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Accrual Duration and Financial Statement Errors

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Abstract

I examine the relationship between accrual duration and financial statement errors, providing an initial empirical test of the relationship between accrual duration and accrual discretion set forth in Dichev (2016). I find that days inventory outstanding, days sales outstanding, and days payable outstanding are each positively associated with the corresponding category of restatement. The relationships are statistically and economically significant over the sample. For example, ceteris paribus the odds of a restatement related to inventory, vendor relationships, or cost of sales increases by 23% from the lowest to the highest decile of days inventory outstanding within an industry-year, on average. Furthermore, using placebo tests I find no evidence that the duration of specific categories of accruals is associated with financial statement errors involving different categories of accruals.

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