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The Bright Side of Discretionary Accruals: Evidence from Finance and Innovation

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ABSTRACT

We find cross-sectional evidence that a financially constrained firm with patentable innovation opportunities can use discretionary accruals to reveal information about the firm's prospects and facilitate its financing activities. Specifically, using firms with patents in the National Bureau of Economic Research (NBER) patent database, we find that among financially constrained firms, higher discretionary accruals are associated with more capital being raised, greater research and development (R&D) expenditures, more patents, more patent citations, and better operating performance in the future. These positive relationships are driven by firms that raise equity capital, especially those that raise equity capital from employees.

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