

Accrual duration

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Abstract

Accrual duration can be defined as the length of time between an accrual and its associated cash flow. This paper argues that accrual duration is a key factor in understanding the discretion in accruals. The function of accruals is to shift the recognition of associated cash flows across time, usually working in pairs of opening/closing accruals. By design, one side of the accrual pair shifts the recognition of the associated cash flow away from the period in which it occurs by recording an accrual with the same magnitude but the opposite sign in the same period. Thus, such zero-duration accruals are non-discretionary because the timing and magnitude of the associated cash flow pin down the timing and the magnitude of the concurrent accrual. The other side of the accrual pair shifts the recognition of the associated cash flow into some other time period(s), which involves using forward-looking estimates over the duration of the accrual, and therefore some discretion. In addition, accruals that have longer duration are more discretionary because longer horizons of estimation allow more discretion with respect to their timing and magnitude. Summarizing, accrual duration and accrual discretion are inextricably linked by the fundamentals of the accrual process. The study concludes with some thoughts on how to practically use accrual duration as a measure of accrual discretion.

Speaker Profile:

Prof. Ilia Dichev joined the Goizueta faculty in 2009. Dichev's previous appointment was at the University of Michigan's Ross School of Business, where he taught accounting for thirteen years and directed the PhD program in accounting for three.

Dichev holds a BS in finance from Santa Clara University and a PhD in accounting from the University of Washington. Immediately following completion of his PhD in 1995, he served as assistant professor of accounting at Rice University in Houston, Texas, for a year. He has published in *The Accounting Review*, *Journal of Accounting and Economics*, *Journal of Accounting Research*, *The Journal of Finance*, *Journal of Business*, and *American Economic Review*.

In 2002, he received the Notable Contributions to Accounting Literature Award, the highest research award in accounting. He is also the recipient of the 2007 Emerald

Citation for Excellence, as author of one of the top 50 articles in economics and business worldwide. He has been cited in numerous popular publications, including Forbes, The New York Times, Money, The Wall Street Journal, Smart Money, Handelsblatt, National Public Radio, Harvard Business Review, Atlanta Journal-Constitution, CFO Magazine, Financial Advisor, Investors' Chronicle, The Chronicle of Higher Education, and The Economist.