

# **The informativeness of accounting policy changes: European Evidence**

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### **ABSTRACT**

This study aims to investigate the impact of IAS 8 through an examination of the relevance of accounting policy changes for corporate financial performance, and their market informativeness in European listed firms. We document that accounting restatements that result from accounting policy changes increase the informativeness (persistence) of current earnings and cash flows for future earnings and cash flows. In addition, the market positively views these accounting policy changes as indicated by stronger market responses. The restatement effect of the accounting policy change on the earnings / cash flows of the firm is economically meaningful and can systematically predict variation in the future analyst forecast error of earnings / cash flows. The results suggest that financial analysts cannot anticipate the impact of an accounting policy change (ex-ante), despite its significance for corporate performance and valuation, even in the presence of early signaling of the accounting policy change by the firm.

*Keywords: accounting policy changes; IAS 8; earnings persistence; cash flow persistence; financial analyst forecasts; equity valuation*

## **1. Introduction**

IAS 8 refers to selecting and applying accounting policies, accounting for changes in estimates and reflecting corrections of prior period errors with an aim to provide guidance on developing accounting policies that result in relevant and reliable accounting information. The reliability and relevance of accounting information is crucial for the formation of accurate expectations of corporate performance and ultimately accurate equity valuation. This study uses a sample of listed firms from the stock markets of the European Economic Area to examine the relevance of accounting policy changes (APC) related to IAS 8 under the IFRS framework, their market impact, as well as their association with analysts' forecasts.

The motivation and incentives that determine a firm's accounting policies has been a long-standing topic of interest for accounting researchers. Hagerman and Zmijewski (1979) study the firm's choice of accounting principles attempting to identify the economic reasoning according to which firms choose certain accounting principles. Their results suggest that managers do not base all their decisions on the same economic variables but indicate there are two main opposing forces that shape accounting choices. On the one hand, firm size, concentration, risk and capital intensity should be positively related to the likelihood that a firm would choose accounting principles that minimize reported net income. On the other hand, management profit-sharing plans are expected to increase the likelihood that a firm would choose accounting principles that maximize reported net income.

The accounting literature has produced empirical studies on the importance of accounting estimates and judgements from an accounting perspective focusing on U.S. samples (e.g., Lev and Sougiannis, 2010; Albrecht et al., 2017; DeFond et al., 2018). There has been limited attention on the real effects of accounting policy choices under

the IFRS framework, and those mainly focus on regulatory incidents and not corporate performance per se. In addition, even though there are studies that link manager choices with analyst expectations in the context of changes in accounting estimates (Albrecht et al., 2020), there is a lack of research on whether financial analysts as important information intermediaries take into consideration accounting policy choices and changes by the firm when they forecast accounting earnings and cash flows under the IFRS framework. The importance of forming accurate expectations for reliable equity valuation motivate this study to investigate the effects as well as market informativeness of accounting policy changes.

A firm can benefit from expanded corporate information disclosure. Increased disclosure is associated with upward revisions of stock valuations, increased stock liquidity, and additional institutional and analyst interest (Healy et al., 1999). As per IAS 8 “an entity is permitted to change an accounting policy only if the change is required by an IFRS or improves the usefulness of information provided to financial statements users on the firm’s financial position, financial performance, or cash flows” [IAS 8.14]. The standard has been issued with an aim of disclosure enhancement as the firm needs to substantiate the choice to alter its accounting policy and provide supporting arguments. Furthermore, changes in accounting estimates are generally accounted for on a prospective basis, whereas changes in accounting policies are retrospectively accounted for, but at the same time guide future practice. The study of accounting policy changes offers an opportunity to examine the impact accounting policy choice has on both the recent as well as the expected financial performance of the firm. Thus, the study expects firms to change accounting policies under the IFRS context with an aim of increasing accounting numbers’ reliability and persistence.

These considerations lead to the first research question of the study: *Do accounting policy changes lead to higher persistence of earnings and cash flows?*

The study uses a sample of listed firms from the European Economic Area that follow IFRS during the sample period. IFRS has been mandated for listed firms of the European markets since 2005. The framework however may have been adopted earlier by some firms particularly firms that were more certain about the feasibility of implementing IFRS and more specific with regard to the impact of IFRS adoption (Stent et al., 2017). Despite the accounting homogeneity that the IFRS framework allows in principle, geographically diverse markets may differentiate practice with respect to accounting policy choice. Kvaal and Nobes (2010) use financial statement information from the largest five stock markets that use IFRS (Australia, France, Germany, Spain, and the UK) to examine whether there are systematic differences in IFRS accounting policies between countries. For 16 accounting policy issues they document the existence of national patterns of accounting within IFRS as they find significant evidence that pre-IFRS national practice continues where this is allowed within IFRS.

The importance of disclosure (Healy et al., 1999) can be further highlighted when we consider the role of financial analysts. Financial analysts are pivotal financial intermediaries, and their expectations are a proxy for the unobservable investors' expectations. Accurate earnings forecasts can lead to superior stock recommendations and are thus valued by the market, and the analysts use their own earnings forecasts to justify stock recommendations (Block 1999). Analyst sophistication will allow them to thoroughly evaluate reporting quality (e.g., Williams 1996) and estimate the persistence of accounting fundamentals (Gu and Chen 2004). However, in the case of accounting policy changes the analysts cannot be expected to ex-ante anticipate them before they

are announced, leading to the second research question: *Do financial analysts incorporate accounting policy changes in their forecasts?*

Finally, the establishment of a link between disclosure and the stock market is important as such links provide economic justification for regulation (Leuz and Wysocki, 2016). The expectation of an effect of accounting policy changes on the persistence of earnings and cash flows could affect not only how analysts perceive them but also how investors perceive them. Therefore, the study investigates the market impact of accounting policy changes to see whether the market positively views such decisions, leading to the third research question: *Do accounting policy changes affect equity valuation?*

The findings are of interest to academics, practitioners, and standard setters. First, when the firm decides upon an accounting policy change (fiscal year  $t+1$ ) that is retrospectively applied ( $t$  is the first fiscal year affected by the accounting policy change), the predictive ability of the restated current earnings (current cash flows) of  $t$  for future earnings (future cash flows) of  $t+1$  increases as opposed to a restatement related to other reasons (M&As, spin-offs, restructurings), particularly for cash flows. Second, the financial (restatement) effect of the accounting policy change on the cash flows of the firm is economically meaningful and can systematically predict variation in the future analyst forecast error of earnings, as analysts cannot anticipate the impact of the accounting policy change ex-ante despite its significance for corporate performance<sup>3</sup>. Third, with respect to market impact (Tobin's Q used as a proxy for the firm's equity valuation) the findings of the study indicate that the market response strengthens following the accounting policy change.

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<sup>3</sup> In additional analysis, we find that an improved analyst information environment proxied depending on issuance of early indicators by the firm that signal the accounting policy change before its formal announcement leads to improved analyst efficiency, but that systematic inefficiency persists nonetheless.

The rest of the paper is organized as follows. The following section presents prior literature and explains the hypotheses. Section 3 describes the research methodology, Section 4 offers a description of the sample, Section 5 presents the empirical findings, and Section 6 concludes.

## **2. Prior Literature and Hypothesis Development**

### ***2.1. Accounting policy changes and the persistence of earnings and cash flows***

IAS 8 was introduced with an aim to improve the reliability of accounting estimates and policy changes and ultimately the reliability of the financial statements. The majority of related studies have been conducted on the circumstances around changes in accounting estimates and their consequences using U.S. samples under the requirements of the FASB Accounting Standards. Bradbury and Scott (2020) examine enforcement actions in the IFRS context and show that one of the top-five accounting standards that result in enforcement actions in the post-IFRS era is IAS 8; they show that IAS 8 is one of the standards that frequently give rise to enquiries. There have been, however, some conflicting results in the literature with respect to the significance of IAS 8. Bradbury and Scott (2020) suggest that IAS 8 is significant to regulators but that it is not as significant for audit effort or financial statement impact. On the other hand, other studies have documented that IAS 8 is one of the top accounting standards related to audit effort (De George et al., 2013) and with the largest financial statement impact on equity (Stent et al., 2010).

Beaulieu et al. (2017) examine the relationship between changes in accounting estimates and subsequent restatements and find a positive relationship between changes in estimates and restatements. They also show that the presence of a change in accounting estimates is associated with an increased likelihood of subsequent restatement to correct intentional misstatement. Albrecht et al. (2017) document that

audit fees increase significantly in the year when the firm makes a material change in accounting estimates, reflecting that the auditors may view them as a source of audit risk. DeFond et al. (2018) investigate opportunistic changes in accounting estimates following auditor switches and provide evidence that managers successfully shop for more lenient auditors. They find an increase in the frequency and magnitude of discretionary income-increasing changes in accounting estimates following auditor switches, and that the companies making them are more likely to subsequently restate earnings downward, receive fewer going concern opinions, and experience lower abnormal stock returns in the years following the switch.

Moreover, Nobes and Stadler (2015) hand-collect policy choices made by 514 large IFRS firms from 10 jurisdictions in the period 2005–2011 and identify 204 reasons for policy changes. The majority of these refer to qualitative characteristics from the conceptual framework of the standard-setter (relevance, faithful representation, comparability, and understandability), but also focus on transparency. Their results suggest the managers are alert to qualitative characteristics which are often referred to if the change relates to measurement (i.e., to an important accounting policy decision). These considerations lead to H1 (related to the first research question):

**H1.** *Accounting policy changes lead to higher persistence of earnings and cash flows.*

## **2.2. Financial Analyst Forecasts and Accounting policy changes**

Accurate earnings forecasts can lead to superior stock recommendations and are highly valued by the stock market. Prior work indicates that analysts use their earnings forecasts to justify stock recommendations (Block, 1999). The analysts' expertise and sophistication allow them to thoroughly evaluate management accuracy and reporting quality (e.g., Williams, 1996) and reliably estimate the persistence of accounting fundamentals (Gu and Chen, 2004).



The prior literature has suggested that accounting estimates have meaningful impact on firm earnings and that analysts' forecasts and management decisions are influenced by them. Albrecht et al. (2017) show that the anticipated impact of changes in accounting estimates (CAE) on earnings in the context of meeting or beating analyst forecasts significantly influences managers' decisions to make them. Albrecht et al. (2020) find that the frequency of income-increasing CAEs is comparable to the frequency of income-decreasing CAEs, and similar in terms of income effects. However, they find that the proportion of positive CAE firms that meet or beat earnings expectations on account of a positive CAE (income-increasing) is three times larger than the proportion of negative CAE firms that miss due to a negative CAE. Based on these results, Albrecht et al. (2020) suggest that managers time material CAEs based on their anticipated effect on meeting/beating earnings expectations.

The analysts' interest is positively affected by enhanced disclosure and analysts are expected (Healy et al., 1999) to closely follow firm accounting policies and positively view changes in accounting policy that are substantiated. However, the analysts are not in a position to know the effects of an accounting policy change before this change is announced. The earnings relevance of the accounting policy change combined with the inability of analysts to possess ex-ante knowledge of this change leads to H2 (related to the second research question):

**H2.** *Accounting policy changes have a significant impact on analyst forecasts.*

As an improved information environment is likely to positively affect analyst efficiency, we additionally investigate whether proxies that signal the accounting policy change before its formal announcement impact the analyst forecasts' efficiency.

### **2.3. Market Implications of Accounting policy changes**

The link between disclosure and reporting activities to firm-specific and market-wide economic outcomes is crucial to evaluate regulation as such evidence provides

economic justification of regulation (Leuz and Wysocki, 2016). Prior literature has offered evidence on the market relevance of changes in accounting estimates (e.g., Albrecht et al., 2017). Thus, it is important to examine whether accounting policy changes in the context of IAS 8 have a positive impact on the market.

Accounting valuation entails predicting the series of implied future earnings of the firm and discounting this series to obtain an estimate of intrinsic value. Favorable disclosures of earnings by management, financial analysts, and the press have been associated with a decline in the firm's perceived risk and the required return, increasing stock returns (Kothari et al., 2009). Therefore, expectations for higher and more persistent future earnings and cash flows are viewed as positive signals by the stock market. The accounting policy changes announced by the firm are expected to increase earnings' and cash flows' persistence as well as analyst accuracy, and thus, be favorably received by the market, leading to H3 (associated with the third research question):

**H3.** *Accounting policy changes lead to higher market responses.*

The stronger market responses are expected at the announcement of fiscal year t+1 results when the accounting policy change is decided upon and the financial results of t (the first fiscal year that is affected by the accounting policy change) are restated.

### **3. Research Design**

#### **3.1. Accounting policy changes and the persistence of earnings and cash flows**

To investigate H1 the study uses a model similar to the earnings and cash flow persistence models presented in Finger (1994) and regresses future cash flows (earnings) of t+1 on current cash flows and earnings of t, additionally controlling for fundamental and market variables relevant for firm performance (*lnASSETS*, *B/M*, leverage etc.). Models 1 and 2 regress leading cash flows from operation ( $CFO_{t+1}$ ) and leading net income ( $EARNINGS_{t+1}$ ) respectively, on restated current cash flows ( $CFOR_t$ ) and restated earnings ( $EARNINGSR_t$ ). The Models include an indicator

variable (*APC*), that equals 1 when the restatement of the financial results of *t* is associated with an accounting policy change and 0 otherwise, and interactions of the current restated cash flows and earnings with the *APC* indicator.

$$CFO_{t+1,i} = \beta_0 + \beta_1 APC_{t,i} + \beta_2 CFO_{t,i} + \beta_3 CFO_{t,i} * APC_{t,i} + \beta_4 EARNINGSR_{t,i} + \beta_5 EARNINGSR_{t,i} * APC_{t,i} + CONTROLS + \varepsilon \quad (1)$$

$$EARNINGS_{t+1,i} = \beta_0 + \beta_1 APC_{t,i} + \beta_2 CFO_{t,i} + \beta_3 CFO_{t,i} * APC_{t,i} + \beta_4 EARNINGSR_{t,i} + \beta_5 EARNINGSR_{t,i} * APC_{t,i} + CONTROLS + \varepsilon \quad (2)$$

and  $CONTROLS = \{ \ln ASSETS_t, BTMR_t, LEVR_t \}$

In line with H1, current earnings' and cash flows' persistence is expected to increase for restatements resulting from accounting policy changes, and thus the estimated regression coefficients  $\beta_3$  and  $\beta_5$  in Models 1 and 2 are expected to be positive and significant. We control for size (the natural logarithm of total assets), book-to-market ratio (with market value measured at the end of the fiscal year) and the leverage ratio. All the control variables are measured using restated figures of *t*. The regressions are also performed after segmenting the sample based on the effect of the restatement on the net income of fiscal year *t* (alternatively, on cash flows). That is, we segment the sample based on whether the restatement has an increasing or decreasing effect on restated net income to show whether the superiority of earnings' and cash flows' persistence in the case of accounting policy changes (over restatements arising from other reasons) holds notwithstanding the direction of the impact of the policy change on the financial results.

### ***3.2. Financial Analyst Forecasts and Accounting policy changes***

To investigate the effects of accounting policy changes on analyst forecast efficiency (related to H2) the study regresses analysts' leading forecast errors on the restatement impact on earnings and cash flows, controlling for the indicator variable

APC and introducing interactions with APC.

$$|FE(EARNINGS)_{t+1,i}| = \beta_0 + \beta_1 APC_{t,i} + \beta_2 CFODIFF_{t,i} + \beta_3 CFODIFF_{t,i} * APC_{t,i} + \beta_4 EARNDIFF_{t,i} + \beta_5 EARNDIFF_{t,i} * APC_{t,i} + CONTROLS + \varepsilon \quad (3)$$

$$|FE(CFO)_{t+1,i}| = \beta_0 + \beta_1 APC_{t,i} + \beta_2 CFODIFF_{t,i} + \beta_3 CFODIFF_{t,i} * APC_{t,i} + \beta_4 EARNDIFF_{t,i} + \beta_5 EARNDIFF_{t,i} * APC_{t,i} + CONTROLS + \varepsilon \quad (4)$$

where  $CFODIFF_{t,i} = CFOR_{t,i} - CFO_{t,i}$

$EARNDIFF_{t,i} = EARNINGSR_{t,i} - EARNINGS_{t,i}$

$|FE(EARNINGS)_{t+1,i}|$  and  $|FE(CFO)_{t+1,i}|$  are the measures of the analysts' consensus forecast error of earnings and cash flows respectively and are equal to the absolute difference between the actual reported earnings (cash flows) and the analyst mean consensus forecast of earnings (cash flows). We control for  $lnASSETS_{t,i}$ ,  $BTMR_{t,i}$ ,  $LEVR_{t,i}$ . As per H2, analysts cannot be expected to anticipate the consequences of the effects of an accounting policy change ex-ante. Thus, the restatement impact will be able to systematically predict variation in the analyst forecast error ( $\beta_3$  and  $\beta_5$  in Models 3 and 4 will be significant).

### 3.3. Market Implications of Accounting policy changes

To investigate H3 that is related to the market impact of accounting policy changes, the study uses Tobin's Q. Tobin's Q has been calculated following the prior literature (Ryngaert and Thomas, 2012, Daske et al., 2008) using the following model:

$$Q_t = (TA_t - BVE_t + MVE_t - DT_t) / TA_t \quad (7)$$

where  $TA$  = total assets (Datastream)

$BVE$  = book value of equity (Datastream)

$MVE$  = market value of equity (Eikon)

$DT$  = Deferred Taxes (Datastream)

The study computes both non-restated  $Q_t$  and the restated  $Q_t$  (using restated  $TA$ ,  $BVE$ , and  $DT$ ) as well as the (non-restated)  $Q_{t+1}$ .  $MVE$  has been computed at the announcement date of  $t$  (and  $t+1$ ) of actual financial results for every firm-year (or alternatively, at 30 days after the announcement date of actual financial results). Note that all observations have been used notwithstanding the fiscal year-end. Using only fiscal firm-years ending at the end of the calendar year, i.e., at 31/12 does not alter the results (around 80% of the firms with restated observations of  $t$  end their fiscal year of  $t$  at the calendar year end 31/12/ $t$ ).

## **4. Sample Description**

### ***4.1 Sample Selection***

The paper uses a sample of listed firms from countries of the European Economic Area. Only primarily quoted equity securities of major class are selected. The initial sample excludes Financial Institutions, Insurance firms, Real Estate, REITS, and firms of unclassified sector and consists of 8,962 listed equities. The horizon of the study is 2005-2018 (post mandatory IFRS adoption for most countries of the sample and post the reissuance of IAS 8<sup>4</sup>). The study uses a sample of listed firms from the European Economic Area that follow IFRS during the sample period. Even though IFRS has been mandated for listed firms of the European markets since 2005, the study includes only firm-years that are explicitly stated to be following IFRS (as per Datastream / Worldscope). The final sample consists of 4,836 firms (15,461 firm-years) whose financial statements have been restated either owing to an accounting policy change (924 firms and 1,125 firm-years) or another reason (4,761 firms and 14,336 firm-years)<sup>5</sup>. Table 1 presents the sample selection.

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<sup>4</sup> IAS 8 was reissued in December 2005 applying to annual periods beginning on or after 1 January 2005.

<sup>5</sup> Some sample firms have both restatements arising from accounting policy changes as well as restatement arising from other reasons in the sample period.

[Insert Table 1 about here]

#### ***4.2 Descriptive Statistics***

The study uses Datastream Worldscope and Refinitiv EIKON to retrieve data required for the computation of the variables of the study. All the variables are defined in the Appendix. Continuous variables are winsorized at 1 percent at both sides. Table 2a presents distributional descriptive statistics for the variables of the study after segmenting the sample to firm-years that have been restated due to an accounting policy change and firm-years restated due to other reasons. We see that, on average, future (t+1) performance for cases where firms apply accounting policy changes is higher than for cases of restatements due to other reasons ( $CFO_{t+1}$  and  $EARNINGS_{t+1}$  both significantly higher for the *APC* sub-sample). While the impact of the restatement on operating cash flows is negative and not significantly different among the two sub-samples (i.e., irrespective for the reason for the restatement), the impact of accounting policy changes on earnings  $EARNDIFF$  is positive on average (vs negative for other restatement reasons). With respect to mean signed analyst forecast errors (bias), they are negative for both earnings and cash flows (for t+1), indicative of analyst over-optimism and in line with the related analyst literature. For the absolute forecast errors (measuring analyst inaccuracy) we see that for both earnings and cash flows, the future analyst forecasts (t+1) are on average more accurate for accounting policy changes vs restatements due to other reasons. Table 2b presents statistics on the effect of an accounting policy change on several accounting performance metrics (net income, cash flows, revenue etc.). The findings show that the effect of the accounting policy change on the performance is decreasing, that is, the accounting policy change leads to more conservative figures.

[Insert Table 2a about here]

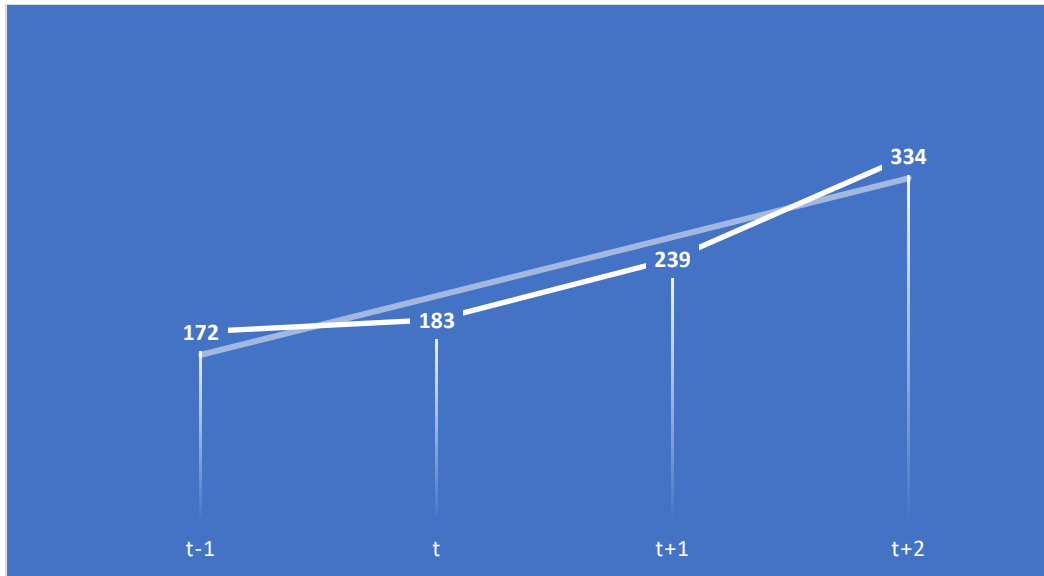
[Insert Table 2b about here]

Table 3 presents the difference between the current year analyst absolute forecast error ( $absEPSFE_t$ ) and the same error computed with restated figures ( $absEPSFER_t$ ). The latter is significantly larger irrespective of the reason for the restatement as analysts cannot anticipate ex-ante the changes brought by the accounting policy change. For cases of accounting policy changes however the difference is smaller. This could possibly be attributed to the analyst information environment being better for those firms. When we compare analyst accuracy between  $t$  and  $t+1$ , we see the analyst forecast error increases in the year of the accounting policy change, as financial analysts cannot foresee the change notwithstanding its significance.

[Insert Table 3 about here]

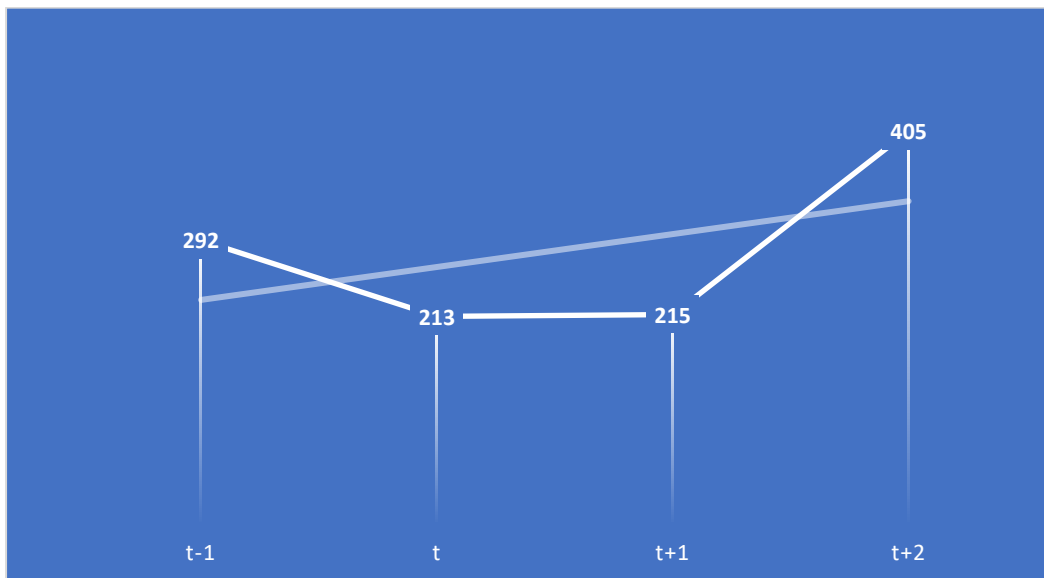
#### ***4.3 Financial performance of the firm around an accounting policy change***

The graphs presented in Figures 1 and 2 show the frequency of peaks for net operating cash flow (and net income before extraordinary items and preferred dividends) for the accounting policy change sample (1,125 observations) during the  $\{t-1, t+2\}$  period where  $t$  is the first year that is affected by the accounting policy change ( $t$  data are restated). The accounting policy change sample exhibits an increasing trend in both operating cash flows and net income (on average) that seems to (more frequently) peak at  $t+2$ . Similar results are obtained for retained earnings.



**Figure 1**

Notes: This figure presents a peak frequency graph for net operating cash flows during 2005-2018 for firms that have proceeded to an accounting policy change at t. The frequency peak is drawn for [t-1, t+2] period around the first year affected by the policy change (t).

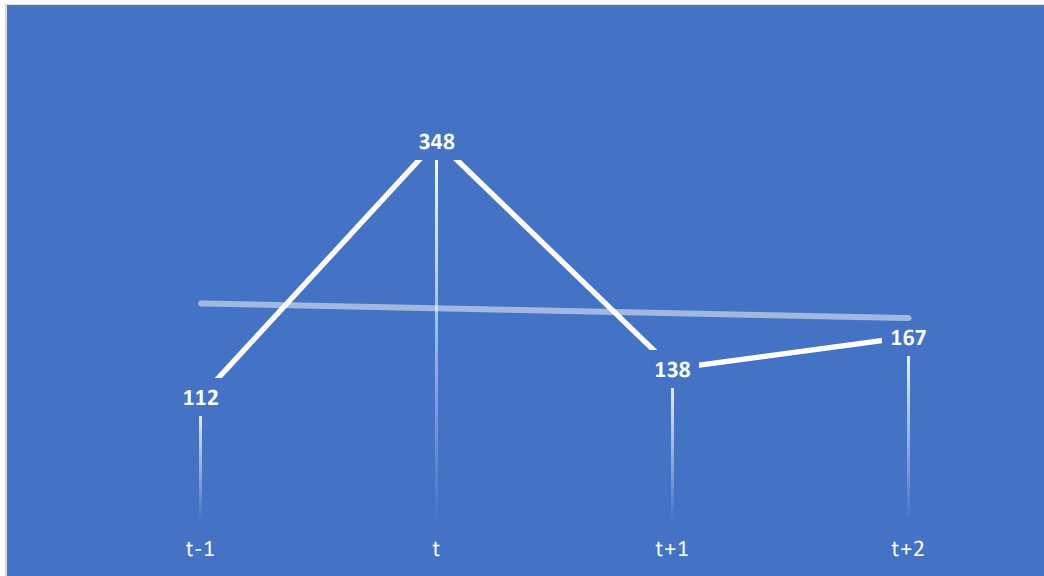


**Figure 2**

Notes: This figure presents a peak frequency graph for net income during 2005-2018 for firms that have proceeded to an accounting policy change at t. The frequency peak is drawn for [t-1, t+2] period around the first year affected by the policy change (t).

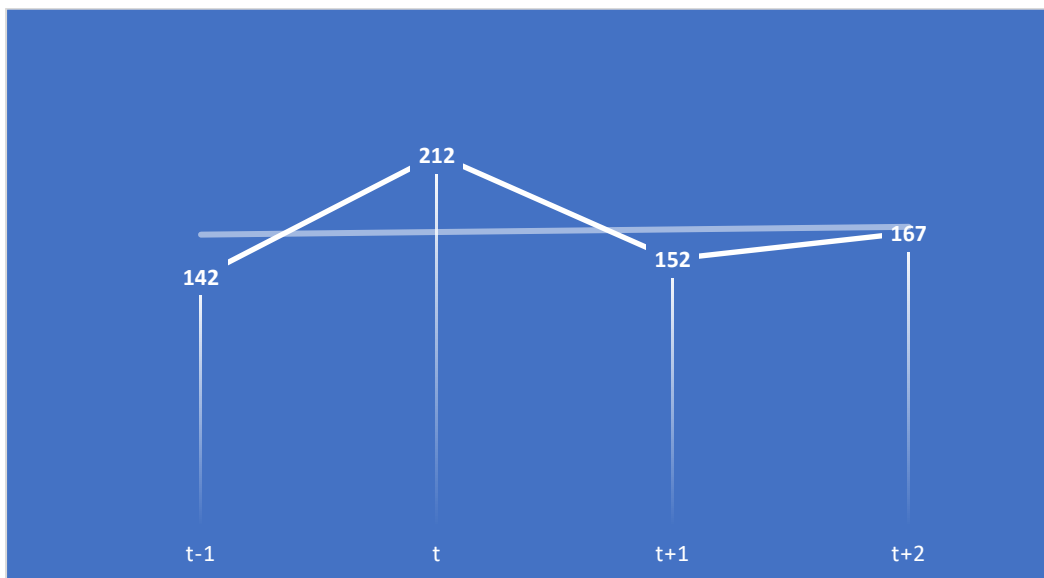
The graphs presented in Figures 3 and 4 show the evolution of the analysts' earnings or cash flow inaccuracy (absolute forecast error) around t, which is the first year affected by the accounting policy change.





**Figure 3**

Notes: This figure presents a peak frequency graph for absolute forecast error of earnings during 2005-2018 for firms that have proceeded to an accounting policy change at  $t$ . The frequency peak is drawn for  $[t-1, t+2]$  period around the first year affected by the policy change ( $t$ ). Not that in the above graph  $t$  actual data are restated.



**Figure 4**

Notes: This figure presents a peak frequency graph for absolute forecast error of cash flows during 2005-2018 for firms that have proceeded to an accounting policy change at  $t$ . The frequency peak is drawn for  $[t-1, t+2]$  period around the first year affected by the policy change ( $t$ ). Not that in the above graph  $t$  actual data are restated.

## 5. Empirical Findings

### 5.1. Accounting policy changes and the persistence of earnings and cash flows

Table 4 presents the results of the regression of Models 1 and 2 (related to H1) for leading cash flows and earnings. First, for restatements resulting from accounting policy changes (as opposed to other reasons for restatement) cash flow persistence increases (Table 4 regression results (2)). For accounting policy changes the predictive ability of current cash flows of fiscal year  $t$  (where  $t$  is the first year that is affected by the accounting policy change) for future cash flows ( $t+1$ ) increases. In addition, accounting policy changes increase the persistence of earnings. For restatements resulting from accounting policy changes (as opposed to other reasons for restatement) earnings persistence increases (Table 4 regression results (4)). For accounting policy changes the predictive ability of current earnings of fiscal year  $t$  for future earnings increases.

[Insert Table 4 about here]

Furthermore, we segment the sample based on the direction of the restatement effects of the accounting policy change on the net income or operating cash flows (increasing / decreasing). The empirical results are presented in Tables 5 and 6. The regressions are performed after segmenting the sample based on income- (or cash flows-) increasing / decreasing restatements to show whether the superiority of earnings' and cash flows' persistence in the case of accounting policy changes (over restatements arising from other reasons) holds notwithstanding the direction of the impact of the policy change on the financial results. The increase in the persistence of cash flows by the accounting policy change mainly holds for cases where net income increases or remains unchanged (Table 5 regression results (1) – (3)).

[Insert Table 5 about here]

A cash flow- increasing accounting policy change leads to reduced (increased) persistence of cash flows (earnings) (both if we compare to restatements for other

reasons as well as if we compare to accounting policy changes that leave operating cash flows either unchanged or reduced) as the slope of  $[CFOR_t * APC]$  is statistically significant. The finding could possibly be related to accounting policy changes that have operating cash flow enhancement effects only in the first year of restatement (t) that do not persist in t+1. The result may imply that these accounting policy changes that increase operating cash flows are associated with cash flow classification shifting allowed by IFRS (in line with Gordon et al., 2017) with the sole purpose of increasing operating cash flows.

This increased persistence of the current restated operating cash flows (t) for the future (t+1) operating cash flows holds only when the restatement of t financial accounts does not boost operating cash flow, i.e. the predictive ability of present cash flows for future cash flows increases in the case of accounting policy changes as long as the accounting policy change does not result to an increase in operating cash flows (but either adjusts cash flows downward or leaves them unchanged). In the case that the accounting policy change leads to an increase in operating cash flows, then it is the restated earnings of t that have a significantly increased ability to predict cash flows of t+1 (Table 6 regression results (1)),  $b\_EARN * CAP = 0.642$  statistically significant at the 5 percent level). In cases where the restatement is related to an accounting policy change with an upward effect on restated operating cash flows, i.e., cash flows of t increase following the accounting policy change (Table 6 regression results (4)), the predictive ability of current (restated) earnings for future earnings increases.

[Insert Table 6 about here]

## **5.2. Financial Analyst Forecasts and Accounting policy changes**

To investigate H2 we regress the future (t+1) analyst forecast error on the restatement impact (restated earnings/cash flows of t – non restated earnings/cash flows

of  $t$ ) including interactions with the *APC* indicator variable. The empirical findings are presented in Tables 7 – 9.

[Insert Table 7 about here]

The main findings (Table 7) indicate that, in line with expectations of H2, the restatement effect of the accounting policy change on the cash flows of the firm (fiscal year  $t$ ) is meaningful and can systematically predict variation in the future ( $t+1$ ) analyst forecast error of earnings as analysts cannot anticipate ex-ante the impact of the accounting policy change (Table 6 regression results 2), particularly when the restatement effect is income – decreasing and / or cash flow – decreasing (Table 8 regression results (2), Table 9 regression results (2)). For the analyst cash flow forecast errors, the findings are not statistically significant. This can potentially be attributed to analysts' cash flow forecasts being a naïve extrapolation of their earnings forecasts (see Givoly et al., 2009).

[Insert Table 8 about here]

[Insert Table 9 about here]

### **5.3. Market Implications of Accounting policy changes**

Table 10 shows Tobin's  $Q$  measured at  $t$  and  $t+1$ . The results indicate that for restatements that occur due to accounting policy changes Tobin's  $Q$  increases from  $t$  to  $t+1$  while it reduces for restatements due to other reasons (*APC* and *No APC* subsamples respectively). The change from  $t$  to  $t+1$  for the accounting policy changes is significant at the 5 percent level.

[Insert Table 10 about here]

To investigate the probable impact of the accounting policy change on Tobin's  $Q$  intertemporally, the study computes Tobin's  $Q$  in both  $t$ , i.e. the first year that is restated due to the accounting policy change, using the non-restated accounting figures

of  $t$  and the MVE at announcement of  $t$  (or 30 days hence), and Tobin's  $Q$  at  $t+1$  (year in which the accounting policy change effects are announced) using the restated accounting figures of  $t$  and the MVE at announcement of  $t+1$  when the restated  $t$  data become known (or 30 days hence). The results show that Tobin's  $Q$  measured at  $t+1$  using restated figures of  $t$  increases compared to the non-restated Tobin's  $Q$  of  $t$ , thus the market positively views the restatement. The increase in the market response is magnified in the case of accounting policy changes.

#### ***5.4. Early signals of accounting policy changes and analyst efficiency***

As an additional analysis, we investigate whether the early issuance of a signal by the firm that they are about to proceed to a material accounting policy change affects analyst efficiency (untabulated analysis). We use an indicator variable that equals 1 for the early signal case and 0 otherwise employing several proxies. The proxies used include a) whether the firm has issued accounting policy changes in the fiscal years prior to the reference fiscal period, b) whether the firm has announced the intention to proceed to the accounting policy change before the announcement of actual financial results of  $t+1$ , and c) whether the firm has issued any form of management guidance for  $t+1$  (any performance metric or text guidance via the conference call). The findings indicate that in the case of an improved information environment with early indicators of the accounting policy change analyst efficiency improves, but the systematic analyst inefficiency persists nonetheless.

## **6. Conclusion**

This paper examines the impact of IAS 8 through an examination of the relevance of accounting policy changes for corporate financial performance and their market informativeness. The sample analyzed includes financial statement data from listed firms in the European Economic Area. The empirical findings indicate that

accounting policy changes increase the informativeness of current earnings and cash flows for future earnings and cash flows. The restatement effect of the accounting policy change on the cash flows of the firm is economically meaningful and can systematically predict variation in the future analyst forecast error. Accounting policy changes improve persistence and thus lead to more meaningful accounting numbers, but the analysts cannot anticipate and incorporate this important information. In additional analysis, using proxies of signals of the accounting policy change that indicate an improved analyst information environment, we find that analyst efficiency improves when corporations issue an early signal of an accounting policy change. Finally, the market positively views the accounting policy changes as indicated by stronger market responses to them.

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## Appendix. Variable Definitions

Variable	Definition / Source
$EARNINGS_{t+1,i}$	Net Income before extraordinary items/preferred for firm i and fiscal year t+1 deflated by Common shares outstanding at t. Source: Datastream Worldscope
$CFO_{t+1,i}$	Net Cash Flow from Operations for firm i and fiscal year t+1, deflated by Common shares outstanding at t. Source: Datastream Worldscope
$CFOR_{t,i}$	Restated Net Cash Flow from Operations for firm i and fiscal year t, where the restatement in t has occurred due to an accounting policy change (or other reason), deflated by Common shares outstanding at t-1. Source: Datastream Worldscope
$EARNINGSR_{t,i}$	Restated Net Income before extraordinary items and preferred dividends for firm i and fiscal year t, where the restatement in t has occurred due to an accounting policy change (or other reason), deflated by Common shares outstanding at t-1. Source: Datastream Worldscope
$CFODIFF_{t,i}$	$= CFOR_{t,i} - CFO_{t,i}$
$EARNDIFF_{t,i}$	$= EARNINGSR_{t,i} - EARNINGS_{t,i}$
$FE(CFO)_{t+1,i}$	$= (CFO_{t+1,i} - FCFO_{t+1,i})$ where $FCFO_{t+1,i}$ is the mean consensus of analyst forecasts of operating cash flow per share for firm i and fiscal year t+1 and $CFO_{t+1,i}$ as previously defined. $ FE(CFO)_{t+1,i} $ is the absolute value of the forecast error. Source: Refinitiv EIKON
$FE(EARNINGS)_{t+1,i}$	$= (EARNINGS_{t+1,i} - FEARNINGS_{t+1,i})$ where $FEARNINGS_{t+1,i}$ is the mean consensus of analyst forecasts of earnings per share for firm i and fiscal year t+1 and $EARNINGS_{t+1,i}$ as previously defined. $ FE(EARNINGS)_{t+1,i} $ is the absolute value of the forecast error. Source: Refinitiv EIKON
$APC_{t,i}$	Indicator variable = 1 when the restatement of t financial results is associated with an accounting policy change and = 0 when the restatement of t financial results is associated with another reason Source: Datastream Worldscope

	$Q_t = (TA_{t,i} - BVE_{t,i} + MVE_{t,i} - DT_{t,i}) / TA_{t,i}$
	<p>where:</p> <p><i>TA</i> = total assets</p> <p><i>BVE</i> = book value of equity</p> <p><i>MVE</i> = market value of equity (computed at announcement date of actual financial results of t or alternatively 30 days hence)</p> <p><i>DT</i> = deferred taxes</p> <p><i>TOBINQ</i><sub>t+1,i</sub> is similarly calculated.</p>
	<p>Source: Datastream Worldscope and EIKON</p>
<i>lnASSETS</i> <sub>Rt</sub>	<p>Natural logarithm of Total Assets (restated) of firm i in fiscal year t.</p> <p>Source: Datastream Worldscope</p>
<i>BTMR</i> <sub>t</sub>	<p>Book / market value of equity ratio of firm i at end of t (book value per share is restated).</p> <p>Source: Datastream Worldscope</p>
<i>LEVR</i> <sub>t</sub>	<p>The leverage (Debt/Equity) ratio of the company at t equal to the ratio of total debt outstanding to the book value of equity at end of t (as restated).</p> <p>Source: Datastream Worldscope</p>

**Table 1. Sample Selection**

Country	number of firms with other reasons restatements	firm years of restatements (2005-2018)	no of firms with acc policy changes	firm years of acc policy changes (2005-2018)
Austria	50	153	19	21
Belgium	81	266	18	20
Bulgaria	150	428	2	2
Croatia	90	354	3	3
Cyprus	73	185		
Czech Republic	16	52	3	3
Denmark	97	328	10	11
Estonia	12	28	2	2
Finland	97	357	16	19
France	440	1318	157	213
Germany	459	1227	156	201
Greece	188	505	26	28
Hungary	32	112	9	10
Iceland	11	31		
Ireland	32	84	11	13
Italy	245	915	39	44
Latvia	15	53		
Lithuania	33	108	2	3
Luxembourg	17	55	5	7
Malta	12	28		
Netherlands	95	327	28	37
Norway	211	759	37	40
Poland	313	1094	24	25
Portugal	43	186	4	4
Romania	58	146	9	9
Slovakia	4	17		
Slovenia	25	99		
Spain	101	343	18	21
Sweden	406	1065	34	34
Switzerland	122	341	60	78
United Kingdom	1233	3372	232	277
<b>Grand Total</b>	<b>4,761</b>	<b>14,336</b>	<b>924</b>	<b>1,125</b>

Notes: This table presents the sample selection per country. The sample includes primarily quoted equity securities of major class listed firms from the European Economic Area. The sample excludes Financial Institutions, Insurance firms, Real Estate, REITS, and firms of unclassified sector leading to 924 firms with at least one restatement resulting from accounting policy changes and 4,761 firms with at least one restatement resulting from other reasons.

**Table 2a. Distribution Descriptive Statistics**

Variable	No APC	APC	Mean diff (0-1)	t-test of mean diff
	Mean (0)	Mean (1)		
<i>CFO<sub>t+1</sub></i>	8.6300	9.9244	-1.2944	-0.9735
<i>EARNINGS<sub>t+1</sub></i>	1.0229	2.2975	-1.2745	-2.1077**
<i>CFO<sub>t</sub></i>	8.8468	9.2448	-0.3980	-0.2919
<i>EARNINGS<sub>t</sub></i>	0.9376	2.6457	-1.7081	-2.6878***
<i>CFOR<sub>t</sub></i>	8.6927	8.9937	-0.3010	-0.2296
<i>EARNINGSR<sub>t</sub></i>	0.8792	2.7476	-1.8684	-2.7197***
<i>CFODIFF<sub>t,i</sub></i>	-0.2283	-0.2815	0.0532	0.2032
<i>EARNDIFF<sub>t,i</sub></i>	-0.0982	0.1091	-0.2072	-1.2819*
<i>FE(CFO)<sub>t+1,i</sub></i>	-0.3504	-0.3559	0.0055	0.0678
<i>FE(EARNINGS)<sub>t+1,i</sub></i>	-0.1558	-0.1100	-0.0458	-1.3190*
<i> FE(CFO)<sub>t+1,i</sub> </i>	1.0046	0.8447	0.1599	1.3358*
<i> FE(EARNINGS)<sub>t+1,i</sub> </i>	0.5104	0.3612	0.1492	3.0182***
<i>TOBINQ<sub>t</sub></i>	1.6691	1.5076	0.1615	2.2239**
<i>TOBINQR<sub>t</sub></i>	1.9248	1.6572	0.2676	1.4817*
<i>TOBINQ<sub>t+1</sub></i>	1.7066	1.5531	0.1535	1.9380**
<i>lnASSETS<sub>Rt</sub></i>	19.6103	20.4467	-0.8364	-10.9439***
<i>BTMR<sub>t</sub></i>	1.0672	0.8413	0.2258	4.1607***
<i>LEVR<sub>t</sub></i>	0.7919	0.8666	-0.0746	-1.1471

Notes: This table presents descriptive statistics for the variables of the study across the two subsamples of restatements arising from Accounting Policy Changes (APC) and from other sources (No APC). All the variables are defined in the Appendix. Continuous variables are winsorized at 1% at both sides. The table also presents the t-stat of the variables mean differences test. \*\*\*, \*\*, and \* represent significance levels of 1, 5, and 10 percent, respectively.

**Table 2b. Accounting policy changes and increasing or decreasing performance metrics.**

Metric:	All	Increasing	Decreasing	Missing observations
<i>Net Income before extraordinary/preferred</i>	1,125	283 (25%)	801 (71%)	41 (4%)
<i>Net operating cash flow</i>	1,125	184 (16%)	905 (80%)	36 (3%)
<i>Revenue</i>	1,125	111 (10%)	980 (87%)	34 (3%)
<i>Liabilities</i>	1,125	434 (39%)	674 (60%)	17 (1%)
<i>Net PPE</i>	1,125	134 (12%)	969 (86%)	22 (2%)

Notes: this table presents statistics regarding the effects of accounting policy changes on basic firm performance metrics (increasing or decreasing effect).

**Table 3. Accounting policy changes and analyst accuracy (absolute forecast error of earnings)**

	Obs	Mean	St. Dev.	Diff	t-stat
<b>No APC</b>					
$ FE(EARNINGS)_{t,i} $	7,666	2.1881	10.2098	1.6980	15.0210***
$ FE(EARNINGS)_{t,i} $	7,666	0.4901	1.3249		
<b>APC</b>					
$ FE(EARNINGS)_{t,i} $	772	1.3602	6.9206	1.0254	4.2181***
$ FE(EARNINGS)_{t,i} $	772	0.3348	1.0079		
<b>No APC</b>					
$ FE(EARNINGS)_{t,i} $	7,282	0.4441	1.2587	-0.0385	-1.9647**
$ FE(EARNINGS)_{t+1,i} $	7,282	0.4826	1.3186		
<b>APC</b>					
$ FE(EARNINGS)_{t,i} $	751	0.2920	0.8575	-0.0621	-1.3580*
$ FE(EARNINGS)_{t+1,i} $	751	0.3542	1.0521		

Notes: this table presents descriptive statistics for the analyst earnings accuracy (absolute forecast error) and its average change from t non-restated to t restated, and from t to t+1, across the APC and No APC sub-samples.

**Table 4. Accounting Policy Changes and Future Corporate Performance.**

DEP. VAR.=	(1)	(2)	(3)	(4)
	<i>CFO</i> <sub><i>t+1</i></sub>	<i>CFO</i> <sub><i>t+1</i></sub>	<i>EARNINGS</i> <sub><i>t+1</i></sub>	<i>EARNINGS</i> <sub><i>t+1</i></sub>
<i>APC</i>		-1.094*** (-3.336)		0.086 (0.252)
<i>CFOR</i> <sub><i>t</i></sub>	0.571*** (27.420)	0.585*** (27.148)	0.066*** (4.805)	0.069*** (4.524)
<i>CFOR</i> <sub><i>t</i></sub> * <i>APC</i>		0.106** (2.315)		-0.048 (-1.366)
<i>EARNINGSR</i> <sub><i>t</i></sub>	0.144*** (3.620)	0.125*** (3.016)	0.410*** (15.819)	0.383*** (13.290)
<i>EARNINGSR</i> <sub><i>t</i></sub> * <i>APC</i>		0.045 (0.363)		0.137* (1.733)
Controls				
<i>lnASSETS</i> <sub><i>Rt</i></sub>	0.828*** (9.767)	0.765*** (8.879)	0.229*** (4.814)	0.261*** (5.328)
<i>BTMR</i> <sub><i>t</i></sub>	0.182 (1.316)	0.168 (1.116)	-0.419*** (-4.099)	-0.419*** (-3.793)
<i>LEVR</i> <sub><i>t</i></sub>	0.083 (0.727)	0.099 (0.868)	-0.322*** (-4.267)	-0.312*** (-4.068)
<i>Constant</i>	-14.303*** (-9.001)	-13.231*** (-8.241)	-3.588*** (-3.931)	-4.255*** (-4.531)
<i>Linear Combination Coefficient tests</i>				
<i>CFO+inter</i>		0.692***		0.021
<i>EARN+inter</i>		0.171		0.520***
<i>R</i> <sup>2</sup>	0.676	0.706	0.436	0.411
Adjusted <i>R</i> <sup>2</sup>	0.676	0.706	0.435	0.411
Observations	13287	12685	13304	12698

Notes: This table presents the results of the OLS regression of Models 1 and 2. *APC* is an indicator variable equal to one when the restatement of *t* results is attributed to an accounting policy change and zero otherwise. All the variables are defined in the Appendix. Continuous variables are winsorized at 1% at both sides. *t*-statistics (in parentheses) are based on robust standard errors. \*\*\*, \*\*, and \* represent significance levels of 1, 5, and 10 percent, respectively.

**Table 5. Accounting Policy Changes and Future Corporate Performance based on net income restatement effects.**

DEP. VAR.=	(1) <i>CFO<sub>t+1</sub></i>	(2) <i>CFO<sub>t+1</sub></i>	(3) <i>CFO<sub>t+1</sub></i>	(4) <i>EARNING<sub>t+1</sub></i>	(5) <i>EARNING<sub>t+1</sub></i>	(6) <i>EARNING<sub>t+1</sub></i>
<i>APC</i> effects	Dnetincom e>0	Dnetincom e=0	Dnetincom e<0	Dnetincom e>0	Dnetincom e=0	Dnetincom e<0
<i>APC</i>	-2.485*** (-3.540)	-1.140*** (-2.637)	-0.579 (-0.836)	0.535 (1.104)	-0.206 (-0.521)	0.157 (0.228)
<i>CFOR<sub>t</sub></i>	0.499*** (5.907)	0.588*** (21.706)	0.620*** (18.754)	0.070** (2.104)	0.094*** (4.791)	0.004 (0.151)
<i>CFOR<sub>t</sub> * APC</i>	0.205** (2.092)	0.159*** (3.188)	0.058 (0.601)	-0.042 (-0.937)	-0.098** (-2.279)	0.037 (0.906)
<i>EARNINGSR<sub>t</sub></i>	0.163 (1.370)	0.098* (1.860)	0.197** (2.471)	0.388*** (5.920)	0.350*** (9.114)	0.458*** (8.788)
<i>EARNINGSR<sub>t</sub> * APC</i>	-0.040 (-0.278)	-0.291*** (-3.025)	0.231 (1.032)	-0.014 (-0.107)	0.144 (1.042)	0.157 (1.487)
Controls						
<i>lnASSETS<sub>Rt</sub></i>	1.076*** (4.248)	0.778*** (7.804)	0.475** (2.538)	0.273** (2.367)	0.258*** (4.323)	0.245** (2.124)
<i>BTMR<sub>t</sub></i>	0.123 (0.377)	0.145 (0.716)	0.233 (0.938)	-0.326 (-1.509)	-0.476*** (-3.230)	-0.310 (-1.548)
<i>LEVR<sub>t</sub></i>	-0.123 (-0.319)	0.123 (0.927)	0.254 (1.114)	-0.346* (-1.753)	-0.301*** (-2.930)	-0.251** (-2.217)
<i>Constant</i>	-18.475*** (-4.053)	-13.504*** (-7.270)	-7.974** (-2.232)	-4.879** (-2.189)	-4.130*** (-3.628)	-3.896* (-1.773)
<i>Linear Combination Coefficient tests</i>						
<i>CFO+inter</i>	0.704***	0.746***	0.678***	0.028	-0.003	0.041
<i>EARN+inter</i>	0.123	-0.193**	0.428**	0.374***	0.493***	0.615***
<i>R<sup>2</sup></i>	0.568	0.714	0.766	0.457	0.401	0.452
Adjusted <i>R<sup>2</sup></i>	0.567	0.714	0.766	0.454	0.401	0.450
Observations	1854	8164	2667	1858	8172	2668

Notes: This table presents the results of the OLS regression of Models 1 and 2 controlling for the net income restatement effects. *APC* is an indicator variable equal to one when the restatement of *t* results is attributed to an accounting policy change and zero otherwise. All the variables are defined in the Appendix. Continuous variables are winsorized at 1% at both sides. *t*-statistics (in parentheses) are based on robust standard errors. \*\*\*, \*\*, and \* represent significance levels of 1, 5, and 10 percent, respectively.

**Table 6. Accounting Policy Changes and Future Corporate Performance based on cash flow restatement effects.**

DEP. VAR.=	(1) <i>CFO<sub>t+1</sub></i>	(2) <i>CFO<sub>t+1</sub></i>	(3) <i>CFO<sub>t+1</sub></i>	(4) <i>EARNINGS<sub>t+</sub></i>	(5) <i>EARNINGS<sub>t+</sub></i>	(6) <i>EARNINGS<sub>t+</sub></i>
<i>APC effects</i>	<i>Dcashflow&gt;0</i>	<i>Dcashflow=0</i>	<i>Dcashflow&lt;0</i>	<i>Dcashflow&gt;0</i>	<i>Dcashflow=0</i>	<i>Dcashflow&lt;0</i>
<i>APC</i>	-1.978*** (-2.773)	-1.366*** (-3.976)	-0.429 (-0.528)	0.295 (0.657)	-0.094 (-0.269)	0.659 (0.517)
<i>CFOR<sub>t</sub></i>	0.563*** (12.364)	0.586*** (18.777)	0.606*** (17.196)	0.040 (1.196)	0.077*** (3.902)	0.078** (2.263)
<i>CFOR<sub>t</sub> *APC</i>	-0.090 (-0.680)	0.160*** (2.792)	0.138** (2.271)	-0.048 (-1.410)	-0.095** (-2.145)	-0.031 (-0.449)
<i>EARNINGS<sub>Rt</sub></i>	0.200** (1.998)	0.086 (1.491)	0.151** (2.221)	0.415*** (6.531)	0.372*** (9.833)	0.377*** (5.946)
<i>EARNINGS<sub>Rt</sub> * APC</i>	0.642** (2.181)	-0.087 (-0.676)	-0.038 (-0.379)	0.263*** (4.061)	0.257*** (3.127)	0.006 (0.041)
<i>Controls</i>						
<i>lnASSETS<sub>Rt</sub></i>	0.629*** (3.931)	0.865*** (7.388)	0.516*** (3.827)	0.146 (1.216)	0.311*** (5.106)	0.184* (1.689)
<i>BTMR<sub>t</sub></i>	0.189 (0.682)	0.212 (1.087)	0.128 (0.363)	-0.398 (-1.393)	-0.302** (-2.219)	-0.789*** (-3.114)
<i>LEVR<sub>t</sub></i>	-0.113 (-0.482)	0.130 (0.820)	0.183 (1.387)	-0.408** (-2.066)	-0.383*** (-4.030)	-0.018 (-0.112)
<i>Constant</i>	-10.138*** (-3.350)	-15.286*** (-7.030)	-8.351*** (-3.208)	-2.039 (-0.873)	-5.189*** (-4.456)	-2.979 (-1.450)
<i>Linear Combination Coefficient tests</i>						
<i>CFO+inter</i>	0.472***	0.746***	0.745***	-0.008	-0.017	0.048
<i>EARN+inter</i>	0.842***	-0.001	0.113	0.677***	0.629***	0.383***
<i>R<sup>2</sup></i>	0.692	0.681	0.790	0.371	0.414	0.454
<i>Adjusted R<sup>2</sup></i>	0.691	0.681	0.789	0.369	0.413	0.452
<i>Observations</i>	1971	8692	2022	1973	8702	2023

Notes: This table presents the results of the OLS regression of Models 1 and 2 controlling for the cash flow restatement effects. *APC* is an indicator variable equal to one when the restatement of *t* results is attributed to an accounting policy change and zero otherwise. All the variables are defined in the Appendix. Continuous variables are winsorized at 1% at both sides. *t*-statistics (in parentheses) are based on robust standard errors. \*\*\*, \*\*, and \* represent significance levels of 1, 5, and 10 percent, respectively.



**Table 7. Accounting Policy Changes and leading (t+1) analyst forecast error.**

	(1)	(2)	(3)	(4)
DEP. VAR. =		<i>/EPSFE<sub>t+1</sub>/</i>		<i>/CFOFE<sub>t+1</sub>/</i>
<i>APC</i>		-0.110*** (-2.743)		-0.112 (-1.082)
<i>CFODIFF<sub>t</sub></i>	0.005 (0.644)	0.006 (0.741)	-0.012* (-1.654)	-0.011 (-1.518)
<i>CFODIFF<sub>t</sub> *</i>		-0.041**		-0.030
<i>APC</i>		(-2.180)		(-0.460)
<i>EARNDIFF<sub>t</sub></i>	-0.004 (-1.173)	-0.004 (-1.077)	-0.009 (-1.392)	-0.006 (-1.224)
<i>EARNDIFF<sub>t</sub> *</i>		-0.051 (-1.304)		-0.474 (-1.323)
<i>Constant</i>	1.669*** (12.225)	1.663*** (12.167)	4.969*** (11.339)	4.899*** (11.034)
Controls	Included	Included	Included	Included
<i>Linear combination tests</i>				
<i>CFOD+inter</i>	na	-0.035**	na	-0.041
<i>EARND+inter</i>	na	-0.055	na	-0.481
<i>R<sup>2</sup></i>	0.024	0.025	0.023	0.026
<i>Adj R<sup>2</sup></i>	0.024	0.024	0.022	0.025
<i>Obs</i>	7782	7782	5777	5777

Notes: This table presents the results of the OLS regression of Models 3 and 4. All the variables are defined in the Appendix. Continuous variables are winsorized at 1% at both sides. t-statistics (in parentheses) are based on robust standard errors. \*\*\*, \*\*, and \* represent significance levels of 1, 5, and 10 percent, respectively.

**Table 8. Accounting Policy Changes and leading (t+1) analyst forecast error based on net income restatement effects.**

	(1)	(2)	(3)	(4)
DEP. VAR.=	<i>/EPSFE<sub>t+1</sub>/</i>		<i>/CFOFE<sub>t+1</sub>/</i>	
<i>APC</i> effects	Dnetincome>0	Dnetincome<0	Dnetincome>0	Dnetincome<0
<i>APC</i>	-0.128** (-1.973)	-0.217*** (-3.068)	0.089 (0.309)	-0.334** (-2.426)
<i>CFODIFF<sub>t</sub></i>	0.015 (1.129)	0.019 (1.156)	0.013 (0.718)	0.006 (0.996)
<i>CFODIFF<sub>t</sub> * APC</i>	-0.015 (-1.110)	-0.078** (-2.494)	-0.016 (-0.744)	-0.029 (-0.513)
<i>EARNDIFF<sub>t</sub></i>	0.006 (0.478)	-0.004 (-1.523)	0.016* (1.726)	-0.004 (-0.972)
<i>EARNDIFF<sub>t</sub> * APC</i>	0.001 (0.077)	-0.067 (-1.163)	-0.159 (-1.215)	-0.160 (-0.765)
Constant	1.381*** (3.747)	1.964*** (7.048)	4.862*** (3.915)	3.914*** (4.666)
<i>Controls</i>	Included	Included	Included	Included
<i>Linear Combination Coefficient tests</i>				
<i>CFOD+inter</i>	0.000	-0.060**	-0.003	-0.023
<i>EARND+inter</i>	0.007	-0.071	-0.142	-0.164
<i>R<sup>2</sup></i>	0.036	0.051	0.018	0.021
Adjusted <i>R<sup>2</sup></i>	0.029	0.046	0.008	0.015
Observations	1084	1645	813	1242

Notes: This table presents the results of the OLS regression of Models 3 and 4 controlling for the net income restatement effects. *APC* is an indicator variable equal to one when the restatement of t results is attributed to an accounting policy change and zero otherwise. All the variables are defined in the Appendix. Continuous variables are winsorized at 1% at both sides. t-statistics (in parentheses) are based on robust standard errors. \*\*\*, \*\*, and \* represent significance levels of 1, 5, and 10 percent, respectively.

**Table 9. Accounting Policy Changes and leading (t+1) analyst forecast error based on cash flow restatement effects.**

	(1)	(2)	(3)	(4)
DEP. VAR.=	<i>/EPSFE<sub>t+1</sub>/</i>		<i>/CFOFE<sub>t+1</sub>/</i>	
<i>APC</i> effects	Dcashflow>0	Dcashflow<0	Dcashflow>0	Dcashflow<0
<i>APC</i>	-0.178 (-1.565)	-0.048 (-0.367)	-0.308 (-1.166)	-0.509*** (-3.507)
<i>CFODIFF<sub>t</sub></i>	0.030** (2.070)	-0.004 (-1.024)	-0.015* (-1.659)	-0.018 (-1.047)
<i>CFODIFF<sub>t</sub> * APC</i>	-0.029* (-1.935)	-0.055*** (-2.868)	0.031 (1.594)	-0.033 (-0.525)
<i>EARNDIFF<sub>t</sub></i>	-0.002 (-0.763)	-0.002 (-0.211)	0.001 (0.273)	-0.009 (-0.703)
<i>EARNDIFF<sub>t</sub> * APC</i>	0.046** (2.298)	-0.112* (-1.699)	-0.025 (-0.243)	-0.183 (-0.672)
Constant	2.185*** (5.774)	1.582*** (3.861)	6.787*** (4.823)	4.721*** (5.076)
<i>Controls</i>	Included	Included	Included	Included
<i>Linear Combination Coefficient tests</i>				
<i>CFOD+inter</i>	0.001	-0.059***	0.017	-0.051
<i>EARND+inter</i>	0.045**	-0.114*	-0.024	-0.192
<i>R<sup>2</sup></i>	0.062	0.015	0.033	0.022
Adjusted <i>R<sup>2</sup></i>	0.056	0.008	0.024	0.013
Observations	1142	1190	849	893

Notes: This table presents the results of the OLS regression of Model 3 and 4 controlling for the cash flow restatement effects. *APC* is an indicator variable equal to one when the restatement of t results is attributed to an accounting policy change and zero otherwise. All the variables are defined in the Appendix. Continuous variables are winsorized at 1% at both sides. t-statistics (in parentheses) are based on robust standard errors. \*\*\*, \*\*, and \* represent significance levels of 1, 5, and 10 percent, respectively.

**Table 10. Market Impact of restatements arising from accounting policy changes and other reasons.**

<i>TOBINQ</i>	Restated	Obs	Mean	Diff	t-stat
<i>Panel A. Tobins Q computed using non-restated financial data for t and t+1</i>					
<i>Date of calculation of market value of equity: At announcement of financial results (of t and t+1)</i>					
<b>NO APC</b>					
<i>TOBINQ<sub>t</sub></i>	No	6,534	1.6648	0.0381	2.8932***
<i>TOBINQ<sub>t+1</sub></i>	No	6,534	1.6267		
<b>APC</b>					
<i>TOBINQ<sub>t</sub></i>	No	685	1.5358	-0.0524	-2.0876**
<i>TOBINQ<sub>t+1</sub></i>	No	685	1.5882		
<i>Date of calculation of market value of equity: 30 days after announcement of financial results</i>					
<b>NO APC</b>					
<i>TOBINQ<sub>t</sub></i>	No	6,807	1.6916	0.0511	3.8996***
<i>TOBINQ<sub>t+1</sub></i>	No	6,807	1.6405		
<b>APC</b>					
<i>TOBINQ<sub>t</sub></i>	No	730	1.5455	-0.0486	-1.8467**
<i>TOBINQ<sub>t+1</sub></i>	No	730	1.5941		
<i>Panel B. Tobins Q computed using non-restated and restated financial data of t</i>					
<i>Date of calculation of market value of equity: At announcement of financial results (of t for TOBINQ<sub>t</sub> and t+1 for TOBINQR<sub>t</sub>)</i>					
<b>NO APC</b>					
<i>TOBINQ<sub>t</sub></i>	No	6,350	1.6667	-0.0944	-6.7704***
<i>TOBINQR<sub>t</sub></i>	Yes	6,350	1.7611		
<b>APC</b>					
<i>TOBINQ<sub>t</sub></i>	No	679	1.5285	-0.1315	-5.3182***
<i>TOBINQR<sub>t</sub></i>	Yes	679	1.6599		
<i>Date of calculation of market value of equity: 30 days after announcement of financial results (of t for TOBINQ<sub>t</sub> and t+1 for TOBINQR<sub>t</sub>)</i>					
<b>NO APC</b>					
<i>TOBINQ<sub>t</sub></i>	No	6,613	1.6931	-0.0814	-6.1842***
<i>TOBINQR<sub>t</sub></i>	Yes	6,613	1.7745		
<b>APC</b>					
<i>TOBINQ<sub>t</sub></i>	No	722	1.5346	-0.1327	-5.4103***
<i>TOBINQR<sub>t</sub></i>	Yes	722	1.6673		

Notes: this table presents Tobins Q comparisons. Panel A compares the metric computed using non-restated figures of t and t+1. Panel B compares the metric using non-restated figures of t (and MVE at t) and restated figures of t (and MVE at t+1).