

What the Evidence Tells Us

The empirical analysis began with a simple but difficult question:

Can Accounting Bias be observed in practice?

The theoretical framework defined Accounting Bias as

$$AB_{it} = A_{it} - E_{it},$$

where A_{it} is the accounting representation of firm i at time t , and E_{it} is the corresponding economic state.

The empirical chapters have shown that this expression cannot generally be measured directly.

Accounting representation is observable.

Economic reality is not.

The empirical contribution of this part of the book has therefore not been to estimate the exact quantity

$$A - E.$$

Instead, it has been to identify observable accounting structures that reveal how firms are exposed to the mechanisms capable of producing that divergence.

This distinction has proved essential.

The evidence does not support a simple interpretation of Accounting Bias as one scalar quantity that can be inferred from a single ratio or compressed mechanically into a universal index.

Taken together, the observed patterns are most consistent with the interpretation that:

**Accounting Bias is multidimensional,
mechanism-specific, and predominantly structural.**

This chapter explains what that conclusion means for the theory of Accounting Bias, for empirical accounting research, and for the interpretation of financial statements.

38.1 What Was Tested

The empirical analysis was built around a predetermined sample of 50 firms observed over fiscal years 2021–2025.

The predetermined sampling frame contains a maximum of

$$N = 250$$

firm-year observations. Effective sample sizes are smaller for individual proxies and statistical models because standardized XBRL availability varies across accounting variables.

The study constructed six core Accounting Bias proxies:

$$RDINT, \quad GWINT, \quad PPEINT, \\ ACCDEPINT, \quad ACCRUALINT, \quad DTINT.$$

These indicators represent three empirically usable dimensions:

Recognition,

Measurement,

and

Timing.

The Estimation dimension remains theoretically important but empirically less complete because standardized XBRL coverage for allowances and provisions is substantially weaker.

The analysis then investigated five broad propositions:

- H1:** Accounting Bias exposure differs across industries.

H2: Accounting Bias exposure is persistent within firms.

H3: Proxies within a dimension exhibit systematic relationships.

H4: Those relationships survive firm fixed effects.

H5: Accounting Bias exposure is associated with reported profitability.

The evidence was not uniform across all hypotheses.
That heterogeneity is itself informative.

38.2 The Strongest Result: Accounting Bias Exposure Is Predominantly Structural

The most robust empirical finding is the strong role of persistent economic structure in shaping observable Accounting Bias exposure.

Within the predetermined sample and the available proxy-specific observations, all six core proxies exhibit statistically significant differences across the five industry groups:

6/6.

Five of the six core proxies exhibit statistically significant year-to-year persistence within the available panel observations:

5/6.

The persistence coefficients are especially high for

$RDINT$,

$GWINT$,

$PPEINT$,

$ACCDEPINT$,

and

$DTINT$.

These results indicate that firms do not begin each fiscal year with a new and independent profile of observable Accounting Bias exposure.

Instead, their exposure to accounting mechanisms is closely tied to persistent characteristics such as:

- business model;
- asset composition;

- acquisition history;
- research intensity;
- capital intensity;
- tax structure;
- the age and composition of long-lived assets.

The empirical implication can be written as

$$X_{it}^{AB} = S_i + D_{it},$$

where

$$S_i$$

is a persistent structural component and

$$D_{it}$$

is a time-varying component.

For many of the observed proxies, the empirical patterns are consistent with a substantial persistent component,

$$Var(S_i),$$

relative to the time-varying component,

$$Var(D_{it}).$$

Within the limits of the empirical design, Accounting Bias exposure is therefore better understood as being strongly embedded in the architecture of the firm rather than as a purely temporary reporting phenomenon.

38.3 Accounting Bias Is Not Equivalent to Accounting Manipulation

This result has an important conceptual implication.

If Accounting Bias is strongly related to industry structure and persistent business-model characteristics, then it cannot be reduced conceptually to managerial manipulation.

A utility company may have a large exposure to historical-cost measurement because its economic activity requires large amounts of long-lived infrastructure.

A pharmaceutical company may have high recognition exposure because its economic model depends on internally generated research.

An acquisitive firm may report large goodwill balances because accounting recognizes acquired intangible value differently from internally generated value.

None of these situations requires opportunistic reporting.

Accounting Bias may arise even when:

standards are followed correctly,

estimates are made in good faith,

and

management has no intention to mislead.

The source of the divergence may simply be the accounting system itself.

Thus,

Accounting Bias $\neq$ Accounting Manipulation.

Manipulation may create or amplify Accounting Bias, but it is not required for Accounting Bias to exist.

This distinction is central to the theory developed throughout the book.

38.4 Recognition Bias Is Mainly a Between-Firm Phenomenon

The Recognition dimension provides one of the clearest examples of structural Accounting Bias.

The pooled empirical relationship between research intensity and goodwill intensity is strong and negative:

$$\hat{\beta}_R \approx -1.681.$$

But once firm fixed effects are introduced, the coefficient becomes

small and statistically insignificant.

The empirical interpretation is therefore not that annual changes in R&D expenditure cause annual changes in goodwill.

Rather, firms differ persistently in the way economically important intangible resources enter their accounting systems.

One type of firm relies heavily on internal development:

$$\begin{aligned} \textit{Internal Development} &\rightarrow \textit{R\&D Expense} \\ &\rightarrow \textit{limited asset recognition.} \end{aligned}$$

Another relies more heavily on acquisition:

$$\begin{aligned} \textit{Acquisition} &\rightarrow \textit{purchase price allocation} \\ &\rightarrow \textit{recognized intangibles} + \textit{goodwill.} \end{aligned}$$

The economic object may be similar in a broad sense:

intangible productive capacity.

But the accounting path differs.

The empirical evidence therefore supports one of the core theoretical propositions of Accounting Bias:

$$\textit{economic similarity} \not\Rightarrow \textit{accounting similarity.}$$

Recognition depends partly on the institutional route through which the economic resource enters the firm.

38.5 Transaction Dependence

This result can be generalized.

Suppose an economic resource has value

$$V^E.$$

If generated internally, accounting may produce representation

$$V_A^{\textit{Internal}}.$$

If obtained through acquisition, accounting may instead produce

$$V_A^{\textit{Acquired}}.$$

Even if the underlying economic resources are similar,

$$V_E^{Internal} \approx V_E^{Acquired},$$

it does not follow that

$$V_A^{Internal} = V_A^{Acquired}.$$

This creates transaction-dependent accounting representation.

The accounting state depends not only on what the firm economically owns, but also on how that resource entered the firm.

The empirical Recognition results are consistent with this proposition.

This is an important form of Accounting Bias because it means that balance-sheet comparability may be affected by corporate history.

Two economically similar firms may report different accounting asset structures simply because one developed internally and the other acquired externally.

38.6 Measurement Bias Is Both Structural and Dynamic

Measurement produces a different empirical pattern.

The pooled relationship between PPE intensity and accumulated-depreciation intensity is strongly negative:

$$\hat{\beta}_M \approx -0.691.$$

Unlike Recognition, this relationship survives firm fixed effects:

$$\hat{\beta}_{M,FE} \approx -0.674,$$

with

$$p \approx 0.0083.$$

Measurement therefore contains both persistent cross-firm structure and systematic within-firm dynamics.

This is consistent with the economic life cycle of long-lived assets.

A firm's tangible asset base evolves through:

Investment,

Depreciation,

Disposal,

Replacement,

and

Impairment.

The accounting carrying amount is transformed through these processes over time.

In simplified form,

$$NetPPE_t = GrossPPE_t - AccumulatedDepreciation_t \\ - Impairment_t.$$

Thus, changes in investment and asset age can create predictable changes in the relationship between net PPE intensity and accumulated-depreciation intensity within the same firm.

The empirical evidence therefore supports a Measurement representation of the form

$$M_{it} = S_i^M + D_{it}^M,$$

where both components are relevant.

38.7 Historical Cost as a Dynamic Operator

This finding also clarifies the theoretical role of historical cost.

Historical cost is sometimes described as a static measurement convention.

In practice, it operates dynamically.

An asset enters accounting at one amount:

$$HC_0.$$

Its carrying amount then evolves according to rules such as

$$BV_t = HC_0 - AD_t - IMP_t.$$

Economic value evolves according to a different process:

$$EV_t = f \left(\begin{array}{c} \text{future services, market conditions, technology,} \\ \text{replacement cost, risk} \end{array} \right).$$

The divergence

$$BV_t - EV_t$$

is therefore not fixed at acquisition.

It changes through time.

The firm-fixed-effect Measurement result is consistent with precisely this type of dynamic accounting transformation.

38.8 Timing Is Not One Mechanism

Timing produced a different result.

The two principal Timing proxies are

$$ACCRUALINT$$

and

$$DTINT.$$

Their pooled relationship is insignificant.

Their fixed-effect relationship is also insignificant.

Their pairwise correlation is weak.

This indicates that the theoretical category of Timing is too broad to be treated empirically as a single mechanism.

Instead, the evidence supports at least two timing structures:

$$\boxed{Timing = Operating\ Timing + Tax\ Timing.}$$

Operating timing reflects the difference between accounting earnings and cash realization:

$$NI - CFO.$$

Tax timing reflects differences between accounting recognition and tax recognition.

Both involve temporal divergence.

But they arise from different rules, transactions, and institutional

systems.

This result refines the theory.

The original classification into Recognition, Measurement, Timing, and Estimation remains useful.

But each dimension may itself contain subdimensions.

Accounting Bias therefore has a hierarchical structure:

Accounting Bias

↓

Recognition, Measurement, Timing, Estimation

↓

mechanism-specific subcomponents.

38.9 Dynamic Timing and Accruals

The empirical behavior of accrual intensity is especially important.

Its persistence is much weaker than that of the structural variables.

Its within-firm variation is much larger.

This suggests that accrual-based timing represents a more dynamic Accounting Bias channel.

Accruals can vary substantially because of:

- working-capital movements;
- revenue timing;
- inventory changes;
- restructuring;
- non-cash expenses;
- temporary recognition differences.

Thus, the observed Accounting Bias profile of a firm is not entirely fixed.

Some mechanisms respond more quickly to changing operating conditions.

The empirical framework therefore suggests:

$$\boxed{\textit{Accounting Bias} = \textit{Structural Bias} + \textit{Dynamic Bias}.}$$

Recognition and tangible-asset structure load heavily on the structural side.

Accrual-based Timing loads more heavily on the dynamic side.

38.10 The PCA and the Failure of a Universal Factor

The principal component analysis provides additional evidence against a simple one-factor interpretation.

The cross-dimensional PCA uses

$$\begin{aligned} &GWINT, \quad PPEINT, \quad ACCDEPINT, \\ &ACCRUALINT, \quad DTINT. \end{aligned}$$

The first component explains

45.0%

of the variance.

The first three components together explain

83.5%.

A purely statistical reading might encourage the construction of a first-component Accounting Bias score.

The loadings show why that interpretation would be misleading.

PC1 is dominated by a contrast involving tangible assets, goodwill, accumulated depreciation, and deferred-tax exposure.

It resembles an axis of economic and accounting structure more than a uniform bias scale.

PC2 is much more strongly associated with accrual timing.

Thus,

$$PC1 \neq \textit{Accounting Bias}.$$

The more defensible interpretation is:

$PC1 \approx \text{Structural Accounting Configuration},$

while

$PC2 \approx \text{Timing Variation}.$

The PCA therefore supports dimensionality rather than unidimensionality.

38.11 Why a Composite Accounting Bias Index Is Problematic

The empirical findings make clear why a mechanically constructed Accounting Bias Index would be difficult to interpret.

Suppose we define

$$ABI_i = w_1 RDINT_i + w_2 GWINT_i + w_3 PPEINT_i \\ + w_4 ACCDEPINT_i + w_5 ACCRUALINT_i + w_6 DTINT_i.$$

Several questions immediately arise.

What determines the weights?

Why should R&D and goodwill enter with the same sign?

Why should a high PPE intensity and a high accumulated-depreciation intensity both necessarily imply more Accounting Bias?

Why should operating accrual timing and deferred-tax timing be assumed to measure the same latent quantity?

The empirical evidence does not provide satisfactory answers.

Indeed, several within-dimension relationships are negative.

Others are statistically weak.

The dimensions also differ substantially in persistence.

A scalar index would therefore conceal economic information.

Two firms could have

$$ABI_A = ABI_B$$

while having entirely different exposure profiles:

$$\mathbf{X}_A^{AB} \neq \mathbf{X}_B^{AB}.$$

One could be R&D intensive.

The other could be capital intensive.

A third could be acquisition intensive.

The same aggregate score could represent fundamentally different accounting structures.

The empirical findings therefore favor

Accounting Bias Profiles

over

Accounting Bias Rankings.

38.12 The Profitability Results

The ROA tests provide a second important set of conclusions.

In the baseline single-proxy regressions, only two variables are significantly associated with reported ROA:

$GWINT$

and

$DTINT$.

Both coefficients are negative.

For goodwill intensity,

$$\hat{\beta}_{GWINT} \approx -0.117.$$

For deferred-tax intensity,

$$\hat{\beta}_{DTINT} \approx -0.482.$$

The other core proxies are not statistically significant in their individual ROA models.

This result is important because it rejects an overly simple proposition:

Accounting Bias Exposure $\uparrow \Rightarrow$ *Profitability* $\downarrow$.

The data do not support such a universal relationship.

Instead,

profitability associations are mechanism – specific.

38.13 Goodwill and Reported Profitability

The goodwill result is especially robust.

Goodwill is negatively associated with ROA in both the single-proxy and multivariate models.

Several interpretations are possible.

Because goodwill increases reported assets, it mechanically affects the ROA denominator.

But the relationship is not purely mechanical.

Goodwill also reflects acquisition strategy, purchase prices, expected synergies, and post-acquisition performance.

High goodwill may indicate that a substantial portion of the firm's asset base represents acquired expectations rather than separately identifiable productive assets.

If those expectations are not immediately reflected in accounting income, ROA may be lower.

The empirical result therefore fits the Accounting Bias framework in a broad sense:

recognized acquisition value
may not correspond contemporaneously to
realized accounting return.

However, the regression does not establish causality.
The correct conclusion is

$GWINT \leftrightarrow ROA$,
not
 $GWINT \rightarrow ROA$.

38.14 Deferred Taxes and Profitability

Deferred-tax intensity is also negatively associated with ROA.

This suggests that firms with larger tax-accounting timing differences tend, conditional on the controls, to report lower accounting profitability.

But deferred taxes can arise from many sources.

A large deferred-tax position may reflect:

- depreciation differences;
- acquired intangible assets;
- provisions;
- tax losses;
- valuation differences;
- jurisdictional structures.

Thus, deferred-tax intensity should be interpreted as an indicator of complex temporal and measurement differences rather than as a direct determinant of profitability.

The result again illustrates the distinction between

accounting mechanism

and

economic outcome.

38.15 The Conditional Importance of Accrual Intensity

Accrual intensity provides one of the most interesting results.

In the baseline single-proxy regression,

$$ACCRUALINT$$

is not significantly associated with ROA.

But in the restricted multivariate model, the coefficient becomes strongly negative and statistically significant:

$$\hat{\beta}_{ACCRUALINT} \approx -0.529.$$

This implies that the relationship becomes visible only after conditioning on other accounting structures.

The result suggests that the economic meaning of accrual divergence depends on context.
A high value of

$$|NI - CFO|$$

may have different implications for firms with different goodwill, PPE, depreciation, and deferred-tax structures.

Thus, the empirical effect of one Accounting Bias mechanism may depend on the configuration of others.
This supports a more general proposition:

Accounting Bias mechanisms may interact.

The accounting system should therefore be analyzed as a network of transformations rather than as a collection of isolated ratios.

38.16 A System Rather Than a Sum

The empirical findings are consistent with the representation

$$A = \mathcal{A}(E),$$

where

$$\mathcal{A}$$

is the accounting operator that transforms economic reality into reported accounting quantities.
The operator contains multiple sub-operators:

$$\mathcal{A} = \mathcal{A}_R \circ \mathcal{A}_M \circ \mathcal{A}_T \circ \mathcal{A}_S,$$

where

$$\mathcal{A}_R$$

represents Recognition,

$$\mathcal{A}_M$$

Measurement,

$$\mathcal{A}_T$$

Timing,
and

$$\mathcal{A}_S$$

Estimation.
Accounting Bias is then

$$AB = \mathcal{A}(E) - E.$$

This formulation clarifies why individual proxies need not move together.

Each proxy reflects exposure to one part of the accounting transformation.

The final divergence depends on the joint operation of the system.
Consequently,

$$AB \neq AB_R + AB_M + AB_T + AB_S$$

in a purely mechanical sense if the operators interact.
A more general expression is

$$AB = f(AB_R, AB_M, AB_T, AB_S, Interactions).$$

The empirical findings are consistent with such a system interpretation.

38.17 Accounting Bias and Comparability

The results also have implications for financial-statement comparability.

Traditional comparability focuses partly on whether firms apply similar accounting rules.

But if the effect of those rules depends on economic structure, then identical formal standards do not guarantee comparable reported outcomes.

Suppose firms A and B apply the same accounting standard.
If

$$EconomicStructure_A \neq EconomicStructure_B,$$

then

$$\mathcal{A}(E_A)$$

and

$$\mathcal{A}(E_B)$$

may contain different forms and magnitudes of Accounting Bias.
Thus,

same standards $\nrightarrow$ same representational distortion.

The industry results provide direct empirical support for this proposition.

All six core proxies differ systematically across industries.

Comparability therefore depends partly on the interaction between accounting rules and the economic objects to which they are applied.

38.18 Accounting Bias and Conservatism

Accounting Bias should also be distinguished from conservatism.

Conservatism generally implies a directional tendency.

In simplified form,

$$A < E$$

for assets or income under particular conditions.

Accounting Bias is broader.

It allows

$$A < E,$$

$$A > E,$$

or

$$A \approx E.$$

The empirical proxies used here primarily identify exposure rather than direction.

For example, high PPE intensity does not imply that accounting carrying values are necessarily too low.

Historical cost can generate undervaluation in some settings and overvaluation in others.

Likewise, goodwill may be economically impaired before accounting impairment is recognized, but it may also represent economically valuable expected synergies.

Thus,

Accounting Bias

is a representational concept, while

Conservatism

is a directional accounting property.

The two can overlap, but they are not equivalent.

38.19 Accounting Bias and Measurement Error

Accounting Bias should also be distinguished from ordinary statistical measurement error.

Suppose observed accounting value is

$$A = E + u,$$

where u is random noise satisfying

$$E[u] = 0.$$

This is classical measurement error.

Accounting Bias is different because the divergence may be generated systematically by accounting rules.

A more appropriate representation is

$$A = E + B(E, \mathcal{R}) + u,$$

where

$$B(E, \mathcal{R})$$

is the structured divergence generated by accounting rules $\mathcal{R}$, while u captures residual error.

The industry dependence and persistence found empirically are difficult to reconcile with a purely random-error interpretation.

The results therefore support the view that at least part of the

observed accounting structure is systematic.

38.20 Limits of the Evidence

The empirical findings should nevertheless be interpreted within clear boundaries.

First, the sample contains 50 predetermined firms.

It is not intended to represent every U.S. listed company.

Second, the analysis period covers five fiscal years.

This is sufficient to identify meaningful persistence and within-firm variation, but not to characterize several decades of accounting behavior.

Third, the Accounting Bias proxies are indirect.

The analysis does not observe the true economic values needed to calculate

$$A - E$$

directly.

Fourth, some XBRL concepts are unevenly reported.

This is especially important for the Estimation dimension.

Fifth, the ROA models are associational.

They do not establish causal effects.

Sixth, the complete-case multivariate specification contains only

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observations and disproportionately represents particular industries.

Seventh, the Accounting Bias framework itself is broader than the proxies included in the current empirical design.

Important mechanisms such as pensions, fair-value hierarchy choices, contingent liabilities, complex revenue recognition, leases, and industry-specific accounting could extend the analysis substantially.

The evidence should therefore be viewed as an initial empirical test of the framework rather than its final possible implementation.

38.21 What the Evidence Does Support

Within those limits, several conclusions are strongly supported.

The first is:

<i>Accounting Bias exposure is systematic.</i>
--

It differs across industries and persists through time.
The second is:

Accounting Bias is multidimensional.

Recognition, Measurement, and Timing do not behave as interchangeable proxies for one common factor.
The third is:

different dimensions operate at different frequencies.

Recognition is predominantly structural.
Measurement combines structural and within-firm dynamic elements.
Accrual Timing is substantially more time-varying.
The fourth is:

**The economic relevance of Accounting Bias is
mechanism-specific.**

Only selected proxies are significantly associated with ROA.
The fifth is:

a profile is more informative than a ranking.

The empirical evidence does not justify collapsing Accounting Bias into one universal scalar score.

38.22 A Revised Empirical Definition

The empirical results suggest a refined definition of Accounting Bias.
The theoretical definition remains

$$AB_{it} = A_{it} - E_{it}.$$

But the empirical representation can be written as

$$\widehat{AB}_{it} \sim [R_{it}, M_{it}, T_{it}, S_{it}],$$

where each dimension is itself partly structural and partly dynamic:

$$R_{it} = R_i^S + R_{it}^D,$$

$$M_{it} = M_i^S + M_{it}^D,$$

$$T_{it} = T_i^S + T_{it}^D,$$

$$S_{it} = S_i^S + S_{it}^D.$$

The data suggest approximately

$$R_i^S \gg R_{it}^D,$$

while Measurement contains meaningful values of both components. For accrual-based Timing,

$$T_{it}^D$$

is comparatively important.

Thus, Accounting Bias is not simply multidimensional in accounting content.

It is multidimensional in time.

38.23 Implications for Financial Analysis

The framework has practical implications for financial-statement analysis.

Analysts frequently compare firms using reported accounting ratios.

But if Accounting Bias depends on business model and accounting mechanism exposure, then reported differences may not map directly into economic differences.

Consider two firms with equal reported ROA:

$$ROA_A = ROA_B.$$

If one firm has substantial unrecognized internally generated intangible investment while the other has large acquired goodwill, the same reported ROA may arise from different accounting structures.

Similarly, two firms with equal reported asset bases may differ greatly in:

$$PPEINT,$$

GWINT,

ACCDEPINT,

and

RDINT.

Their reported totals therefore represent different economic and accounting compositions.

A mechanism-based analysis asks not only

What is the reported number?

but also

How was that number produced?

This is one of the central practical implications of Accounting Bias.

38.24 Implications for Valuation

Valuation models often use accounting information as inputs.

For example,

$$Value = f(Earnings, Book\ Value, Cash\ Flow, Growth).$$

If the accounting quantities themselves are generated through different recognition, measurement, and timing mechanisms across firms, then valuation inputs may require mechanism-specific adjustment.

The framework does not imply that analysts should mechanically reverse every accounting rule.

Rather, it suggests that interpretation should depend on the dominant Accounting Bias exposures.

For an R&D-intensive firm, internally generated intangible investment may deserve special attention.

For an acquisition-intensive firm, goodwill and acquired intangible accounting may be central.

For a capital-intensive firm, historical cost, depreciation, and asset age may matter more.

For firms with large accrual or deferred-tax exposures, timing differences may be particularly important.

Thus,

valuation adjustment should be exposure – specific.

38.25 Implications for Accounting Standard Setting

The framework also has implications for standard setters.

Accounting standards are often evaluated through criteria such as relevance, faithful representation, comparability, verifiability, and cost.

Accounting Bias adds another perspective.

A standard can be analyzed according to the systematic divergence it generates between accounting representation and the economic object being represented.

The relevant question is not necessarily

Does the standard eliminate bias?

Complete elimination may be impossible.

Instead:

What form of bias does the standard generate?

In which firms is that bias most important?

Is the resulting divergence stable, dynamic, or asymmetric?

Does the standard create comparability problems across business models?

This perspective treats Accounting Bias as a property of measurement architecture rather than merely as a defect.

38.26 Future Empirical Research

The present analysis opens several possible extensions.

A natural first extension is to increase the sample size.

The same automated SEC/XBRL pipeline can in principle be applied to a much larger population of firms.

A second extension is to increase the time horizon.

Longer panels would make it possible to investigate whether structural Accounting Bias exposures change slowly in response to major strategic events.

A third extension is to incorporate market-based information.

For example, one could study whether Accounting Bias profiles are associated with:

Market-to-Book,

valuation multiples,

analyst forecast errors,

or

future stock returns.

A fourth extension is to exploit specific accounting events.

Examples include:

- acquisitions;
- major impairment losses;
- accounting standard changes;
- tax reforms;
- major capital-investment cycles.

Such events could provide stronger identification of particular mechanisms.

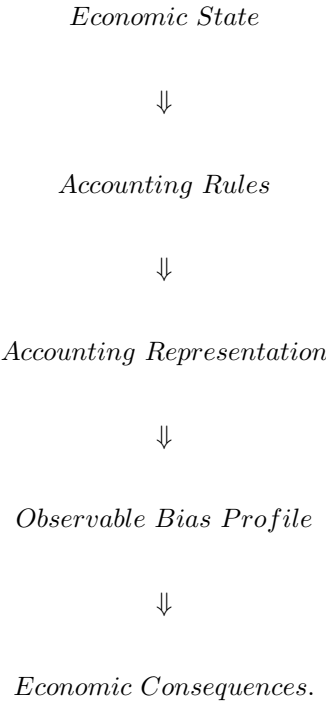
A fifth extension concerns the Estimation dimension.

More detailed filing-level extraction, footnote analysis, or natural-language processing may make it possible to construct much richer measures of provisions, expected credit losses, impairment assumptions, and other estimate-dependent items.

38.27 Toward a General Research Program

Accounting Bias can therefore be developed into a broader research program.

The general empirical structure is:



Different studies can focus on different stages.
One research design may analyze Recognition Bias.
Another may examine Measurement Bias.
Another may investigate how investors respond to Timing Bias.
Another may compare accounting systems across countries or standards.
The unifying idea is that accounting numbers should be studied as outputs of a transformation process.

The theoretical object is therefore not merely the reported number

A.

It is the mapping

$$\mathcal{A} : E \rightarrow A.$$

Accounting Bias is a property of this mapping.

38.28 The Central Empirical Conclusion

The evidence from the present study can be summarized in one statement:

Accounting Bias is not a single error embedded in financial statements.

It is a structured consequence of the way accounting rules interact with heterogeneous economic firms.

Recognition rules matter differently for internally generated and acquired intangible resources.

Measurement rules matter differently depending on tangible asset structure and investment cycles.

Timing rules operate through distinct operating and tax mechanisms.

Estimation rules create another layer of uncertainty that is theoretically important but harder to measure consistently using standardized public data.

The accounting representation of the firm is therefore produced through multiple transformations:

$$E \xrightarrow{\mathcal{A}_R} E_R \xrightarrow{\mathcal{A}_M} E_M \xrightarrow{\mathcal{A}_T} E_T \xrightarrow{\mathcal{A}_S} A.$$

Accounting Bias emerges from the cumulative effect of those transformations.

38.29 Final Conclusion

The theoretical starting point of this book was the distinction between accounting representation and economic reality.

That distinction can now be stated with greater precision.

Financial statements do not simply record economic reality.

They transform it.

Recognition determines which economic phenomena enter the accounting system.

Measurement determines the quantities assigned to recognized items.