - RR Direct}\}$	0.00	0.00	0	0	0	0	0	104,748
$\mathbb{1}\{\text{Impairment - RR Adjacent}\}$	0.03	0.18	0	0	0	0	1	104,748
$\mathbb{1}\{\text{Change in Principle}\}$	0.003	0.05	0	0	0	0	1	104,748
$\mathbb{1}\{\text{Change in Principle - RR Direct}\}$	0.0002	0.02	0	0	0	0	1	104,748
$\mathbb{1}\{\text{Change in Principle - RR Adjacent}\}$	0.002	0.04	0	0	0	0	1	104,748
Control Variables								
$\mathbb{1}\{\text{Exec Turnover}\}$	0.23	0.42	0	0	0	0	1	104,748
$\mathbb{1}\{\text{Auditor Turnover}\}$	0.06	0.23	0	0	0	0	1	104,748

Table 2: Descriptive Statistics (Leases dataset - firm-quarter variables)

	Mean	St. Dev.	Min	Pctl(25)	Median	Pctl(75)	Max	N
Financial Variables								
Assets (millions USD)	17,346	128,373	0	283	1,331	5,268	3,418,318	89,185
Revenue (millions USD)	1,261	4,939	-797	33	184	721	138,793	80,318
Net Income (millions USD)	88	617	-25,392	-2	6	43	58,685	89,185
Any Accounting Change								
1{Any Accounting Change}	0.12	0.33	0	0	0	0	1	89,185
# of Accounting Changes	0.14	0.40	0	0	0	0	5	89,185
1{Any Accounting Change - L Direct}	0.003	0.06	0	0	0	0	1	89,185
1{Any Accounting Change - L Adjacent}	0.04	0.20	0	0	0	0	1	89,185
Disclosures of Errors (Subset of Accounting Changes)								
1{Any Error Disclosure}	0.04	0.19	0	0	0	0	1	89,185
1{Any Error Disclosure - L Direct}	0.002	0.04	0	0	0	0	1	89,185
1{Any Error Disclosure - L Adjacent}	0.003	0.05	0	0	0	0	1	89,185
1{Big R Restatement}	0.003	0.05	0	0	0	0	1	89,185
1{Big R Restatement - L Direct}	0.0004	0.02	0	0	0	0	1	89,185
1{Big R Restatement - L Adjacent}	0.0001	0.01	0	0	0	0	1	89,185
1{Little R Restatement}	0.02	0.13	0	0	0	0	1	89,185
1{Little R Restatement - L Direct}	0.001	0.03	0	0	0	0	1	89,185
1{Little R Restatement - L Adjacent}	0.001	0.03	0	0	0	0	1	89,185
1{Adjustment}	0.01	0.11	0	0	0	0	1	89,185
1{Adjustment - L Direct}	0.0004	0.02	0	0	0	0	1	89,185
1{Adjustment - L Adjacent}	0.001	0.04	0	0	0	0	1	89,185
1{IC Weakness}	0.01	0.08	0	0	0	0	1	89,185
1{IC Weakness - L Direct}	0.0002	0.02	0	0	0	0	1	89,185
1{IC Weakness - L Adjacent}	0.0002	0.01	0	0	0	0	1	89,185
Policy Updates (Subset of Accounting Changes)								
1{Any Policy Update}	0.10	0.30	0	0	0	0	1	89,185
1{Any Policy Update - L Direct}	0.001	0.03	0	0	0	0	1	89,185
1{Any Policy Update - L Adjacent}	0.04	0.19	0	0	0	0	1	89,185
1{Chg. in Estimate}	0.03	0.17	0	0	0	0	1	89,185
1{Chg. in Estimate - L Direct}	0.0003	0.02	0	0	0	0	1	89,185
1{Chg. in Estimate - L Adjacent}	0.005	0.07	0	0	0	0	1	89,185
1{Impairment}	0.07	0.25	0	0	0	0	1	89,185
1{Impairment - L Direct}	0.001	0.03	0	0	0	0	1	89,185
1{Impairment - L Adjacent}	0.03	0.18	0	0	0	0	1	89,185
1{Change in Principle}	0.002	0.05	0	0	0	0	1	89,185
1{Change in Principle - L Direct}	0.00	0.00	0	0	0	0	0	89,185
1{Change in Principle - L Adjacent}	0.0000	0.01	0	0	0	0	1	89,185
Control Variables								
1{Exec Turnover}	0.24	0.43	0	0	0	0	1	89,185
1{Auditor Turnover}	0.06	0.24	0	0	0	0	1	89,185

Table 3: Descriptive Statistics (firm variables)

Panel A: Revenue Recognition

	Mean	St. Dev.	Min	Pctl(25)	Median	Pctl(75)	Max	N
Standard-Related								
Length of Implementation Period (years)	3.84	0.25	2.75	3.75	3.75	3.75	5.50	3,689
DISC_MAT	0.21	0.41	0	0	0	0	1	3,689
606 Day 0 RE Adj	0.16	1.74	0.00	0.001	0.01	0.03	57.23	1,628
606 Adoption Year Rev Diff	0.12	1.38	0.0000	0.002	0.01	0.03	33.33	871
1{IT Invest Disclosure}	0.17	0.38	0	0	0	0	1	3,643
1{IT Invest Words}	0.14	0.35	0	0	0	0	1	3,639
1{More Affected Industry}	0.14	0.34	0	0	0	0	1	3,576
Cross-Sectional Splits								
# of Business Segments	2.11	1.52	1	1	1	3	15	3,576
# of Geographic Segments	2.09	2.29	0	1	1	3	29	3,576
# of Unique Industries	2.69	1.60	1	2	2	3	15	3,576
# of Subsidiaries	57.01	122.47	1	6	17	52	1,715	2,244
# of Subsidiary Countries	8.77	13.16	1	1	3	11	99	2,244
Firm Age (years)	20.40	16.94	0	7	17	28	64	3,689
# of Prior Disruptions	2.33	3.11	0.00	0.00	1.00	4.00	24.00	3,039
Acctg. Consistency Measure	0.00	0.05	-0.49	-0.00	0.01	0.02	0.12	1,766

Panel B: Leases

	Mean	St. Dev.	Min	Pctl(25)	Median	Pctl(75)	Max	N
Standard-Related								
Length of Implementation Period (years)	3.09	0.24	2.00	3.00	3.00	3.00	6.00	3,834
DISC_MAT	0.95	0.22	0	1	1	1	1	3,412
Operating Lease Intensity (At Issuance)	0.15	0.71	0.00	0.003	0.03	0.11	26.40	3,827
Operating Lease Intensity (At Adoption)	0.62	17.04	0.0000	0.01	0.04	0.13	892.08	3,001
1{IT Invest Disclosure}	0.16	0.37	0	0	0	0	1	3,760
1{IT Invest Words}	0.13	0.34	0	0	0	0	1	3,758
1{More Affected Industry}	0.11	0.32	0	0	0	0	1	3,691
Cross-Sectional Splits								
# of Business Segments	2.11	1.51	1	1	1	3	14	3,691
# of Geographic Segments	2.10	2.41	0	1	1	3	43	3,691
# of Unique Industries	2.73	1.59	1	2	2	3	16	3,691
# of Subsidiaries	57.74	126.20	1	6	17	55	2,368	2,412
# of Subsidiary Countries	8.64	13.21	1	1	3	10	103	2,412
Firm Age (years)	20.98	17.24	0	7	17	29	66	3,834
# of Prior Disruptions	2.53	3.31	0.00	0.00	1.00	4.00	22.00	3,421
Acctg. Consistency Measure	0.00	0.06	-0.49	-0.00	0.01	0.02	0.12	1,824

Table 4: Direct Effect Results

Panel A: Revenue Recognition						
	<i>Dependent variable:</i>					
	$\mathbb{1}\{\text{Accounting Change}\}$		$\mathbb{1}\{\text{Disclosure of Error}\}$		$\mathbb{1}\{\text{Update to Legacy Policies}\}$	
	(1)	(2)	(3)	(4)	(5)	(6)
Directly Treated x IMPL	0.009*** (0.002)	0.009*** (0.002)	0.003*** (0.001)	0.003*** (0.001)	0.007*** (0.002)	0.007*** (0.002)
Directly Treated	-0.030*** (0.003)	-0.030*** (0.003)	-0.018*** (0.001)	-0.018*** (0.001)	-0.012*** (0.003)	-0.012*** (0.003)
IMPL	-0.003** (0.002)		-0.001** (0.001)		-0.003** (0.001)	
Controls? Fixed Effects	Yes Firm, Fiscal Quarter, Topic	Yes Firm-Quarter, Topic	Yes Firm, Fiscal Quarter, Topic	Yes Firm-Quarter, Topic	Yes Firm, Fiscal Quarter, Topic	Yes Firm-Quarter, Topic
Adjusted R ²	0.365	0.021	0.349	0.014	0.397	0.006
Observations	207,566	207,566	207,566	207,566	207,566	207,566

Panel B: Leases						
	<i>Dependent variable:</i>					
	$\mathbb{1}\{\text{Accounting Change}\}$		$\mathbb{1}\{\text{Disclosure of Error}\}$		$\mathbb{1}\{\text{Update to Legacy Policies}\}$	
	(1)	(2)	(3)	(4)	(5)	(6)
Directly Treated x IMPL	0.012*** (0.002)	0.012*** (0.002)	0.007*** (0.001)	0.007*** (0.001)	0.007*** (0.002)	0.007*** (0.002)
Directly Treated	-0.067*** (0.004)	-0.067*** (0.004)	-0.024*** (0.001)	-0.024*** (0.001)	-0.046*** (0.003)	-0.046*** (0.003)
IMPL	-0.005*** (0.001)		-0.004*** (0.001)		-0.003*** (0.001)	
Controls? Fixed Effects	Yes Firm, Fiscal Quarter, Topic	Yes Firm-Quarter, Topic	Yes Firm, Fiscal Quarter, Topic	Yes Firm-Quarter, Topic	Yes Firm, Fiscal Quarter, Topic	Yes Firm-Quarter, Topic
Adjusted R ²	0.357	0.037	0.335	0.014	0.381	0.023
Observations	176,960	176,960	176,960	176,960	176,960	176,960

Note:

*p<0.1; **p<0.05; ***p<0.01

This table reports the results of the following OLS regression (Equation 1):

$$\begin{aligned} \mathbb{1}\{\text{AccountingChange}\}_{fqt}^s &= \alpha_f + \beta_{fq} + \gamma_1 \text{DirectlyTreated}_t^s + \gamma_2 \text{IMPL}_{fq}^s \\ &+ \gamma_3 \text{DirectlyTreated}_t^s * \text{IMPL}_{fq}^s + \delta \text{CONTROLS}_{fq}^s + \varepsilon, \\ &\text{for } s \in \{\text{RevRec}, \text{Leases}\} \end{aligned}$$

Panel A reports results for the Revenue Recognition sample and Panel B reports results for the Leases sample. The dependent variable in columns (1) and (2), $\mathbb{1}\{AccountingChange\}_{fqt}$, is an indicator variable for whether firm f disclosed an accounting change in fiscal quarter q for topic group t . For columns (3) through (4), the dependent variable is $\mathbb{1}\{DisclosureofError\}_{fqt}$, an indicator variable for whether firm f disclosed an error in fiscal quarter q for topic group t . For columns (5) through (6), the dependent variable is $\mathbb{1}\{UpdatetoLegacyPolicies\}_{fqt}$, an indicator variable for whether firm f disclosed an update to legacy policies in fiscal quarter q for topic group t .

Directly Treated is an indicator variable that equals 1 for topics that are directly treated by standard s (Revenue Recognition in Panel A and Leases in Panel B) and equals 0 for topics that are unaffected by either standard. *IMPL* is an indicator variable for whether the fiscal quarter q is in firm f 's standard implementation period for standard s . I include control variables for auditor turnover and executive turnover. In columns (1), (3), and (5), I include a firm fixed effect, a fiscal-quarter fixed effect, and an accounting topic fixed effect. In columns (2), (4), and (6), I include a firm-quarter fixed effect and an accounting topic fixed effect. Standard errors, in parentheses, are clustered at the industry level.

Table 5: Spillover Effect Results

Panel A: Revenue Recognition						
	<i>Dependent variable:</i>					
	$\mathbb{1}\{\text{Accounting Change}\}$		$\mathbb{1}\{\text{Disclosure of Error}\}$		$\mathbb{1}\{\text{Update to Legacy Policies}\}$	
	(1)	(2)	(3)	(4)	(5)	(6)
Adjacently Treated x IMPL	0.012*** (0.002)	0.012*** (0.002)	0.002* (0.001)	0.002* (0.001)	0.011*** (0.002)	0.011*** (0.002)
Adjacently Treated	-0.009** (0.004)	-0.009** (0.004)	-0.018*** (0.001)	-0.018*** (0.001)	0.009** (0.004)	0.009** (0.004)
IMPL	-0.004*** (0.001)		-0.001 (0.001)		-0.005*** (0.001)	
Controls? Fixed Effects	Yes Firm, Fiscal Quarter, Topic	Yes Firm-Quarter, Topic	Yes Firm, Fiscal Quarter, Topic	Yes Firm-Quarter, Topic	Yes Firm, Fiscal Quarter, Topic	Yes Firm-Quarter, Topic
Adjusted R ²	0.389	0.036	0.340	0.018	0.425	0.003
Observations	207,566	207,566	207,566	207,566	207,566	207,566

Panel B: Leases						
	<i>Dependent variable:</i>					
	$\mathbb{1}\{\text{Accounting Change}\}$		$\mathbb{1}\{\text{Disclosure of Error}\}$		$\mathbb{1}\{\text{Update to Legacy Policies}\}$	
	(1)	(2)	(3)	(4)	(5)	(6)
Adjacently Treated x IMPL	0.008*** (0.003)	0.008*** (0.003)	0.006*** (0.001)	0.006*** (0.001)	0.003 (0.003)	0.003 (0.003)
Adjacently Treated	-0.029*** (0.005)	-0.029*** (0.005)	-0.023*** (0.001)	-0.023*** (0.001)	-0.009 (0.005)	-0.009 (0.005)
IMPL	-0.003* (0.002)		-0.003*** (0.001)		-0.001 (0.002)	
Controls? Fixed Effects	Yes Firm, Fiscal Quarter, Topic	Yes Firm-Quarter, Topic	Yes Firm, Fiscal Quarter, Topic	Yes Firm-Quarter, Topic	Yes Firm, Fiscal Quarter, Topic	Yes Firm-Quarter, Topic
Adjusted R ²	0.394	0.026	0.337	0.022	0.415	0.003
Observations	176,960	176,960	176,960	176,960	176,960	176,960

Note:

*p<0.1; **p<0.05; ***p<0.01

This table reports the results of the following OLS regression (Equation 1):

$$\begin{aligned} \mathbb{1}\{\text{AccountingChange}\}_{fqt}^s = & \alpha_f + \beta_{fq} + \gamma_1 \text{AdjacentlyTreated}_t^s + \gamma_2 \text{IMPL}_{fq}^s \\ & + \gamma_3 \text{AdjacentlyTreated}_t^s * \text{IMPL}_{fq}^s + \delta \text{CONTROLS}_{fq}^s + \varepsilon, \\ & \text{for } s \in \{\text{RevRec}, \text{Leases}\} \end{aligned}$$

Panel A reports results for the Revenue Recognition sample and Panel B reports results for the Leases sample. The dependent variable in columns (1) and (2), $\mathbb{1}\{\text{AccountingChange}\}_{fqt}$, is an indicator variable for whether firm f disclosed an accounting change in fiscal quarter q for topic group t . For columns (3)

through (4), the dependent variable is $\mathbb{1}\{DisclosureofError\}_{fqt}$, an indicator variable for whether firm f disclosed an error in fiscal quarter q for topic group t . For columns (5) through (6), the dependent variable is $\mathbb{1}\{UpdatetoLegacyPolicies\}_{fqt}$, an indicator variable for whether firm f disclosed an update to legacy policies in fiscal quarter q for topic group t .

Adjacently Treated is an indicator variable that equals 1 for topics that are adjacently treated by standard s (Revenue Recognition in Panel A and Leases in Panel B) and equals 0 for topics that are unaffected by either standard. *IMPL* is an indicator variable for whether the fiscal quarter q is in firm f 's standard implementation period for standard s . I include control variables for auditor turnover and executive turnover. In columns (1), (3), and (5), I include a firm fixed effect, a fiscal-quarter fixed effect, and an accounting topic fixed effect. In columns (2), (4), and (6), I include a firm-quarter fixed effect and an accounting topic fixed effect. Standard errors, in parentheses, are clustered at the industry level.

Table 6: Improved Accounting Information Test (Updates to Legacy Policies)

	<i>Dependent variable:</i>		
	Quarterly Earnings		
	$CAR_{[-1,+1]}$	$CAR_{[-1,+1]}$	$CAR_{[-1,+1]}$
	(1)	(2)	(3)
UE x Update Firm x Post-Period	0.035** (0.016)	0.051** (0.022)	0.050** (0.023)
UE	0.034*** (0.004)	0.173** (0.075)	0.142* (0.077)
UE x Update Firm	-0.038*** (0.005)	-0.043*** (0.005)	-0.038*** (0.006)
UE x Post-Period	-0.008 (0.005)	-0.004 (0.003)	-0.008* (0.005)
Update Firm x Post-Period	0.008** (0.003)	0.008** (0.003)	0.006** (0.003)
Update Firm	-0.006*** (0.002)	-0.006*** (0.002)	-0.007* (0.004)
Post-Period	-0.004 (0.003)	-0.004 (0.003)	-0.002 (0.003)
Intercept	0.005*** (0.002)		
Fixed Effects	None	None	Firm
Include Controls x UE?	No	Yes	Yes
Adjusted R ²	0.006	0.026	0.055
Observations	14,278	14,108	14,108
<i>Note:</i>		*p<0.1; **p<0.05; ***p<0.01	

This table reports the results of the following OLS regression (Equation 2):

$$\begin{aligned}
 CAR_{[-1,+1],fq} = & \alpha_f + \beta_1 UE_{fq} + \beta_2 UE_{fq} * UpdateFirm_f * PostPeriod_{fq} \\
 & + \beta_3 UE_{fq} * UpdateFirm_f + \beta_4 UE_{fq} * PostPeriod_{fq} \\
 & + \beta_5 UpdateFirm_f * PostPeriod_{fq} + \beta_6 UpdateFirm_f \\
 & + \beta_7 PostPeriod_{fq} + \gamma_1 CONTROLS_{fq} \\
 & + \gamma_2 CONTROLS_{fq} * UE_{fq} + \varepsilon
 \end{aligned}$$

The dependent variables above are the average absolute analyst forecast error for firm f 's EPS in quarter q in column (1); the median absolute analyst forecast error for firm f 's EPS in quarter q in column (2); the range between the maximum and minimum analyst forecasts for firm f 's EPS in quarter q in column (3); the absolute management guidance error for firm f 's annual EPS in year t in column (4); and the absolute management guidance error for firm f 's annual sales (as a percentage) in year t in column (5). *Update Firm*

is an indicator variable that equals 1 if firm f disclosed an update to legacy policies and procedures during the implementation period of either the Revenue Recognition or the Leases standard in year t . *Post Period* is an indicator variable that equals 1 if quarter q is in fiscal year $t+1$ (i.e., either the fiscal year following a policy update or a corresponding matched year). I include a firm fixed effect in all specifications. Standard errors, in parentheses, are clustered at the industry level.

Table 7: Improved Accounting Information Test (Updates to Legacy Policies) - Analyst Forecast Errors and Management Guidance Errors

	<i>Dependent variable: 1{Accounting Change}</i>				
	Mean Absolute Analyst Forecast Error (1)	Median Absolute Analyst Forecast Error (2)	Range of Analyst Forecasts (3)	Absolute Mgmt. Guidance Error (EPS) (4)	Absolute Mgmt. Guidance Error (Sales, %) (5)
Update Firm x Post-Period	-0.001 (0.005)	-0.001 (0.005)	-0.018** (0.008)	0.518 (0.375)	0.039* (0.023)
Update Firm	0.003 (0.005)	0.002 (0.005)	0.012** (0.005)	-0.756** (0.298)	-0.022 (0.023)
Post-Period	0.007 (0.005)	0.007 (0.005)	0.011** (0.004)	0.235 (0.344)	-0.023 (0.016)
Fixed Effects	Firm	Firm	Firm	Firm	Firm
Adjusted R ²	0.589	0.580	0.725	0.464	0.782
Observations	23,803	23,803	23,935	540	430

Note:

*p<0.1; **p<0.05; ***p<0.01

This table reports the results of the following OLS regression (Equation 3):

$$AbsoluteErrorVariable_{ft} = \alpha_f + \beta_1 UpdateFirm_f * PostPeriod_{ft} + \beta_2 UpdateFirm_f + \beta_3 PostPeriod_{ft} + \varepsilon$$

Column (1) shows results without control variables or firm fixed effects; column (2) adds control variables (interacted with *UE*); and column (3) includes both control variables and a firm fixed effect. The dependent variable, $CAR_{[-1,+1],fq}$, is the three-day cumulative abnormal return for the earnings announcement date for quarter *q*. *UE* is the unexpected earnings for firm *f* for quarter *q*, calculated based on the difference between the actual earnings per share and the mean forecasted earnings per share in $1/B/E/S$, scaled by the stock price at the end of the preceding month. *Update Firm* is an indicator variable that equals 1 if firm *f* disclosed an update to legacy policies and procedures during the implementation period of either the Revenue Recognition or the Leases standard in year *t*. *Post Period* is an indicator variable that equals 1 if quarter *q* is in fiscal year *t+1* (i.e., either the fiscal year following a policy update or a corresponding matched year). Control variables include *Loss* (an indicator variable that takes a value of 1 if firm *f*'s earnings before extraordinary items are negative), *Size* (the log of market value of equity), *MTB* (the

ratio of market value of equity to book value of equity), and *Leverage* (the ratio of total liabilities to book value of equity). I include a firm fixed effect in column (3). Standard errors, in parentheses, are clustered at the industry level.

Table 8: Direct Effect Results (Revenue Recognition) - Cross-Sectional Splits by Affectedness

		<i>Dependent variable: $\mathbb{1}\{\text{Accounting Change}\}$</i>					
		Below Median		Above Median			
		606 Adoption Year	606 Adoption Year	606 Adoption Year	606 Adoption Year	$\mathbb{1}\{\text{More Affected Industry}\}=0$	$\mathbb{1}\{\text{More Affected Industry}\}=1$
		Rev Diff	Rev Diff	Rev Diff	Rev Diff	(5)	(6)
		(1)	(2)	(3)	(4)	(5)	(6)
Directly Treated x IMPL		0.013*** (0.004)	0.008* (0.004)	0.012** (0.006)	0.012** (0.006)	0.010*** (0.002)	0.003 (0.004)
		p-value of Wald test: 0.218		p-value of Wald test: 0.490		p-value of Wald test: 0.081	
Directly Treated		-0.035*** (0.005)	-0.015** (0.006)	-0.028*** (0.006)	-0.024*** (0.007)	-0.033*** (0.003)	-0.006 (0.010)
IMPL		-0.006** (0.003)	-0.001 (0.003)	-0.004 (0.004)	-0.004 (0.004)	-0.004** (0.003)	0.001 (0.002)
Controls?		Yes	Yes	Yes	Yes	Yes	Yes
Fixed Effects	Firm, Topic	Firm, Topic	Firm, Topic	Firm, Topic	Firm, Topic	Firm, Topic	Firm, Topic
Adjusted R ²	0.362	0.391	0.377	0.386	0.362	0.389	0.389
Observations	48,356	44,050	25,098	23,532	174,790	27,984	27,984

Note: *p<0.1; **p<0.05; ***p<0.01

This table reports the results of the OLS regression below (Equation 1) for the Revenue Recognition sample. Columns (1) and (2) report results for firms split between high and low values of the adoption date retained earnings adjustment percentage. Columns (3) and (4) report results for firms split between the high and low values of the percentage difference in revenues recognized in the adoption year as compared to legacy guidance. Columns (5) and (6) report results for firms that do not or do operate in at least one industry that was considered more affected by the Revenue Recognition standard.

$$\mathbb{1}\{\text{AccountingChange}\}_{fqt}^s = \alpha_f + \beta_{fq} + \gamma_1 \text{DirectlyTreated}_t^s + \gamma_2 \text{IMPL}_{fq}^s + \gamma_3 \text{DirectlyTreated}_t^s * \text{IMPL}_{fq}^s + \delta \text{CONTROLS}_{fq}^s + \varepsilon,$$

for $s = \text{RevRec}$

The dependent variable, $\mathbb{1}\{AccountingChange\}_{fqt}$, is an indicator variable for whether firm f disclosed an accounting change in fiscal quarter q for topic group t . *Directly Treated* is an indicator variable that equals 1 for topics that are directly treated by the Revenue Recognition standard and equals 0 for topics that are unaffected by either standard. *IMPL* is an indicator variable for whether the fiscal quarter q is in firm f 's Revenue Recognition implementation period. I include control variables for auditor turnover and executive turnover. I include a firm fixed effect and an accounting topic fixed effect. Standard errors, in parentheses, are clustered at the industry level. I also report p-values of a Wald test comparing the coefficient of interest (*Directly Treated* \times *IMPL*) between columns (1) and (2), (3) and (4), and (5) and (6).

Table 9: Direct Effect Results (Leases) - Cross-Sectional Splits by Affectedness

		<i>Dependent variable: $\mathbb{1}\{\text{Accounting Change}\}$</i>					
		Below Median Lease Intensity (At Issuance)	Above Median Lease Intensity (At Issuance)	Below Median Lease Intensity (At Adoption)	Above Median Lease Intensity (At Adoption)	$\mathbb{1}\{\text{More Affected Industry}\}=0$	$\mathbb{1}\{\text{More Affected Industry}\}=1$
		(1)	(2)	(3)	(4)	(5)	(6)
Directly Treated x IMPL		0.015*** (0.003)	0.009*** (0.002)	0.015*** (0.003)	0.012*** (0.003)	0.012*** (0.002)	0.009** (0.004)
		p-value of Wald test: 0.067		p-value of Wald test: 0.275		p-value of Wald test: 0.220	
Directly Treated		-0.072*** (0.007)	-0.062*** (0.003)	-0.076*** (0.008)	-0.066*** (0.004)	-0.068*** (0.004)	-0.063*** (0.005)
IMPL		-0.006*** (0.002)	-0.005*** (0.002)	-0.007*** (0.002)	-0.005*** (0.002)	-0.005*** (0.001)	-0.004 (0.003)
Controls?		Yes	Yes	Yes	Yes	Yes	Yes
Fixed Effects	Firm, Topic	Firm, Topic	Firm, Topic	Firm, Topic	Firm, Topic	Firm, Topic	Firm, Topic
Adjusted R ²	0.357	0.359	0.360	0.363	0.361	0.341	0.341
Observations	86,224	90,486	70,240	68,850	152,170	19,458	19,458

Note: *p<0.1; **p<0.05; ***p<0.01

This table reports the results of the OLS regression below (Equation 1) for the Leases sample. Columns (1) and (2) report results for firms split between the upper and lower halves of values of the operating lease intensity calculated based on data as of standard issuance. Columns (3) and (4) report results for firms split between the upper and lower halves of values of the operating lease intensity calculated based on data as of standard adoption. Columns (5) and (6) report results for firms that do not or do operate in at least one industry that was considered more

affected by the Leases standard.

$$\begin{aligned} \mathbb{1}\{AccountingChange\}_{fqt}^s &= \alpha_f + \beta_{fq} + \gamma_1 DirectlyTreated_t^s + \gamma_2 IMPL_{fq}^s \\ &+ \gamma_3 DirectlyTreated_t^s * IMPL_{fq}^s + \delta CONTROLS_{fq}^s + \varepsilon, \end{aligned}$$

for $s = Leases$

The dependent variable, $\mathbb{1}\{AccountingChange\}_{fqt}$, is an indicator variable for whether firm f disclosed an accounting change in fiscal quarter q for topic group t . *Directly Treated* is an indicator variable that equals 1 for topics that are directly treated by the Leases standard and equals 0 for topics that are unaffected by either standard. *IMPL* is an indicator variable for whether the fiscal quarter q is in firm f 's Leases implementation period. I include control variables for auditor turnover and executive turnover. I include a firm fixed effect and an accounting topic fixed effect. Standard errors, in parentheses, are clustered at the industry level. I also report p-values of a Wald test comparing the coefficient of interest (*Directly Treated x IMPL*) between columns (1) and (2), (3) and (4), and (5) and (6).

Table 10: Policy-Level Treatment Results (Revenue Recognition) - Cross-Sectional Splits by Organizational Complexity

		<i>Dependent variable: 1{Accounting Change}</i>							
	Single Segment	Multi-Segment	1-2 SICs	3+ SICs	Below Median # Subsidiaries	Above Median # Subsidiaries	Below Median # Countries	Above Median # Countries	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	
Directly Treated x IMPL	0.007** (0.003)	0.011*** (0.003)	0.007*** (0.003)	0.012*** (0.003)	0.011*** (0.004)	0.010*** (0.003)	0.010** (0.005)	0.010*** (0.003)	p-value of Wald test: 0.497
Directly Treated	-0.026*** (0.003)	-0.033*** (0.004)	-0.030*** (0.004)	-0.029*** (0.004)	-0.027*** (0.005)	-0.039*** (0.004)	-0.034*** (0.005)	-0.033*** (0.004)	p-value of Wald test: 0.442
IMPL	-0.004** (0.002)	-0.003 (0.002)	-0.002 (0.002)	-0.005** (0.002)	-0.005* (0.003)	-0.003 (0.002)	-0.005* (0.003)	-0.003 (0.002)	
Controls?	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	
Fixed Effects	Firm, Topic	Firm, Topic	Firm, Topic	Firm, Topic	Firm, Topic	Firm, Topic	Firm, Topic	Firm, Topic	
Adjusted R ²	0.363	0.366	0.357	0.373	0.376	0.365	0.369	0.368	
Observations	102,394	100,380	111,840	90,934	65,796	67,058	64,822	68,032	

Note: *p<0.1; **p<0.05; ***p<0.01

This table reports the results of the OLS regression below (Equation 1) for the Revenue Recognition sample. Columns (1) and (2) report results for firms that are single- and multi-segment, respectively. Columns (3) and (4) report results for firms that operate in 2 or fewer unique industries and firms that operate in three or more unique industries, respectively. Columns (5) and (6) report results for firms split between the upper and lower halves of number of legal subsidiaries. Columns (7) and (8) report results for firms split between the upper and lower halves of the unique number of countries in which they have legal subsidiaries.

$$\begin{aligned}
 \mathbf{1}\{AccountingChange\}_{fqt}^s &= \alpha_f + \beta_{fq} + \gamma_1 DirectlyTreated_t^s + \gamma_2 IMPL_{fq}^s \\
 &+ \gamma_3 DirectlyTreated_t^s * IMPL_{fq}^s + \delta CONTROLS_{fq}^s + \varepsilon, \\
 &\text{for } s = RevRec
 \end{aligned}$$

The dependent variable, $\mathbb{1}\{\text{AccountingChange}\}_{fqt}$, is an indicator variable for whether firm f disclosed an accounting change in fiscal quarter q for topic group t . *Directly Treated* is an indicator variable that equals 1 for topics that are directly treated by the Revenue Recognition standard and equals 0 for topics that are unaffected by either standard. *IMPL* is an indicator variable for whether the fiscal quarter q is in firm f 's Revenue Recognition implementation period. I include control variables for auditor turnover and executive turnover. I include a firm fixed effect and an accounting topic fixed effect. Standard errors, in parentheses, are clustered at the industry level. I also report p-values of a Wald test comparing the coefficient of interest (*Directly Treated* \times *IMPL*) between columns (1) and (2), (3) and (4), (5) and (6), and (7) and (8).

Table 11: Policy-Level Treatment Results (Leases) - Cross-Sectional Splits by Organizational Complexity

		<i>Dependent variable: $\mathbb{1}\{\text{Accounting Change}\}$</i>							
	Single Segment	Multi-Segment	1-2 SICs	3+ SICs	Below Median # Subsidiaries	Above Median # Subsidiaries	Below Median # Countries	Above Median # Countries	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	
Directly Treated x IMPL	0.009*** (0.002)	0.015*** (0.003)	0.009*** (0.002)	0.017*** (0.003)	0.010*** (0.003)	0.018*** (0.003)	0.007*** (0.003)	0.021*** (0.003)	p-value of Wald test: 0.069
	p-value of Wald test: 0.042		p-value of Wald test: 0.015		p-value of Wald test: 0.069		p-value of Wald test: 0.002		
Directly Treated	-0.047*** (0.003)	-0.089*** (0.004)	-0.055*** (0.003)	-0.083*** (0.005)	-0.058*** (0.004)	-0.096*** (0.005)	-0.058*** (0.004)	-0.096*** (0.004)	
IMPL	-0.004*** (0.001)	-0.007*** (0.002)	-0.004** (0.002)	-0.008*** (0.002)	-0.005** (0.002)	-0.008*** (0.002)	-0.003 (0.002)	-0.011*** (0.002)	
Controls?	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	
Fixed Effects	Firm, Topic	Firm, Topic	Firm, Topic	Firm, Topic	Firm, Topic	Firm, Topic	Firm, Topic	Firm, Topic	
Adjusted R ²	0.355	0.364	0.352	0.365	0.354	0.374	0.357	0.371	
Observations	87,124	84,504	93,662	77,966	56,930	58,124	56,188	58,866	

Note: *p<0.1; **p<0.05; ***p<0.01

This table reports the results of the OLS regression below (Equation 1) for the Leases sample. Columns (1) and (2) report results for firms that are single- and multi-segment, respectively. Columns (3) and (4) report results for firms that operate in 2 or fewer unique industries and firms that operate in three or more unique industries, respectively. Columns (5) and (6) report results for firms split between the upper and lower halves of number of legal subsidiaries. Columns (7) and (8) report results for firms split between the upper and lower halves of the unique number of countries in which they have legal subsidiaries.

$$\mathbb{1}\{\text{AccountingChange}\}_{fqt}^s = \alpha_f + \beta_{fq} + \gamma_1 \text{DirectlyTreated}_t^s + \gamma_2 \text{IMPL}_{fq}^s + \gamma_3 \text{DirectlyTreated}_t^s * \text{IMPL}_{fq}^s + \delta \text{CONTROLS}_{fq}^s + \varepsilon,$$

for $s = \text{Leases}$

The dependent variable, $\mathbb{1}\{AccountingChange\}_{fqt}$, is an indicator variable for whether firm f disclosed an accounting change in fiscal quarter q for topic group t . *Directly Treated* is an indicator variable that equals 1 for topics that are directly treated by the Leases standard and equals 0 for topics that are unaffected by either standard. *IMPL* is an indicator variable for whether the fiscal quarter q is in firm f 's Leases implementation period. I include control variables for auditor turnover and executive turnover. I include a firm fixed effect and an accounting topic fixed effect. Standard errors, in parentheses, are clustered at the industry level. I also report p-values of a Wald test comparing the coefficient of interest (*Directly Treated x IMPL*) between columns (1) and (2), (3) and (4), (5) and (6), and (7) and (8).

Table 12: Direct Effect Results (Revenue Recognition) - Cross-Sectional Splits by Susceptibility to Inertia

		<i>Dependent variable: $\mathbb{1}\{\text{Accounting Change}\}$</i>			
	Below Median Number of Prior Disruptions (1)	Above Median Number of Prior Disruptions (2)	Above Median Measure of Consistency (3)	Below Median Measure of Consistency (4)	
Directly Treated x IMPL	0.003 (0.003)	0.015*** (0.003)	0.012*** (0.005)	0.010** (0.003)	
	p-value of Wald test: 0.004		p-value of Wald test: 0.343		
Directly Treated	-0.024*** (0.003)	-0.036*** (0.004)	-0.030*** (0.004)	-0.026*** (0.005)	
IMPL	0.000 (0.002)	-0.008*** (0.002)	-0.005* (0.003)	-0.004* (0.002)	
Controls?	Yes	Yes	Yes	Yes	
Fixed Effects	Firm, Topic	Firm, Topic	Firm, Topic	Firm, Topic	
Adjusted R ²	0.365	0.367	0.370	0.378	
Observations	78,652	100,886	57,388	56,984	

Note: *p<0.1; **p<0.05; ***p<0.01

This table reports the results of the OLS regression below (Equation 1) for the Revenue Recognition sample. Columns (1) and (2) report results for firms split between the upper and lower halves of the sum of accounting disruptions (error corrections, policy updates, executive turnover events, and auditor turnover events) in the 2 years preceding the pre-period (the median value is 1). Columns (3) and (4) report results for firms split between the upper and lower halves of the accounting consistency measure created by Wang (2018), as calculated for the fiscal year preceding the issuance of the Revenue Recognition standard.

$$\mathbb{1}\{\text{AccountingChange}\}_{fqt}^s = \alpha_f + \beta_{fq} + \gamma_1 \text{DirectlyTreated}_t^s + \gamma_2 \text{IMPL}_{fq}^s + \gamma_3 \text{DirectlyTreated}_t^s * \text{IMPL}_{fq}^s + \delta \text{CONTROLS}_{fq}^s + \varepsilon,$$

for $s = \text{RevRec}$

The dependent variable, $\mathbb{1}\{\text{AccountingChange}\}_{fqt}$, is an indicator variable for whether firm f disclosed an accounting change in fiscal quarter q

for topic group t . *Directly Treated* is an indicator variable that equals 1 for topics that are directly treated by the Revenue Recognition standard and equals 0 for topics that are unaffected by either standard. *IMPL* is an indicator variable for whether the fiscal quarter q is in firm f 's Leases implementation period. I include control variables for auditor turnover and executive turnover. I include a firm fixed effect and an accounting topic fixed effect. Standard errors, in parentheses, are clustered at the industry level. I also report p-values of a Wald test comparing the coefficient of interest (*Directly Treated* \times *IMPL*) between columns (1) and (2), and (3) and (4).

Table 13: Direct Effect Results (Leases) - Cross-Sectional Splits by Susceptibility to Inertia

		<i>Dependent variable: $\mathbb{1}\{\text{Accounting Change}\}$</i>			
		Below Median Number of Prior Disruptions (1)	Above Median Number of Prior Disruptions (2)	Above Median Measure of Consistency (3)	Below Median Measure of Consistency (4)
Directly Treated x IMPL		0.005* (0.002)	0.018*** (0.003)	0.016*** (0.003)	0.015*** (0.004)
		p-value of Wald test: 0.000		p-value of Wald test: 0.350	
Directly Treated		-0.049*** (0.004)	-0.081*** (0.004)	-0.073*** (0.006)	-0.074*** (0.004)
IMPL		-0.002 (0.002)	-0.010*** (0.002)	-0.010* (0.002)	-0.009*** (0.003)
Controls?	Yes	Yes	Yes	Yes	Yes
Fixed Effects	Firm, Topic	Firm, Topic	Firm, Topic	Firm, Topic	Firm, Topic
Adjusted R ²	0.359	0.360	0.359	0.362	0.362
Observations	64,036	97,816	47,722	47,440	47,440

Note: *p<0.1; **p<0.05; ***p<0.01

This table reports the results of the OLS regression below (Equation 1) for the Leases sample. Columns (1) and (2) report results for firms split between the upper and lower halves of the sum of accounting disruptions (error corrections, policy updates, executive turnover events, and auditor turnover events) in the 2 years preceding the pre-period (the median value is 1). Columns (3) and (4) report results for firms split between the upper and lower halves of the accounting consistency measure created by Wang (2018), as calculated for the fiscal year preceding the issuance of the Leases standard.

$$\mathbb{1}\{\text{AccountingChange}\}_{fqt}^s = \alpha_f + \beta_{fq} + \gamma_1 \text{DirectlyTreated}_t^s + \gamma_2 \text{IMPL}_{fq}^s + \gamma_3 \text{DirectlyTreated}_t^s * \text{IMPL}_{fq}^s + \delta \text{CONTROLS}_{fq}^s + \varepsilon,$$

for $s = \text{Leases}$

The dependent variable, $\mathbb{1}\{\text{AccountingChange}\}_{fqt}$, is an indicator variable for whether firm f disclosed an accounting change in fiscal quarter q

for topic group t . *Directly Treated* is an indicator variable that equals 1 for topics that are directly treated by the Leases standard and equals 0 for topics that are unaffected by either standard. *IMPL* is an indicator variable for whether the fiscal quarter q is in firm f 's Leases implementation period. I include control variables for auditor turnover and executive turnover. I include a firm fixed effect and an accounting topic fixed effect. Standard errors, in parentheses, are clustered at the industry level. I also report p-values of a Wald test comparing the coefficient of interest (*Directly Treated x IMPL*) between columns (1) and (2), and (3) and (4).

Appendices

APPENDIX A

CATEGORIZATION OF ACCOUNTING TOPICS BASED ON AUDIT ANALYTICS DATA CATEGORIES

Note that the “(TS)” designation indicates that this topic was only categorized as relating to one of the standards based on additional textual search of the disclosures.

	Rev Rec - Direct	Rev Rec - Adjacent	Leases - Direct	Leases - Adjacent
Restatements, Adjustments, and Material IC Weaknesses				
Revenue recognition issues	X			
Inventory, vendor and cost of sales issues		X		
Accounts/loans receivable, investments & cash issues		X (TS)		
PPE issues - Intangible assets, goodwill only (subcategory)		X		
Depreciation, depletion or amortization errors		X (TS)		X (TS)
PPE intangible or fixed asset (value/diminution) issues		X (TS)		X (TS)
Lease, leasehold and FAS 13 (98) only (subcategory)			X	
Lease, SFAS 5, legal, contingency and commitment issues			X (TS)	
Asset retirement obligation issues				X
Cash flow statement (FAS 95) classification errors	X (TS)	X (TS)	X (TS)	X (TS)
Fin Statement, footnote & segment disclosure issues	X (TS)	X (TS)	X (TS)	X (TS)
Proforma financial information reporting issues	X (TS)	X (TS)	X (TS)	X (TS)
Gain or loss recognition issues	X (TS)	X (TS)	X (TS)	X (TS)
EPS, ratio and classification of income statement issues	X (TS)	X (TS)	X (TS)	X (TS)
Expense (payroll, SGA, other) recording issues		X (TS)	X (TS)	X (TS)
Liabilities, payables, reserves and accrual estimate failures		X (TS)	X (TS)	X (TS)
Balance sheet classification of assets issues		X (TS)		X (TS)

	Rev Rec - Direct	Rev Rec - Adjacent	Leases - Direct	Leases - Adjacent
Changes in Accounting Estimates				
Revenue recognition	X			
Revenue recognition - contract accounting including percentage-of-completion	X			
Revenue recognition - gift cards and aircraft miles breakage	X			
Revenue recognition - milestone payments and licensing fees	X			
Revenue recognition - sales returns and allowances	X			
Revenue recognition - vendors rebates and allowances	X			
Liabilities - warranty reserves	X			
Accounts/loans receivable, investments & cash issues		X (TS)		
Accounts/loans receivable, investments & cash issues - allowance for doubtful accounts		X		
Inventory - lower of cost or market		X		
Inventory - reserve for obsolete and slow moving inventory		X		
Inventory, vendor and/or cost of sales		X		
PPE & Intangible assets - valuation or impairment of intangible assets and goodwill only		X		
Depreciation, depletion or amortization		X (TS)		X (TS)
Depreciation, depletion or amortization - change in depreciation or amortization method		X (TS)		X (TS)
Depreciation, depletion or amortization - change in estimated salvage value		X (TS)		X (TS)
Depreciation, depletion or amortization - change in estimated useful life		X (TS)		X (TS)
PPE & Intangible assets		X (TS)		X (TS)
Lease, legal, contingencies, commitments etc.			X (TS)	
Asset retirement obligations				X
PPE & Intangible assets - valuation or impairment of fixed assets				X
Liabilities - restructuring reserve				X
Expenses (payroll, SGA, other)		X (TS)	X (TS)	X (TS)
Liabilities, accruals or reserves		X (TS)	X (TS)	X (TS)
Capitalization of expenditures issues - Prepaid assets, other assets, etc.		X (TS)	X (TS)	X (TS)

	Rev Rec - Direct	Rev Rec - Adjacent	Leases - Direct	Leases - Adjacent
Impairments				
Accounts/loans receivable and investments - Accounts receivable, bad debt, etc.		X		
Accounts/loans receivable and investments - Other-than-temporary impairment		X (TS)		
Accounts/loans receivable and investments - other		X (TS)		
Inventory		X		
Intangible Assets - Goodwill		X		
Intangible Assets - In-process research and development		X		
Intangible Assets - Other intangible assets (not goodwill)		X		
Other long-lived assets, incl. capital leases, etc.		X (TS)	X (TS)	X (TS)
PPE - Construction in progress				X
PPE - Mining rights, oil & gas reserves, etc.				X
PPE - Property, plant, equipment				X
Restructuring, reorganization, etc. (esp. Item 2.05)				X
Segment, business unit, etc.	X (TS)	X (TS)	X (TS)	X (TS)

APPENDIX B VARIABLE DEFINITIONS

Variable Name	Variable Definition
Financial Variables	
$Assets_{fq}$	Total assets of firm f in fiscal quarter q in millions of U.S. dollars.
$Net\ Income_{fq}$	Net income of firm f in fiscal quarter q in millions of U.S. dollars.
$Revenue_{fq}$	Revenues of firm f in fiscal quarter q in millions of U.S. dollars.
Accounting Change Variables	
$\mathbb{1}\{\text{Any Accounting Change}\}_{fq}$	An indicator variable that takes a value of 1 if firm f disclosed that an accounting change (i.e., a restatement, an out-of-period adjustment, a material weakness in internal controls, a material change in accounting estimate, a change in accounting principle, or a material impairment) occurred in fiscal quarter q , and 0 otherwise. The accounting changes can be related to any accounting topic.
$\mathbb{1}\{\text{Accounting Change}\}_{fq}^s$	An indicator variable that takes a value of 1 if firm f disclosed that an accounting change (i.e., a restatement, an out-of-period adjustment, a material weakness in internal controls, a material change in accounting estimate, a change in accounting principle, or a material impairment) occurred in fiscal quarter q for topic group t relating to standard s , and 0 otherwise, where $s \in \{\text{Revenue Recognition, Leases}\}$.
$\# \text{ of Accounting Changes}_{fq}$	The number of distinct accounting changes that firm f disclosed as having occurred in fiscal quarter q . The accounting changes can be related to any accounting topic.
$\mathbb{1}\{\text{Any Error Disclosure}\}$	An indicator variable that takes a value of 1 if firm f disclosed an error (i.e., a restatement, an out-of-period adjustment, or a material weakness in internal controls) for fiscal quarter q , and 0 otherwise. This error disclosure can be related to any accounting topic.
$\mathbb{1}\{\text{Error Disclosure}\}_{fq}^s$	An indicator variable that takes a value of 1 if firm f disclosed an error (i.e., a restatement, an out-of-period adjustment, or a material weakness in internal controls) for fiscal quarter q for topic group t relating to standard s , and 0 otherwise, where $s \in \{\text{Revenue Recognition, Leases}\}$.
$\mathbb{1}\{\text{Any Policy Update}\}_{fq}$	An indicator variable that takes a value of 1 if firm f disclosed an update to legacy policies (i.e., a material change in accounting estimate, a change in accounting principle, or a material impairment) for fiscal quarter q , and 0 otherwise. This policy update can be related to any accounting topic.
$\mathbb{1}\{\text{Policy Update}\}_{fq}^s$	An indicator variable that takes a value of 1 if firm f disclosed an update to legacy policies (i.e., a material change in accounting estimate, a change in accounting principle, or a material impairment) for fiscal quarter q for topic group t relating to standard s , and 0 otherwise, where $s \in \{\text{Revenue Recognition, Leases}\}$.
$\mathbb{1}\{\text{Adjustment}\}_{fq}$	An indicator variable that takes a value of 1 if firm f disclosed an out-of-period adjustment for fiscal quarter q , and 0 otherwise. This adjustment can be related to any accounting topic.
$\mathbb{1}\{\text{Big R Restatement}\}_{fq}$	An indicator variable that takes a value of 1 if firm f disclosed a Big R restatement for fiscal quarter q , and 0 otherwise. This adjustment can be related to any accounting topic.

$\mathbb{1}\{\text{Change in Estimate}\}_{fq}$	An indicator variable that takes a value of 1 if firm f disclosed a material change in accounting estimate for fiscal quarter q , and 0 otherwise. This adjustment can be related to any accounting topic.
$\mathbb{1}\{\text{Change in Principle}\}_{fq}$	An indicator variable that takes a value of 1 if firm f disclosed a change in accounting principle for fiscal quarter q , and 0 otherwise. This adjustment can be related to any accounting topic.
$\mathbb{1}\{\text{IC Weakness}\}_{fq}$	An indicator variable that takes a value of 1 if firm f disclosed a material weakness in internal controls for fiscal quarter q , and 0 otherwise. This adjustment can be related to any accounting topic.
$\mathbb{1}\{\text{Impairment}\}_{fq}$	An indicator variable that takes a value of 1 if firm f disclosed a material impairment for fiscal quarter q , and 0 otherwise. This adjustment can be related to any accounting topic.
$\mathbb{1}\{\text{Little R Restatement}\}_{fq}$	An indicator variable that takes a value of 1 if firm f disclosed a little r restatement for fiscal quarter q , and 0 otherwise. This adjustment can be related to any accounting topic.
Directly Treated $_t^s$	An indicator variable that takes a value of 1 for a topic if it is part of the group of topics t that is directly related to standard s , where $s \in \{\text{Revenue Recognition, Leases}\}$. For each standard s , t can take one of three values: {Directly Treated, Adjacently Treated, Untreated}. Therefore, for each firm fiscal-quarter observation, I create 3 observations, such that each firm fiscal-quarter has an observation (group of topics) that is directly treated, adjacently treated, and untreated. For ease of understanding, we can consider an observation where Directly Treated $_t^s = 1$ for $s = \text{Revenue Recognition}$ to include the revenue recognition team within a firm's accounting department.
Adjacently Treated $_t^s$	An indicator variable that takes a value of 1 for a topic if it is part of the group of topics t that is adjacently treated by standard s . Refer to the definition of Directly Treated $_t^s$ for additional detail on the construction of this variable. For ease of understanding, we can consider an observation where Peripherally Treated $_t^s = 1$ for $s = \text{Revenue Recognition}$ to include the accounts receivable, inventory, warranty, goodwill, and intangibles teams within a firm's accounting department.
IMPL $_{fq}^s$	An indicator variable that takes a value of 1 if the fiscal quarter q is in firm f 's implementation period for standard s , where $s \in \{\text{Revenue Recognition, Leases}\}$. I define the implementation period as beginning in the fiscal quarter in which standard s is issued, and ending in the fiscal quarter immediately preceding firm f 's initial quarter of adoption of standard s . A value of zero indicates the fiscal quarter q is in firm f 's pre-period immediately preceding the implementation period.
Standard-Related Variables	
Length of Implementation Period $_f^s$	The length, in years, of the standard implementation period of standard s for firm f , where $s \in \{\text{Revenue Recognition, Leases}\}$. The implementation period begins in the quarter in which standard s is issued and ends in the quarter immediately preceding firm f 's adoption of standard s .
DISC_MAT $_f^s$	An indicator variable that takes a value of 1 if firm f disclosed, either in its SAB 74 disclosures or its accounting standard adoption disclosures, that its financial statements were materially affected by accounting standard s , where $s \in \{\text{Revenue Recognition, Leases}\}$.
606 Day 0 RE Adj $_f$	A continuous variable calculated using the absolute value of firm f 's disclosed day 0 adjustment to retained earnings as a result of adopting the Revenue Recognition standard, scaled by the firm's ending balance of retained earnings in the fiscal year preceding adoption of the standard.

606 Adoption Year Rev Diff _{<i>f</i>}	A continuous variable calculated using the absolute value of the difference between firm <i>f</i> 's annual revenues (reported under the new standard) during the year of adoption of the Revenue Recognition standard and a firm's annual revenues as they would have been reported under legacy guidance for the same period, scaled by the legacy guidance revenues. The variable is intended to capture the % difference in revenues resulting only from the application of the new standard.
Operating Lease Intensity (At Issuance) _{<i>f</i>}	A continuous variable calculated based on firm <i>f</i> 's Operating Lease Liability / Total Liabilities based on Compustat data from the fiscal year preceding the issuance of the Leases standard. Operating Lease Liability is calculated using a discounted value of the firm's 5-year lease commitments using the firm's implied interest rate, plus an annuity calculated using the "Thereafter" portion of lease commitments. The implied interest rate is calculated using the sum of interest expense (XINT) and capitalized interest (INTC) divided by the sum of total debt (DLTT) and notes payable (NP).
Operating Lease Intensity (At Adoption) _{<i>f</i>}	A continuous variable calculated based on firm <i>f</i> 's disclosed day 0 operating lease liability upon adoption of the new standard, scaled by total liabilities from the fiscal year preceding the issuance of the Leases standard. Operating lease liability data comes from Audit Analytics and total liabilities data comes from Compustat.
$\mathbb{1}\{\text{More Affected Industry}\}_f^s$	An indicator that takes a value of 1 if firm <i>f</i> operates in one or more SIC codes that are considered to be more affected by standard <i>s</i> , and 0 otherwise, where $s \in \{\text{Revenue Recognition, Leases}\}$. Data comes from the Compustat Historical Segments file. The following SIC codes are considered more affected by the Revenue Recognition standard: 2834 (Pharmaceuticals), 3674 (Semiconductors), 3711 (Automobiles), 3812 (Aerospace & Defense), 4500-4599 (Air Transportation), 4800-4899 (Communications), 5800-5899 (Food Establishments), and 7370-7372 (Software). The following SIC codes are considered more affected by the Leases standard: 4500-4599 (Air Transportation), 4200-4299 (Motor Freight Transportation), 4700-4799 (Transportation Services), and 5200-5999 (All Retail).
Cross-Sectional Variables	
# of Business Segments _{<i>f</i>} ^{<i>s</i>}	The number of unique business segments of firm <i>f</i> for the fiscal year preceding the issuance of standard <i>s</i> , where $s \in \{\text{Revenue Recognition, Leases}\}$. I use the Compustat Historical Segments dataset and apply screens consistent with Botosan et al. (2020) to limit the data to reportable segments (e.g., "BUSSEG" or "OPSEG").
# of Geographic Segments _{<i>f</i>} ^{<i>s</i>}	The number of unique geographic segments of firm <i>f</i> for the fiscal year preceding the issuance of standard <i>s</i> , where $s \in \{\text{Revenue Recognition, Leases}\}$. I use the Compustat Historical Segments dataset and apply screens consistent with Botosan et al. (2020) to limit the data to reportable segments (e.g., "GEOSEG").
# of Unique Industries _{<i>f</i>} ^{<i>s</i>}	The number of unique SIC codes in which firm <i>f</i> operates for the fiscal year preceding the issuance of standard <i>s</i> , where $s \in \{\text{Revenue Recognition, Leases}\}$. Data comes from the Compustat Historical Segments file.
# of Subsidiaries _{<i>f</i>} ^{<i>s</i>}	The number of firm <i>f</i> 's legal subsidiaries in the fiscal year preceding the issuance of standard <i>s</i> , where $s \in \{\text{Revenue Recognition, Leases}\}$. Data comes from WRDS Subsidiary Data, which mainly relies on 10-K Exhibit 21 filings.
# of Subsidiary Countries _{<i>f</i>} ^{<i>s</i>}	The number of unique countries in which firm <i>f</i> has at least one legal subsidiary in the fiscal year preceding the issuance of standard <i>s</i> , where $s \in \{\text{Revenue Recognition, Leases}\}$. Data comes from WRDS Subsidiary Data, which mainly relies on 10-K Exhibit 21 filings.

# of Prior Disruptions $_f^s$	The total number of accounting disruptions identified in the two years preceding the pre-period for each firm f for each standard s . Accounting disruptions include restatements, out-of-period adjustments, material weaknesses in internal controls, material changes in accounting estimates, changes in accounting principles, material impairments, executive (CEO or CFO) turnover events, and auditor turnover events. Data comes from Audit Analytics and hand-collected preferability letters from SEC filings.
Measure of Consistency $_f^s$	A measure of consistency developed by Wang (2018). For the fiscal year of firm f immediately preceding the issuance of standard s , I perform the following steps: 1) Regress quarterly returns on quarterly earnings for the previous 16 quarters; 2) apply the fitted regression function to the 4 quarters of the focal fiscal year; 3) calculate stability by separating the actual earnings in the four quarters of the fiscal year as compared to the predicted earnings; and 4) separate stability into an operational piece and an accounting piece using a specified regression model. Data comes from Compustat and CRSP.
Control Variables	
$\mathbb{1}\{\text{Exec Turnover}\}_{f,q}$	An indicator that takes a value of 1 if the fiscal quarter q is within $[-1, +3]$ quarters of firm f appointing a new CEO or CFO, and 0 otherwise.
$\mathbb{1}\{\text{Auditor Turnover}\}_{f,q}$	An indicator that takes a value of 1 if the fiscal quarter q is within $[0, +4]$ quarters of firm f appointing a new auditor, and 0 otherwise.
Improved Accounting Information Tests Variables: Updates to Legacy Policies	
$\text{CAR}_{[-1,+1],f,q}$	The cumulative abnormal return for the 3 days surrounding firm f 's earnings announcement $[-1,+1]$ for earnings in quarter q . I calculate abnormal returns using the following market model based on the prior 12 months of daily stock returns to estimate β_i : $R_{i,t} = \alpha_i + \beta_i R_{m,t} + \varepsilon_{i,t}$, where $R_{i,t}$ is firm i 's daily stock return on day t and $R_{m,t}$ is the market return on day t . I then measure daily abnormal returns as $R_{i,t} - \beta_i R_{m,t}$.
$\text{UE}_{f,q}$	Firm f 's unexpected earnings for quarter q , calculated as the difference between the actual earnings per share and the mean consensus forecasted earnings per share, per I/B/E/S data. I determine the consensus using summary I/B/E/S data for the closest date preceding the actual announcement date and require the consensus to be comprised of at least 2 analysts. This difference is scaled by firm f 's stock price at the end of the preceding month, per CRSP data.
Update Firm $_f$	An indicator that takes a value of 1 if firm f disclosed an update to legacy policies either directly or adjacently related to an accounting standard during a standard's implementation period. This variable takes a value of 0 for firms that are matched using propensity-score matching.
Post-Period $_{f,p}$	An indicator that takes a value of 1 if period p is in the post period following matched year t .
$\text{Log}(\text{Assets})_{f,t-1}$	Natural log of firm f 's total assets in fiscal year $t-1$, based on Compustat data.
$\text{BTM}_{f,t-1}$	The ratio of firm f 's book value of equity to its market value of equity in year $t-1$, per Compustat data.
$\text{ROA}_{f,t-1}$	Firm f 's return on assets in fiscal year $t-1$, as calculated by net income divided by total assets, based on Compustat data.
$\text{Revenues}_{f,t-1}$	Total revenues of firm f in fiscal year $t-1$, scaled by total assets, based on Compustat data.
$\text{Return}_{f,t-1}$	Firm f 's cumulative annual stock return for fiscal year $t-1$, based on daily CRSP data.

Amihud $_{f,t-1}$	Firm f 's annual illiquidity measure for fiscal year $t-1$, based on daily CRSP data. The measure is calculated based on the following formula: $\frac{1}{N} \sum_{t=1}^N \frac{ r_t }{V_t}$, where N is the number of trading days in a year, r_t is the daily return on day t , and V_t is the dollar volume on day t in millions of USD.
Share Turnover $_{f,t-1}$	Firm f 's average monthly share turnover for fiscal year $t-1$, based on monthly CRSP data. Monthly share turnover is calculated by dividing monthly volume by the average shares outstanding during the month.
Loss $_{f,q}$	An indicator variable that takes a value of 1 if firm f 's earnings before extraordinary items (epspx) in quarter q are negative.
Size $_{f,q}$	The log of firm f 's market value of equity at the end of quarter q , per Compustat.
MTB $_{f,q}$	The ratio of firm f 's market value of equity to its book value of equity at the end of quarter q , per Compustat.
Leverage $_{f,q}$	The ratio of firm f 's total liabilities to its book value of equity at the end of quarter q , per Compustat.
Mean Absolute Analyst Forecast Error $_{f,q}$	The average absolute analyst forecast error (i.e., average forecast value minus actual value) for firm f 's quarterly EPS for quarter q , per I/B/E/S Summary Statistics.
Median Absolute Analyst Forecast Error $_{f,q}$	The median absolute analyst forecast error (i.e., median forecast value minus actual value) for firm f 's quarterly EPS for quarter q , per I/B/E/S Summary Statistics.
Range of Analyst Forecasts $_{f,q}$	The difference between the maximum and minimum forecast value for firm f 's quarterly EPS for quarter q , per I/B/E/S Summary Statistics.
Absolute Mgmt. Error (EPS) $_{f,t}$	The absolute difference between the management guidance value for firm f 's annual EPS (guidance date closest to the end of the fiscal year) and the actual value for annual EPS in year t , per I/B/E/S Guidance and Compustat.
Absolute Mgmt. Error (Sales) $_{f,t}$	The absolute difference between the management guidance value for firm f 's annual sales (guidance date closest to the end of the fiscal year) and the actual value for annual sales in year t , scaled by the actual value for annual sales in year t , per I/B/E/S Guidance and Compustat.

APPENDIX C

PROPENSITY SCORE MATCHING FOR UPDATES TO LEGACY POLICIES

Table 14: Propensity Score Matching: Logistic Regression Results

	<i>Dependent variable:</i>
	Update Firm Indicator
Log(Assets) _{t-1}	0.164*** (0.011)
BTM _{t-1}	-0.007 (0.008)
ROA _{t-1}	-0.152*** (0.020)
Revenues _{t-1}	0.167*** (0.020)
Return _{t-1}	-0.332*** (0.051)
Amihud _{t-1}	-0.122*** (0.039)
Share Turnover _{t-1}	-3.424** (1.627)
Constant	-4.190*** (0.099)
Fixed Effects	
	None
Pseudo R ²	
	0.021
Observations	
	40,381
Note:	
	*p<0.1; **p<0.05; ***p<0.01

This table reports the results of the logistic regression below:

$$\mathbb{1}\{UpdateFirm\}_{ft} = \alpha + \beta_1 Log(Assets)_{f,t-1} + \beta_2 BTM_{f,t-1} + \beta_3 ROA_{f,t-1} + \beta_4 Revenues_{f,t-1} + \beta_5 Return_{f,t-1} + \beta_6 Amihud_{f,t-1} + \beta_7 ShareTurnover_{f,t-1} + \varepsilon$$

Above, $\mathbb{1}\{UpdateFirm\}_{ft}$ is an indicator variable for whether firm f disclosed an update to legacy policies in fiscal year t . Refer to Appendix B for definitions of all other variables. This logistic regression is intended

to produce propensity scores to facilitate the creation of a matched sample to be used in Table 6. Standard errors, in parentheses, are clustered at the industry level.

Table 15: Propensity Score Matching: Matched Sample Statistics

Variable	Policy Update Firms	Matched Firms	p-Value
$\text{Log}(\text{Assets})_{t-1}$	7.56	7.36	0.002
BTM_{t-1}	0.55	0.48	0.215
Return_{t-1}	-0.03	-0.04	0.458
Revenues_{t-1}	0.89	0.91	0.579
Return_{t-1}	0.04	0.01	0.031
Amihud_{t-1}	0.11	0.11	0.926
$\text{Share Turnover}_{t-1}$	0.01	0.01	0.025
Propensity Score	5.70%	5.59%	0.060

This table provides descriptive statistics for the propensity-score-matched sample used in Table 6 and which is based on the propensity scores generated by the logistic regression described in Table 14. For each variable, the mean for each group is provided as well as a p-value from a two sample t-test, which determines if the mean values between the two groups significantly differ.