CPA Speaker Series (ACCTG)

Alberta School of Business
Department of Accounting and Business Analytics

Presents:

Jack Stecher
University of Alberta

Topic:

A Theory of Principles-Based Classification

Friday, January 29, 2021
10:00am – 11:30am

Zoom details in the calendar invite.
If you are not a member of ABA and would like to attend,
please contact Beth Boison (boison@ualberta.ca)
for the Zoom meeting details.

ABSTRACT

We study a firm's decision to classify transactions as recurring or nonrecurring in a setting with no fixed classification scheme, but with the following principle: recurring transactions must be more persistent than nonrecurring ones. We find that market prices are more informative under principles-based classifications than they would be under a hypothetical, optimally chosen specific classification rule. Consistent with archival studies on classification, our findings show that equilibrium classifications depend on the levels of income-increasing and income-reducing items. In fact, it is because of this property that classifications are informative.