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Abstract

This study investigates s quality” and their preference for accounting methods. The data are a sample consisting of 479 sell-side financial analyst full-text reports for a set of companies stratified on exchange, SIC code, and size in three recent time periods. These reports illustrate the importance placed by analysts on identifying companies' core earnings. The results show that analysts associate high earnings quality with near-term earnings predictability. This predictability is defined in an economic sense in terms of a low level of earnings volatility, and in an accounting sense in terms of management discretion over the establishment and adjustment of certain conservative reserves, allowances, and off-balance-sheet assets. Limited association was found between earnings quality and the application of conservative accounting methods, per se.

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