SESSION 1: FINANCIAL ACCOUNTING AND REPORTING
DATE: FRIDAY, FEBRUARY 23
TIME: 8:30 – 10:00 AM

Managers' Incentive for Timely Loss Recognition

Bo Ouyang
The University of Texas at Arlington

ABSTRACT: This paper examines a number of hypotheses about cross-sectional determinants of managers' incentives to engage in conservative accounting methods, i.e., timely loss recognition, by examining associations between proxies for these incentives and proxies for conservative accounting. As predicted, the results suggest that firms with the following characteristics are more likely to adopt conservative accounting methods: (1). in the industries with higher litigation risk; (2) in the highly regulated industries; (3) less value-relevance of earnings. I also document that firms with greater reliance on implicit claims with stakeholders are less likely to engage in timely loss recognitions. I find marginal evidence that firms in three major stock exchanges are more likely to recognize economic losses in a timely manner.