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The Role of General Counsels in the Implementation of Changes in Accounting Estimates

SYNOPSIS

This paper examines how general counsels (GCs) in top management influence the use and timing of changes in accounting estimates (CAEs), an important but underexplored area in financial reporting. We provide evidence that when pre-CAE earnings narrowly miss analyst forecasts, firms with a GC in top management (GC firms) are more likely than non-GC firms to use income-increasing CAEs to meet or beat earnings expectations. These results are more pronounced for firms with weak integrity cultures, low analyst following, and non-industry-specialist auditors. We also find that in GC firms, post-CAE earnings are less predictive of future cash flows, suggesting a decline in earnings informativeness. Overall, our findings are consistent with GCs shaping the exercise of reporting discretion within GAAP rather than solely serving a gatekeeping function, highlighting how legal expertise at the executive level influences both the credibility and informativeness of reported earnings.

Keywords: General counsels; Changes in accounting estimates; Earnings benchmarks; Earnings informativeness; Corporate governance

JEL classification: M41, M48

I. SYNOPSIS AND INSIGHTS FOR PRACTICE

Changes in accounting estimates (CAEs) represent a critical yet underexplored dimension of financial reporting discretion. In recent decades, CAEs have become more frequent and complex, driven in part by macroeconomic disruptions such as the post–Great Recession recovery, trade disputes, and the COVID-19 pandemic (KPMG 2023). Under FASB’s Accounting Standards Codification 250 (ASC 250), firms must disclose material CAEs that affect current and future financial statements. While this regulatory framework grants managers legitimate flexibility to revise accounting estimates in response to new information, it also allows substantial discretion, creating opportunities to time revisions strategically and influence reported earnings.

Despite the importance of CAEs, the academic evidence on them remains limited and mixed. Prior studies document that managers use CAEs to manage earnings within GAAP (Beaulieu, Hayes, and Timoshenko 2023; Chung, Geiger, Paik, and Rabe 2022), while Albrecht, Glendening, Kim, and Lee (2024) show that CAEs can enhance earnings informativeness by improving the prediction of future cash flows. However, these studies focus primarily on managerial behavior and provide limited insight into how internal governance mechanisms shape the use of CAEs. Meanwhile, research demonstrates that governance structures, such as strong internal controls (Doyle, Ge, and McVay 2007) and audit committee financial expertise (Cohen, Hoitash, Krishnamoorthy, and Wright 2014), are associated with more reliable and informative estimates. These findings suggest that the use and consequences of CAEs depend not only on managerial incentives but also on the governance environment in which reporting decisions are made.

This paper examines whether general counsels (GCs), an important dimension of internal corporate governance, influence how firms exercise discretion over CAEs. GCs occupy a unique position within the top management team, combining legal expertise with influence over disclosure and risk-relevant decisions (Ahn, Hoitash, Hoitash, and Yu 2025; Black, Ham, Kimbrough, and Yee 2022; Kwak, Ro, and Suk 2012). Their role goes beyond compliance by advising senior executives on the legal and regulatory implications of financial reporting choices. In the context of CAEs, this

influence is particularly salient because they involve forward-looking judgments that are inherently subjective and difficult to verify *ex post*.¹ Given the important role of GCs in financial reporting, we investigate two research questions. First, do firms with a GC exhibit systematically different patterns in the use and timing of CAEs, especially when incentives to meet or beat earnings benchmarks are strong? Second, does the effect of GC presence vary across firms' internal and external monitoring environments?

Prior research offers mixed evidence on how GCs affect financial reporting quality. On one hand, studies find that GC involvement is associated with more accurate management forecasts (Kwak et al. 2012) and lower audit fees (Abernathy, Kubick, and Masli 2019), suggesting that legal expertise can strengthen compliance and reduce perceived reporting risk. On the other hand, evidence also suggests that GCs may tolerate or even facilitate aggressive accounting practices (Brooks, Hairston, Njoroge, and Ryou 2020; Hopkins, Maydew, and Venkatachalam 2015). These mixed findings indicate that the role of the general counsel varies depending on the specific context. In some settings, GCs function primarily as corporate gatekeepers; in others, they act as strategic facilitators.²

We argue that the monitoring and facilitating roles of GCs are not mutually exclusive, particularly in reporting environments such as U.S. GAAP, where standards are detailed yet managerial judgment remains substantial. In these settings, governance actors often operate at the limits of permissible discretion. In the context of CAEs, where standards permit substantial judgment and retrospective verification is limited, GCs can help management assess whether estimate revisions are legally and procedurally defensible, while ensuring that associated disclosures are appropriately framed and documented. Their role is more likely to be salient when firms face strong incentives to avoid small

¹ The importance of GC oversight is illustrated by the SEC's 2016 enforcement action against RPM International, in which the firm's GC was charged with fraud for failing to disclose a material loss contingency and record an accrual for a government investigation, resulting in the company's inability to establish a reserve for a \$60.9 million settlement.

² "Facilitating" refers to GCs' advisory role in shaping managerial reporting choices, including those that may be aggressive or opportunistic yet remain within GAAP. We use the term to capture strategic or advisory guidance provided by GCs within the bounds of GAAP, rather than to imply the promotion of fraudulent reporting. Similarly, Ham and Koharki (2016) characterize GCs as facilitators as they become more integrated into senior management and strategic decision making. Hopkins et al. (2015) show that highly compensated GCs, in a facilitating role, may tolerate moderately aggressive accounting practices while still constraining behavior that would violate GAAP or securities laws.

earnings misses, yet the contemplated reporting choices remain within the range of permissible GAAP outcomes. Under this view, GCs do not simply constrain managerial discretion; rather, they shape how discretion is exercised within the boundaries of acceptable reporting practice.

CAEs provide a particularly suitable setting in which to examine this dual role. Because CAEs rely on forward-looking judgments that are inherently subjective and not readily verifiable subsequently (Albrecht et al. 2024), they grant managers considerable discretion over reported earnings while remaining formally compliant with GAAP. This discretion can be exercised strategically. For example, managers facing a narrow shortfall relative to earnings benchmarks may revise CAE assumptions to convert a near miss into a reported success. Earnings thresholds therefore represent settings in which incentives to exercise CAE discretion are most pronounced and the GC's role in framing, defending, and legitimizing reporting judgments becomes most consequential. Consistent with this perspective, regulators explicitly recognize the importance of legal expertise in evaluating critical accounting judgments. In a speech on critical accounting policies, Robert Herdman, then Chief Accountant of the U.S. Securities and Exchange Commission (SEC), emphasized that firms should involve multiple governance participants, including legal counsel, when evaluating CAE judgments and related disclosures.³ This institutional context motivates our focus on GC involvement around earnings thresholds rather than CAE usage in general, and provides a setting that enables sharper identification of how legal expertise within top management shapes the quality of financial reporting.

We analyze a sample of 84,638 firm-quarter observations from 2006 to 2022 to examine the role of GCs in the implementation of CAEs.⁴ As a starting point, we test for unconditional differences in CAE usage between GC and non-GC firms. While the results are statistically insignificant, the

³ Mr. Herdman advised that after management and auditors consider the relevant accounting policies and disclosures, they should review the analysis with the audit committee and “invite your attorneys into the discussion,” noting that GCs can assist with MD&A and annual report disclosures related to those judgments (see <https://www.sec.gov/news/speech/spch537.htm>).

⁴ In this paper, we define a GC firm as one in which a GC is identified among the five highest-paid executives, based on annual compensation data from ExecuComp. A firm is classified as a non-GC firm if it either has an in-house GC who is not part of the top management team or does not have an in-house GC. This classification scheme is consistent with prior studies in the literature (Ahn et al. 2025; Al Mamun, Balachandran, Duong, and Gul 2021; Chen, Ke, and Wang 2024; Kwak et al. 2012).

sign of the coefficients suggests that GC firms may be more inclined to employ income-increasing CAEs. These findings motivate a more nuanced approach that considers the context in which CAEs occur. Accordingly, we examine whether GCs influence the use of income-increasing (i.e., positive) CAEs in settings where managers face strong incentives to meet or beat analyst expectations. To isolate the impact of CAEs, we construct a measure of pre-CAE earnings by removing the reported effect of CAEs from actual earnings. When pre-CAE earnings fall just short of the consensus benchmark, firms may use income-increasing CAEs to avoid a negative earnings surprise. Consistent with this view, we find that GC firms are significantly more likely than non-GC firms to employ income-increasing CAEs when pre-CAE earnings narrowly miss analyst forecasts.

We then examine whether the use of CAEs affects earnings informativeness differently for GC and non-GC firms. Following Albrecht et al. (2024), we compare the predictive power of pre-CAE and post-CAE earnings for future cash flows to assess whether income-increasing CAEs enhance or impair reporting quality. If positive CAEs reflect economically meaningful updates, post-CAE earnings should be more predictive of future cash flows than their pre-CAE counterparts. While this pattern holds for non-GC firms, we find that post-CAE earnings are less informative than pre-CAE earnings for GC firms, indicating a decline in earnings quality. These results suggest that GCs may facilitate the use of CAEs in ways that reduce the reliability of reported performance, consistent with a strategic—rather than gatekeeping—role in financial reporting.

Next, we extend our analysis by examining whether the effect of GCs on income-increasing CAEs varies with firms' monitoring environments. We consider three moderating factors: corporate integrity culture (internal ethical norms), analyst following (external scrutiny), and auditor industry specialization (audit quality). Consistent with stronger oversight constraining managerial discretion, we find that the positive association between GCs and income-increasing CAEs is attenuated in firms with stronger integrity cultures, greater analyst coverage, and specialist auditors.

In additional analyses, we investigate whether GC characteristics such as gender, dual position, and tenure shape the use of CAEs. We find that GCs' facilitating effect is concentrated among male GCs, consistent with evidence that male executives engage in greater risk-taking (Francis,

Hasan, Park, and Wu 2015). In addition, the results are driven by GCs who do not serve as corporate secretary or board member, suggesting that GCs with greater monitoring responsibilities are more sensitive to legal and compliance risks.

For a more complete picture, we also examine income-decreasing (negative) CAEs. Our results show that both GC and non-GC firms are more likely to record negative CAEs when pre-CAE earnings exceed analyst expectations by a wide margin. However, the difference between the two groups is small and statistically insignificant, indicating that GC influence is concentrated in income-increasing CAEs used to meet or beat benchmarks.

We confirm that our main findings are robust. For example, the results remain similar when we restrict the sample to Big 4 clients, exclude observations with material internal control weaknesses (SOX 302), and apply entropy balancing to address observable differences. The results are also robust to the inclusion of firm-fixed effects to account for the potential endogeneity concern stemming from unobserved firm-specific characteristics. The inferences are not changed when we measure GC presence using BoardEx, instead of ExecuComp, which captures a broader range of senior managers.

This study contributes to the literature on CAEs and GCs by examining how legal executives influence financial reporting decisions. While prior studies document that managers strategically use CAEs to manage earnings within GAAP boundaries (Albrecht et al. 2024; Beaulieu et al. 2023; Chung et al. 2022), they provide limited insight into the governance mechanisms that shape such discretion. We address this gap by focusing on CAEs as a salient within-GAAP reporting tool for which legal oversight is particularly relevant. Importantly, our focus is on more subtle, within-GAAP reporting discretion in CAEs rather than outright misstatements; in settings where accounting standards permit substantial judgment and ex post verification is difficult, GCs help management assess and support reporting choices that are legally and procedurally defensible.

Our study also extends the literature on the role of GCs in financial reporting by identifying a specific channel through which their influence operates. Prior research shows that GCs are associated with both more aggressive reporting outcomes within GAAP and a lower likelihood of

outright violations. Importantly, however, our results demonstrate that GAAP compliance does not imply informative reporting: income-increasing CAEs in GC firms are associated with a decline in the predictive power of earnings for future cash flows (Table 2), providing direct evidence that legally defensible reporting can still reduce earnings quality. We build on this literature by showing that CAEs provide a distinct and important setting in which this dual role is most visible. Because CAEs are forward-looking, judgment-intensive, and challenging to verify subsequently, they allow GCs to shape how managerial discretion is exercised while preserving compliance with GAAP. Under competing views of GCs as gatekeepers or facilitators, our evidence aligns more closely with a facilitating role within an oversight framework, in which GCs help structure and legitimize reporting choices that remain within GAAP boundaries.

Finally, our findings have important implications for standard setters and regulators. By showing that CAEs can be used to achieve earnings targets while remaining within GAAP, our results highlight the importance of enhanced transparency in estimate disclosures. In particular, more detailed disclosures of the underlying assumptions, estimation methods, and sensitivities associated with material CAEs would help investors and auditors distinguish between economically justified adjustments and opportunistic revisions. More broadly, our study underscores the limitations of equating GAAP compliance with reporting quality and contributes to ongoing policy discussions about balancing managerial discretion with safeguards against opportunism.

II. BACKGROUND AND HYPOTHESIS DEVELOPMENT

2.1 Changes in accounting estimates

Accounting estimates are central to accrual-based reporting, shaping earnings through reserves, asset valuations, impairments, and depreciation. Their judgmental and forward-looking nature enhances relevance but also creates substantial scope for opportunism. The SEC's recent enforcement action against Rollins, Inc. highlights these risks: the CFO reduced reserves in 2016–17 without GAAP justification, artificially inflating EPS by one cent to meet forecasts (Securities and Exchange Commission [2022](#)). Such late-period discretion illustrates how accounting estimates can become a

vehicle for earnings management.

To promote transparency, the FASB requires disclosure of CAEs under ASC 250. Firms must reveal the nature and income effects of material CAEs, a standard intended to improve decision-usefulness by clarifying adjustments that are subjective yet consequential (Financial Accounting Standards Board 2005). Yet this standard reflects a fundamental tension between enhancing the relevance of reported earnings and limiting opportunistic manipulation.

Empirical evidence highlights the dual role of CAEs. Albrecht et al. (2024) find that CAEs improve predictive value: post-CAE earnings better forecast future cash flows and elicit stronger market reactions. Yet Albrecht et al. also document that CAEs are frequently timed to meet earnings benchmarks, raising concerns about earnings quality. Similarly, Chung et al. (2022) find that approximately 28% of income-increasing CAEs arise when pre-CAE earnings narrowly miss targets, while income-decreasing CAEs often smooth unusually high earnings or enable “big baths.”

Materiality thresholds also play a critical role. In a sample of 4,335 CAEs, Chung, Geiger, Paik, and Rabe (2021) find that 60% of disclosed CAEs fall below the conventional 5% of pretax income benchmark, suggesting that firms rely on qualitative or alternative criteria in making disclosure decisions, consistent with SEC Staff Accounting Bulletin No. 99. These decisions appear to vary systematically with firm characteristics such as size, industry, auditor, account type, and the direction of the earnings impact.

Taken together, the literature situates CAE disclosures at the intersection of relevance and reliability. While they offer a window into managers’ evolving expectations and can improve earnings informativeness, the inherent discretion around timing, magnitude, and disclosure thresholds leaves considerable room for earnings management within the confines of GAAP (Beaulieu et al. 2023; Ghosh and Siriviriyakul 2019).

2.2 The role of general counsels

GCs occupy a unique position in corporate governance, distinct from other senior executives. The American Bar Association (2003) identifies corporate counsel as a core governance mechanism

alongside boards and auditors. In response to accounting scandals, SOX Section 307 expanded attorneys' responsibilities, requiring in-house counsel to report material violations "up the ladder" to senior executives or the board, and, if unaddressed, to withdraw and notify the SEC in a "noisy withdrawal." Reflecting this mandate, former SEC chair Christopher Cox described corporate lawyers as "partners in our mission to protect investors" (Cox 2007), and the SEC has sanctioned GCs who failed to meet these duties (Lowenfels, Bromberg, and Sullivan 2006; Thomsen 2008). The New York City Bar (2006) further highlights GCs' expertise in litigation, patents, receivables, and contracts as essential to accurate financial reporting.

Empirical research provides substantial evidence supporting a gatekeeping role for GCs. For example, Jagolinzer, Larcker, and Taylor (2011) find that insider trading profits are lower when GC approval is required. Kwak et al. (2012) show that GC firms issue more accurate and less optimistic forecasts. Related studies find that GCs promote timely disclosure of bad news, reducing crash risk, particularly under high litigation exposure (Al Mamun et al. 2021; Bae and Yu 2023), increase accounting conservatism (Black et al. 2022), and reduce audit risk (Abernathy et al. 2019). Collectively, these studies highlight the GC's potential to constrain opportunism and reinforce legal and financial compliance.

Meanwhile, a growing literature highlights a GC's facilitating role. Ham and Koharki (2016) show that GC promotions increase credit risk, while Hopkins et al. (2015) argue that GCs enable aggressive accounting practices that remain technically within GAAP. Abernathy, Kubick, and Masli (2016) find that GC firms engage in more aggressive tax planning, and Brooks et al. (2020) report that auditors charge higher fees for GC firms due to elevated audit risks associated with lower financial reporting quality. Similarly, Chen et al. (2024) show that GC firms face higher cost of equity, reflecting investor perceptions of elevated risk exposure. Together, these findings suggest that GCs may facilitate strategic reporting by helping firms operate at the boundary of permissible discretion.

Overall, the literature presents a nuanced view of GCs as dual-role, not mutually exclusive, actors who both constrain misconduct and potentially enable strategic discretion. However, prior studies

primarily rely on aggregate, outcome-based measures, such as discretionary accruals, audit fees, restatements, and tax aggressiveness, to infer GC influence (Abernathy et al. 2016, 2019; Brooks et al. 2020; Hopkins et al. 2015). While informative, these proxies are inherently indirect and do not identify how GCs shape reporting choices within GAAP boundaries. To address this limitation, we examine CAEs, which provide a more direct, granular setting to study this mechanism. CAEs are disclosed and GAAP-compliant, but they rely on forward-looking judgments that are hard to verify ex post, thereby allowing managers to affect reported earnings without necessarily increasing risk of material misstatements. By focusing on CAEs, we move beyond simply documenting an association between GCs and “aggressive but compliant” reporting. Instead, we provide direct evidence of the channel through which such reporting arises—specifically, the strategic use of estimation discretion within GAAP—and identify the conditions under which this behavior manifests.

2.3 Hypothesis development

The literature presents two competing views of the GC’s role in financial reporting. The gatekeeping view emphasizes GCs’ responsibility to ensure legal compliance, safeguard the integrity of financial reporting, and discourage opportunistic behavior (Ahn et al. 2025; Bae and Yu 2023; Black et al. 2022; Hopkins et al. 2015). In contrast, the facilitating view suggests that GCs’ deep knowledge of legal and regulatory frameworks—combined with their incentive alignment with top management—may enable them to navigate reporting discretion in ways that achieve managerial objectives while remaining within the boundaries of GAAP (Abernathy et al. 2016; Brooks et al. 2020; Ham and Koharki 2016). Integrating these perspectives, we conceptualize the GC as a dual-role actor whose influence varies with the degree of legal constraint.⁵ When reporting choices approach or exceed legal boundaries, the GC’s monitoring role actively constrains managerial

⁵ This dual oversight–advisory role is not unique to GCs; prior literature highlights that other governance actors, such as outside directors, also perform both monitoring and advisory functions. While monitoring serves to limit managerial opportunism, advising provides valuable expertise that shapes strategic decisions (Hillman and Dalziel 2003). Although empirical evidence indicates these roles can coexist, they may also introduce trade-offs (Donelson, Hutzler, and Rhodes 2025; Faleye, Hoitash, and Hoitash 2011; Masulis and Zhang 2019; Schabus 2022). Consistent with this dynamic, GCs can act as monitors to constrain legally risky actions while serving as advisors to facilitate choices within permissible discretion.

discretion. Conversely, within the bounds of GAAP-permissible discretion, the GC may adopt an advisory and facilitating role, guiding managers to structure and disclose choices in a legally defensible manner. This unified framework reconciles the GC's traditional gatekeeping function with our prediction regarding benchmark-adjacent, income-increasing CAEs: rather than preventing such actions, the GC facilitates their implementation as long as they remain compliant, helping management navigate the bounds of permissible discretion.

CAEs offer an ideal setting to examine this tension. On the one hand, the GC constrains the managerial action set by screening out choices that pose unacceptable legal or regulatory exposure (e.g., clearly indefensible assumptions, weak disclosure support, or heightened enforcement risk). This aligns with the gatekeeping view and explains why GCs can reduce certain forms of misconduct and disclosure failures in other contexts. On the other hand, conditional on operating within these constraints, the GC can advise managers on how to execute judgments and disclosures in the most defensible and lowest-risk manner. Such guidance can inadvertently or intentionally facilitate a more strategic use of discretion within GAAP (e.g., through the timing or packaging of CAEs, documentation strategies, and materiality framing).

Given these competing forces, the relationship between GC presence and the strategic timing of CAEs remains an empirical question. Drawing on Chung et al. (2022), who find that firms often implement income-increasing CAEs when pre-CAE earnings narrowly miss expectations, we predict that GC firms are more likely to engage in this strategic behavior when the facilitating role dominates. This leads to our first hypothesis, stated in alternative form:

H1: GC firms are more likely than non-GC firms to implement income-increasing CAEs when pre-CAE earnings narrowly miss the consensus benchmark.

Prior research suggests that internal and external corporate governance mechanisms can shape the influence of GCs on financial reporting quality. To examine the boundary conditions of GC influence, we consider three monitoring mechanisms that are plausibly independent of the legal function: corporate culture, financial analyst following, and industry-specialized auditors. Each

represents a constraint on managerial discretion and may amplify or attenuate the GC's ability to facilitate earnings management through CAEs.

First, organizational culture plays a critical role in shaping ethical behavior and compliance. Bhandari, Mammadov, and Thevenot (2022) find that integrity-focused, long-term-oriented cultures are associated with higher financial reporting quality. Similarly, Graham, Grennan, Harvey, and Rajgopal (2022) show that firms emphasizing integrity and ethics exhibit better compliance, less tax aggressiveness, higher-quality financial reporting, and less weight on meet-or-beat targets. These findings suggest that the facilitating role of GCs is more likely to emerge in environments where internal ethical norms are weak, leaving fewer informal constraints on discretionary reporting.

Second, we consider external monitoring by financial analysts. Prior studies find that greater analyst following is associated with higher financial reporting quality, as increased scrutiny imposes market discipline on firms and deters opportunistic behavior (Irani and Oesch 2016; Yu 2008). When analyst coverage is limited, external monitoring weakens and managers exercise greater discretion over reporting choices. In such settings, GCs may play a facilitative role by helping firms meet or beat earnings targets through opportunistic but legally defensible CAEs. Leveraging their legal expertise, GCs can guide managers in utilizing the flexibility of GAAP while minimizing litigation or regulatory risk. Thus, the GC's facilitating role is likely to be more pronounced when analyst scrutiny is limited.

Compared with analysts, industry-specialized auditors provide more direct and technical oversight. Their expertise in industry-specific accounting practices enables them to detect aggressive reporting with greater precision (Balsam, Krishnan, and Yang 2003; Kwon, Park, and Yu 2018). Prior evidence shows that such auditors constrain earnings management and promote more conservative reporting (Krishnan 2003; Yu, Kwak, Park, and Zang 2021). When firms lack access to industry-specialist auditors, oversight weakens, and the GC's facilitation role becomes more effective, as discretionary reporting is less likely to be challenged. Thus, the presence of industry-specialized auditors is expected to weaken the influence of GCs on opportunistic CAEs.

Based on these expected interactions between GCs and internal and external governance

mechanisms, we formally state our second hypothesis:

H2a: The positive association between GC presence and income-increasing CAEs is stronger when corporate integrity is low.

H2b: The positive association between GC presence and income-increasing CAEs is stronger when analyst following is low.

H2c: The positive association between GC presence and income-increasing CAEs is stronger when the firm is audited by a non-industry-specialist auditor.

III. METHODOLOGY AND RESULTS

3.1 Methodology

To construct our sample, we first obtain CAEs, which are available since 2006, from Audit Analytics. We then merge the CAEs with financial data from Compustat Fundamentals Quarterly and analyst consensus forecasts and actual earnings from I/B/E/S. We identify firms with a GC in top management using ExecuComp, which provides information on the top five executives with the highest compensation annually. The merged sample comprises 84,638 firm-quarter observations from 2006 to 2022. Sample size varies across specifications due to model-specific data availability.

Next, we assess whether GC firms significantly differ from non-GC firms in the timing of CAEs by analyzing their use of CAEs across earnings benchmark positions. Following Albrecht et al. (2024), we form two mutually exclusive benchmark categories based on the difference between pre-CAE earnings per share (EPS) and the analyst median consensus: *PreCAE-JustMiss*, where pre-CAE earnings fall short of the consensus by no more than \$0.02 (−\$0.02 to \$0), and *PreCAE-ExtrBeat*, where pre-CAE earnings exceeds the consensus by more than \$0.05.⁶ Firms

⁶ Our inferences are robust to alternative thresholds for defining *PreCAE-JustMiss* and *PreCAE-ExtrBeat*. For example, our results continue to hold when the *PreCAE-JustMiss* window is set at \$0.01, \$0.015, or \$0.025 instead of \$0.02, and when the *PreCAE-ExtrBeat* threshold is set at \$0.06, \$0.07, and up to \$0.10 instead of \$0.05. Our findings are also robust to defining these thresholds as a percentage of share price rather than in dollar terms—for instance, a 0.1% window for *PreCAE-JustMiss* (e.g., a \$0.10 miss or beat for a stock priced at \$100) and a 0.3% threshold for *PreCAE-ExtrBeat*.

in *PreCAE-JustMiss* have strong incentives to implement positive CAEs that convert a would-be earnings miss into a meet or beat, whereas firms in *PreCAE-ExtrBeat* have little need for upward CAEs and, if anything, can even accommodate negative CAEs without jeopardizing meet or beat status. We employ this design to test whether GC presence strengthens or attenuates the use of benchmark-motivated CAEs relative to non-GC firms.

To examine whether the presence of a GC moderates benchmark-motivated use of CAEs, we interact the earnings-interval indicators with an indicator for GC presence ($GC = 1$ if the firm has a GC in top management; and 0 otherwise). This design enables us to assess whether the probability of a positive CAE varies systematically with both the firm's pre-CAE earnings position and GC presence, thereby providing evidence on the GC's potential gatekeeping or facilitating role in financial reporting. Empirically, we estimate the following linear probability model (LPM):⁷

$$\begin{aligned} CAE-POS_{i,t} = & \beta_0 + \beta_1 PreCAE-JustMiss_{i,t} \cdot I(GC = 1)_{i,t} + \beta_2 PreCAE-JustMiss_{i,t} \cdot I(GC = 0)_{i,t} \\ & + \beta_3 PreCAE-ExtrBeat_{i,t} \cdot I(GC = 1)_{i,t} + \beta_4 PreCAE-ExtrBeat_{i,t} \cdot I(GC = 0)_{i,t} \\ & + \sum_{j=1}^k \gamma_j Controls_{j,i,t} + \varepsilon_{i,t} \end{aligned}$$

where *CAE-POS* is an indicator variable equal to 1 if the firm engages in CAEs that have a positive impact on reported net income, and 0 otherwise. *PreCAE-JustMiss* is an indicator variable equal to 1 if the firm's pre-CAE earnings fall short of the analyst consensus forecast by no more than \$0.02 (−\$0.02 to \$0), and 0 otherwise. *PreCAE-ExtrBeat* is an indicator variable equal to 1 if the firm's pre-CAE earnings exceeds the consensus by more than \$0.05, and 0 otherwise. $I(\cdot)$ is an operator that returns 1 if the condition in the parentheses is true, and 0 otherwise. Accordingly, $I(GC = 1)$ is an indicator variable equal to 1 if the firm has a GC in top management, and 0 otherwise. $I(GC = 0)$ is an indicator variable equal to 1 if the firm does not have a GC

⁷ We use LPM following prior studies (Choi, Choi, and Yu 2024; Levy, Shalev, and Zur 2018; Raghunandan 2024). LPM offers at least two main advantages over logistic regression. First, its coefficients are easier to interpret, as they directly represent the expected change in the dependent variable's probability for a one-unit change in the independent variable. Second, LPM allows for the estimation of fixed effects models using OLS, which is generally more computationally efficient than the iterative maximum likelihood methods required for fixed effects logistic regression.

in top management, and 0 otherwise. We include a set of control variables that are expected to affect the likelihood of implementing a CAE, such as firm size (*SIZE*), market-to-book ratio (*MTB*), profitability (*ROA*), auditor size (*BIG4*), and the number of analysts following (*ANALYSTS*) (Albrecht et al. 2024; Chung et al. 2022). In addition, to address potential concerns related to litigation risk, we incorporate additional controls for litigation industry (*LITIND*) and firm-level litigation risk (*LITRISK*). We also include board characteristics, such as gender (*BDFEMALE*) and board independence (*BDINDEP*), and managerial compensation incentives (*CEO_DELTA* and *CEO_VEGA*) to control for potential confounding effects of governance and incentives. We further control for industry (two-digit SIC code), year, and quarter fixed effects.⁸ Definitions for all variables are provided in Appendix A.

To test for differences in the timing of CAEs between GC and non-GC firms, we estimate a pooled model with interaction terms, allowing us to directly compare the coefficients on *PreCAE-JustMiss* and *PreCAE-ExtrBeat* by GC presence. This approach enables us to assess whether firms with and without a GC in top management display distinct patterns in the use of CAEs across earnings benchmark intervals. If GCs help their firms to engage in more opportunistic financial reporting, as suggested by Hopkins et al. (2015), we would expect the coefficient on *PreCAE-JustMiss* to be larger for GC firms than for non-GC firms. We predict the coefficients on *PreCAE-ExtrBeat* to be negative because firms are less likely to use positive CAEs when their pre-CAE earnings sufficiently exceed benchmarks. However, we do not expect a significant coefficient difference between firms with GCs and firms without because less use of positive CAEs does not necessarily indicate more strategic financial reporting in this earnings benchmark interval. For the sake of brevity, the details of descriptive statistics and supplementary results are provided in Appendix B.

⁸ We include quarter fixed effects to capture general seasonality, as well as the fourth quarter effect, which is subject to external audits and may affect CAE decisions.

3.2 Main results

Our main research question is whether GC firms tend to time CAEs differently from non-GC firms. As a baseline, we first test for unconditional differences in the overall propensity to use CAEs. Untabulated results report regressions of all CAEs (*CAE*), income-increasing (i.e., positive) CAEs (*CAE-POS*), and income-decreasing (i.e., negative) CAEs (*CAE-NEG*) on a *GC* indicator with standard controls and industry, year, and quarter fixed effects. The *GC* coefficient is statistically indistinguishable from zero in all three models, implying no unconditional difference in CAE usage between GC and non-GC firms. This null result is not inconsistent with our theoretical framework: we do not predict that GCs increase CAE usage on average or systematically bias estimates upward. Rather, our framework suggests that GC involvement shapes how discretion is exercised only when it is most consequential—that is, in benchmark-adjacent situations where small, defensible adjustments can change reporting outcomes. These results motivate our benchmark-stratified tests below, where incentives to adjust estimates vary by earnings position.

We then focus on firms' incentives to meet or beat consensus analyst forecasts. Table 1 reports the regression results when firms have strong incentives to implement positive CAEs that convert a would-be earnings miss into a meet or beat (*PreCAE-JustMiss*) in column (1), when firms have little need for upward CAEs (*PreCAE-ExtrBeat*) in column (2), and both earnings positions (*PreCAE-JustMiss* and *PreCAE-ExtrBeat*) in column (3). We interpret the results using the full model in column (3).

The result in column (3) shows that the coefficient on *PreCAE-JustMiss***I*(*GC*=1), 0.009, is positive and statistically significant (p-value < 0.05).⁹ More importantly, the coefficient on *PreCAE-JustMiss***I*(*GC*=1) is significantly greater (p-value < 0.05) than that of *PreCAE-JustMiss***I*(*GC*=0), suggesting that GC firms are more likely to use positive CAEs when their pre-CAE earnings are just below the analyst consensus forecasts. This result suggests that

⁹ Because we estimate an LPM, this coefficient is interpreted directly as a marginal effect on probability: the presence of a GC raises the likelihood that a just-miss firm-quarter records a positive CAE by 0.9 percentage points (0.9%). This magnitude is economically meaningful relative to the unconditional frequency of positive CAEs in our sample (1,352 firm-quarters, or 1.7% of observations), corresponding to an approximately 53% relative increase over the base rate.

GCs facilitate the use of CAEs to avoid missing earnings benchmarks. When firms' pre-CAE earnings are sufficiently higher than the analyst benchmark, we find that both GC firms ($PreCAE-ExtrBeat * I(GC=1)$) and non-GC firms ($PreCAE-ExtrBeat * I(GC=0)$) are less likely to use positive CAEs (-0.010 , $p\text{-value} < 0.01$ and -0.010 , $p\text{-value} < 0.01$) but do not find a significant coefficient difference between the two groups ($p\text{-value} = 0.966$).¹⁰

Collectively, the results in Table 1 suggest that GC firms are significantly more likely to engage in positive CAEs when they would otherwise have missed analysts' forecasts, indicating that GCs appear to facilitate the use of CAEs to avoid missing earnings benchmarks. Importantly, while unconditional tests (untabulated) yield null results, these are not inconsistent with our predictions: the expected effects emerge only when earnings are near thresholds and discretion is consequential.

3.3 Earnings-cash flows relation for positive CAEs

While our findings in Table 1 support GCs' facilitating role in financial reporting, it remains unclear whether GCs' involvement in the positive CAEs reflects managers' forward-looking information about their firm's economic activities and enhances the usefulness of earnings in predicting future performance. In this section, we test whether GC presence influences earnings quality, particularly through the mapping of accruals to future cash flows, a key indicator of the informativeness of reported earnings. Albrecht et al. (2024) use the relationship between current earnings and future cash flows to examine which of the two earnings measures, pre- or post-CAE earnings, better predicts future cash flows. We follow their approach to examine whether earnings quality has improved after incorporating CAEs for both GC firms and non-GC firms. If the positive CAEs contain relevant information, we expect post-CAE earnings to be more informative about future cash flows than pre-CAE earnings.

Table 2 reports the results using the quarter-on-quarter (QoQ) basis quarterly operating cash flows (OCF_{q+1}) and year-on-year (YoY) basis quarterly operating cash flows (OCF_{q+4}), respectively.

¹⁰ The coefficients on control variables are generally consistent with prior studies (Albrecht et al. 2024; Chung et al. 2022). For example, the negative coefficient on *MTB* is consistent with Albrecht et al. (2024). The coefficients on *BIG4*, *ANALYSTS*, and *SIZE* carry the expected signs and are directionally consistent with Albrecht et al. (2024) and Chung et al. (2022), though statistically insignificant.

Following recent studies (Batta and Muslu 2017; Durney, Gee, and Wiebe 2025), we use the Clarke nonparametric test (Clarke 2007) to compare the explanatory power of pre- versus post-CAE earnings for future cash flows.¹¹ In Panel A, for non-GC firms (i.e., $GC = 0$), the adjusted R^2 increases from 0.189 to 0.207 ($\Delta = 0.018$), indicating that earnings quality improves after CAEs are incorporated. However, for GC firms, the adjusted R^2 declines from 0.258 to 0.242 ($\Delta = -0.016$), suggesting that GCs' involvement in positive CAEs worsens earnings quality. Panel B, using year-on-year operating cash flows (OCF_{q+4}), yields similar results. Taken together, the results reported in Table 2 suggest that GCs' engagement in positive CAEs deteriorates the usefulness of earnings in predicting future cash flows.

3.4 Cross-sectional analyses

This section examines whether GCs' engagement in positive CAEs varies with the firm's internal and external monitoring environments to strengthen the causal interpretation of our findings. We consider three moderators and split the sample at the median or yes/no basis, as applicable: (1) firm integrity culture (H2a), (2) analyst following (H2b), and (3) industry-specialist auditor (H2c).¹² We employ these moderators because each construct captures a distinct constraint on managers' discretion, and thus, on the scope for a GC to influence benchmark-motivated CAEs.

First, firm integrity culture reflects internal norms that shape reporting behavior. Stronger cultures of integrity are linked to better conduct and fewer opportunistic practices (Graham et al. 2022; Mukherjee, Wang, and Okur 2025). Hence, H2a suggests that the GC effect on positive CAEs is more pronounced when the firm has a weak integrity culture. We use a machine learning-based measure of corporate integrity culture following Li, Mai, Shen, and Yan (2021).¹³ Second, analyst

¹¹ The Clarke test determines whether a significantly greater number of observations have lower unexplained variation under one model than the other (Batta and Muslu 2017; Clarke 2007; Durney et al. 2025). We use the Clarke test in lieu of the **Vuong test** because the Clarke test is more powerful when per-observation log-likelihood ratio distributions are highly peaked. To verify that the nonparametric approach is appropriate, we compute the Jarque-Bera normality test on per-observation differences in squared residuals for each model pair. The test confirms substantial non-normality with high excess kurtosis validating the use of the Clarke test. (p-value < 0.01)

¹² We employ sub-sample analysis, instead of estimating a single regression with three-way interactions, to avoid the complexity of interpreting multiple interaction terms. Nevertheless, when we estimate a single regression with three-way interactions, the inferences remain unchanged.

¹³ We follow Li, Mai, Shen, and Yan (2021) in measuring corporate culture using a text-based approach applied to

following proxies the external information environment and scrutiny. More analyst coverage generally disciplines reporting and curbs earnings management (Irani and Oesch 2016; Yu 2008). Accordingly, H2b suggests that the GC effect on positive CAEs is more pronounced when analyst following is low. Third, an industry-specialist auditor represents stronger external assurance. Industry-specialist auditors command fee premia and are associated with higher earnings quality, implying tighter constraints on opportunistic adjustments (Francis, Reichelt, and Wang 2005; Kwon et al. 2018). Accordingly, H2c suggests that the GC effect on positive CAEs is amplified when the firm is audited by a non-industry-specialist auditor.

As reported in columns (1) and (2) of Table 3, when the sample is split by corporate culture as a proxy of internal monitoring environment, the coefficient on $PreCAE-JustMiss*I(GC=1)$ is positive and statistically significant (0.018, p-value < 0.01) for firms with weak integrity culture, but not statistically significant for firms with strong integrity culture. More importantly, the coefficient on $PreCAE-JustMiss*I(GC=1)$ is significantly greater (p-value < 0.05) than that of $PreCAE-JustMiss*I(GC=0)$ in column (2) only, confirming that the GC effect on positive CAEs is concentrated in firms with weak integrity culture. When the number of analysts following is a moderator in columns (3) and (4), the coefficient on $PreCAE-JustMiss*I(GC=1)$ is significantly positive (0.012, p-value < 0.05) and greater than that of $PreCAE-JustMiss*I(GC=0)$ in column (4) only, confirming that the GC effect on positive CAEs is significant only when the level of monitoring by analysts is low. When the sample is split by industry-specialized auditor in columns (5) and (6), the coefficient on $PreCAE-JustMiss*I(GC=1)$ is significantly positive (0.014, p-value < 0.01) only in column (6) where the firm's auditor is not an industry specialist, with a weak but significant coefficient difference (p-value < 0.10). Taken together, the results in Table 3 suggest that GCs'

earnings call transcripts. The authors employ word embedding techniques to develop dictionaries capturing five cultural dimensions—innovation, integrity, quality, respect, and teamwork—and compute firm-year culture scores based on the frequency and context of related language in managerial discussions. Specifically, for the integrity proxy, the authors begin with a set of seed words associated with integrity (e.g., honesty, ethics, transparency), which the algorithm expands to include contextually similar terms. The integrity score is then calculated based on the frequency and intensity of these integrity-related words in a firm's earnings call transcripts, scaled by the total amount of text, yielding a continuous firm-year measure. All variables are standardized by total transcript length. Among the five dimensions, we focus on the integrity culture measure in our analysis, as it is more likely to play a moderating governance role within the broader corporate culture framework.

engagement in positive CAEs is less pronounced when the firm is effectively monitored by inside or outside stakeholders as proposed in H2a–H2c.

3.5 Additional tests

We now examine GCs' involvement in income-decreasing (i.e., negative) CAEs (*CAE-NEG*). We expect the influence of GCs to be asymmetric across income-increasing and income-decreasing CAEs. This asymmetry arises because income-increasing adjustments—particularly those used to avoid missing earnings benchmarks—entail greater litigation, enforcement, and reputational risks, as they inflate reported performance and are thus more likely to be perceived as opportunistic. Consequently, managers have stronger incentives to seek legal counsel in these settings, which broadens the scope for GCs to influence reporting outcomes. In contrast, income-decreasing CAEs reduce reported performance and are less likely to trigger regulatory scrutiny or shareholder litigation, resulting in weaker demand for legal oversight. Therefore, we expect GC influence to be more pronounced for income-increasing CAEs than for income-decreasing ones.

Table 4 reports the results for negative CAEs across earnings positions and GC presence. In column (3) with the full specification, both GC and non-GC firms are less likely to engage in income-decreasing CAEs when pre-CAE earnings just beat the consensus, and are more likely to record them when pre-CAE earnings comfortably exceed the benchmark. This pattern is consistent with benchmark-driven reporting incentives, whereby managers avoid downward adjustments when close to the threshold but are more willing to recognize them when sufficient earnings slack exists.

Importantly, however, the differences between GC and non-GC firms are economically small and statistically indistinguishable from zero. This null result is informative and aligns with our theoretical framework. As discussed above, the involvement of GCs is endogenous to settings where reporting choices carry heightened litigation, enforcement, or reputational risks. Because downward adjustments conservatively reduce reported performance, they are less likely to trigger regulatory scrutiny and therefore generate weaker demand for legal oversight. Consequently, even if GCs are present, their influence on these decisions is limited.

Taken together with our main results reported in [Table 1](#), these findings suggest that GC-related effects are concentrated in income-increasing CAEs used to avoid an earnings miss. In other words, GCs appear to play a more consequential role in reporting decisions that are both threshold-sensitive and legally salient. The absence of a GC effect for income-decreasing CAEs is therefore consistent with our predictions, reinforcing the interpretation that GC involvement is driven by the expected legal and reputational stakes of the reporting decision.

3.6 GC characteristics

In this section, we explore whether differences in GC characteristics influence the likelihood of opportunistic CAE use. This analysis allows us to further substantiate the causal link between GC presence and opportunistic reporting behavior. [Table 5](#) reports the results. First, Panel A shows that our key findings are concentrated among GCs who do not serve as corporate secretary. Second, Panel B indicates that these effects are also driven by GCs who do not sit on the board of directors. Together, these findings suggest that GCs with broader monitoring responsibilities are less likely to facilitate opportunistic CAEs, consistent with the expectation that greater oversight duties heighten sensitivity to legal and compliance risks. Third, as reported in Panel C, our results are more pronounced for male GCs, aligning with prior literature indicating that male executives exhibit higher risk tolerance (Francis et al. 2015). Fourth, untabulated analyses reveal no significant differences between long- and short-tenured GCs, suggesting that tenure does not meaningfully moderate the relationship between GC presence and opportunistic CAE use. Overall, these cross-sectional variations underscore the importance of individual GC characteristics in shaping reporting outcomes and provide compelling evidence linking GC presence to opportunistic behavior. ¹⁴

3.7 Robustness checks

We conduct several robustness checks as reported in [Table 6](#). First, to address endogeneity concerns—particularly the possibility that firms predisposed to opportunistic reporting are more

¹⁴ We thank an anonymous reviewer for suggesting this analysis.

likely to appoint GCs to their top management teams—we implement additional tests to mitigate both observable and unobservable sources of bias. To alleviate concerns that our results are driven by observable, systematic differences between GC and non-GC firms, we apply entropy balancing to reweight GC and non-GC observations based on the covariates used in the main model. Column (1) of [Table 6](#) reports results using the entropy-balanced sample, and the inferences are qualitatively similar.¹⁵ Second, we re-estimate our models by incorporating firm fixed effects to control for time-invariant unobserved heterogeneity. As shown in column (2), the results remain robust, suggesting that our inferences are not primarily driven by unobserved firm-specific characteristics. Third, to ensure that the main results are not driven by a small number of firm-quarters with SOX 302 material internal control weaknesses, we re-run the analysis after excluding these observations and confirm that the results remain robust in this alternative sample as reported in column (3). Fourth, to rule out the possibility that audit quality drives our findings, we re-run the main model restricting the sample to Big 4 audited firm-quarters, which comprise 78.8 percent of our sample, and continue to obtain qualitatively similar results (column (4)).¹⁶ Lastly, to address concerns that defining GC firms based solely on compensation rank may misclassify firms in which GCs wield meaningful influence, we use the BoardEx database as an alternative measure. Unlike ExecuComp, BoardEx provides broader coverage of senior executives, including GCs who may not rank among the top five highest-paid executives (Yu et al. 2021). Columns (5) and (6) show that using this alternative measure yields qualitatively similar results. Overall, these checks reinforce our main conclusion that GC presence is associated with greater use of positive CAEs specifically in just-miss situations, while opportunistic behavior in the extreme-beat region does not significantly differ between GC and non-GC firms.¹⁷

¹⁵ While the number of GC and non-GC firm observations is similar across the two groups, comparability in sample size does not ensure balance in observable characteristics. Accordingly, we employ entropy balancing to reweight the sample and align covariates across groups. As shown in [Appendix C](#), this procedure achieves balance on all covariates used in our main specification, supporting its application in our setting.

¹⁶ We do not use Big 4 status and internal control weaknesses as cross-sectional moderators because the number of observations with non-Big 4 auditors or SOX 302 material internal control weaknesses is too small.

¹⁷ We further confirm that our cross-sectional results are robust to these alternative specifications. In untabulated tests, we re-estimate the analyses in [Table 3](#) and [Table 5](#) using the entropy-balanced sample, firm fixed effects, the subsample excluding firm-quarters with SOX 302 material internal control weaknesses, and the subsample restricted to Big 4 clients, and our inferences remain qualitatively similar.

IV. CONCLUSION

In this study, we extend the literature on corporate governance and financial reporting by investigating the role of GCs in shaping the use of CAEs. Motivated by mixed evidence on GC influence and their expanding presence in strategic decision-making, we examine whether GCs act as gatekeepers who constrain discretion or facilitators who enable earnings management within the bounds of GAAP.

Our findings reveal that GC firms are more likely than non-GC firms to meet or beat earnings targets through income-increasing CAEs. However, rather than improving reporting quality, such adjustments are associated with a decline in the predictive power of earnings for future cash flows, suggesting that CAE use is opportunistic rather than economically informative. In addition, we find that this facilitative role is more pronounced in firms with weak corporate integrity, low analyst following, and non-industry-specialist auditors, indicating that the GC's influence is conditioned by the strength of surrounding governance mechanisms. We also show that GC characteristics play an important role in the use of CAEs and help substantiate the causal link between GC presence and opportunistic reporting behavior.

We contribute to the literature by exploring a previously underexamined dimension of GC involvement in financial reporting and highlighting the strategic use of accounting discretion under legal oversight. While our results support the view that GCs may facilitate opportunistic reporting, our results do not negate GCs' broader compliance responsibilities. Rather, the findings underscore the context-dependent nature of their influence. For regulators and standard setters, our evidence points to the need for enhanced transparency in CAE disclosures—particularly around the assumptions, methods, and materiality thresholds used.

Use of Generative AI: During the preparation of this work, the author(s) used ChatGPT to improve the clarity and readability of the manuscript. After using this tool, the author(s) reviewed and edited the content as needed and take(s) full responsibility for the content of the publication.

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Table 1: The Effect of GC on Positive CAEs

	(1) <i>CAE_P</i>	(2) <i>CAE_P</i>	(3) <i>CAE_P</i>
[1] <i>PreCAE-JustMiss</i> * <i>I</i> (<i>GC</i> =1)	0.012*** (3.233)		0.009** (2.350)
[2] <i>PreCAE-JustMiss</i> * <i>I</i> (<i>GC</i> =0)	0.003 (1.510)		0.000 (0.209)
[3] <i>PreCAE-ExtrBeat</i> * <i>I</i> (<i>GC</i> =1)		-0.010*** (-4.620)	-0.010*** (-4.286)
[4] <i>PreCAE-ExtrBeat</i> * <i>I</i> (<i>GC</i> =0)		-0.010*** (-5.139)	-0.010*** (-4.839)
<i>SIZE</i>	0.000 (0.319)	0.001 (0.491)	0.001 (0.485)
<i>MTB</i>	-0.002*** (-3.450)	-0.002*** (-3.466)	-0.002*** (-3.437)
<i>ROA</i>	0.010 (0.543)	0.028 (1.520)	0.028 (1.550)
<i>BIG4</i>	0.002 (0.567)	0.002 (0.746)	0.002 (0.734)
<i>ANALYSTS</i>	0.001 (0.847)	0.001 (0.595)	0.001 (0.597)
<i>LITIND</i>	0.001 (0.425)	0.001 (0.449)	0.001 (0.431)
<i>LITRISK</i>	0.014** (2.203)	0.014** (2.219)	0.015** (2.246)
<i>BDFEMALE</i>	0.007 (0.777)	0.007 (0.788)	0.007 (0.773)
<i>BDINDEP</i>	0.029** (2.454)	0.030*** (2.582)	0.030** (2.557)
<i>CEO_DELTA</i>	0.000 (0.290)	0.000 (0.297)	0.000 (0.313)
<i>CEO_VEGA</i>	-0.001 (-1.402)	-0.001 (-1.445)	-0.001 (-1.448)
p-value testing [1] = [2]	0.041**		0.047**
p-value testing [3] = [4]		0.980	0.966
Fixed effects	Y-Q-I	Y-Q-I	Y-Q-I
N	79,450	79,450	79,450
Adj. R ²	0.021	0.022	0.022

This table reports the regression results of whether GC firms exhibit different patterns in the timing of using income- increasing CAEs (*CAE_P*) compared with non-GC firms. [1], [2], [3], and [4] refer to the coefficients on *PreCAE-JustMiss*×*I*(*GC* = 1), *PreCAE-JustMiss*×*I*(*GC* = 0), *PreCAE-ExtrBeat*×*I*(*GC* = 1), and *PreCAE-ExtrBeat*×*I*(*GC* = 0), respectively. p-values are from Wald tests. Year-, quarter-, and industry (Y-Q-I) fixed effects are included. Variable definitions are included in Appendix A. Firm-level clustered standard errors are shown in the parentheses. *, **, and *** indicate statistically significant differences from zero (two-tailed) at the <0.10, <0.05, and <0.01 levels, respectively.

Table 2: Earnings-Cash Flows for Positive CAEs

Panel A: Cash Flows One Quarter Ahead				
	Dep. Var. = OCF_{q+1}			
	(1) GC=0	(2) GC=0	(3) GC=1	(4) GC=1
[1] <i>PreCAE-Earnings</i>	0.325*** (0.035)		0.421*** (0.035)	
[2] <i>PostCAE-Earnings</i>		0.361*** (0.036)		0.398*** (0.036)
Adj. R^2	0.189	0.207	0.258	0.242
N	760	760	783	783
Fixed effects	Y-Q-I	Y-Q-I	Y-Q-I	Y-Q-I
Δ Adj. R^2	0.018		-0.016	
p -value (Clarke's model comparison)	<0.001***		<0.001***	

Panel B: Cash Flows Four Quarters Ahead				
	Dep. Var. = OCF_{q+4}			
	(1) GC=0	(2) GC=0	(3) GC=1	(4) GC=1
[1] <i>PreCAE-Earnings</i>	0.407*** (0.041)		0.426*** (0.04)	
[2] <i>PostCAE-Earnings</i>		0.433*** (0.042)		0.393*** (0.041)
Adj. R^2	0.231	0.239	0.225	0.205
N	760	760	783	783
Fixed effects	Y-Q-I	Y-Q-I	Y-Q-I	Y-Q-I
Δ Adj. R^2	0.008		-0.02	
p -value (Clarke's model comparison)	<0.001***		<0.001***	

This table presents the predictive value of earnings with respect to future cash flows for the subsample of income-increasing CAE cases. Panel A reports results using cash flows one quarter ahead (OCF_{q+1}), and Panel B reports results using cash flows four quarters ahead (OCF_{q+4}). OCF_{q+1} is quarterly operating cash flows scaled by total assets for the next quarter. OCF_{q+4} is quarterly operating cash flows scaled by total assets for the same quarter next year. Results with quarterly earnings without the CAE (*PreCAE-Earnings*) are reported in columns (1) and (3). Results with quarterly earnings with the CAE (*PostCAE-Earnings*) are reported in columns (2) and (4). *PreCAE-Earnings* are calculated by subtracting the CAE income amount from the quarterly net income, scaled by total assets. *PostCAE-Earnings* are calculated using quarterly net income scaled by total assets. [1] and [2] refer to *PreCAE-Earnings* and *PostCAE-Earnings*, respectively. Δ Adj. R^2 reports the change in adjusted R^2 from column (1) to (2) for non-GC firms and from column (3) to (4) for GC firms. p -value (Clarke's model comparison) reports the p -value from Clarke's (Clarke 2007) non-parametric test of equal predictive accuracy between *PreCAE-Earnings* and *PostCAE-Earnings*, evaluated separately for non-GC firms (columns (1)–(2)) and GC firms (columns (3)–(4)). Year-, quarter-, and industry (Y-Q-I) fixed effects are included. Variable definitions are included in Appendix A. Firm-level clustered standard errors are shown in the parentheses. *, **, and *** indicate statistically significant differences from zero (two-tailed) at the <0.10, <0.05, and <0.01 levels, respectively.

Table 3: The Effect of GC on Positive CAEs: Cross-Sectional Analysis

	(1)	(2)	(3)	(4)	(5)	(6)
	Integrity		Analyst following		Auditor industry expertise	
	High	Low	High	Low	Yes	No
[1] <i>PreCAE-JustMiss</i> * <i>I</i> (<i>GC</i> =1)	0.003 (0.589)	0.018*** (3.293)	0.006 (1.126)	0.012** (2.352)	0.003 (0.430)	0.014*** (2.675)
[2] <i>PreCAE-JustMiss</i> * <i>I</i> (<i>GC</i> =0)	0.005 (1.194)	0.000 (0.027)	0.001 (0.214)	-0.000 (-0.116)	-0.002 (-0.376)	0.003 (0.840)
[3] <i>PreCAE-ExtrBeat</i> * <i>I</i> (<i>GC</i> =1)	-0.011*** (-3.375)	-0.005** (-2.339)	-0.013*** (-3.493)	-0.006*** (-2.703)	-0.009** (-2.257)	-0.009*** (-3.293)
[4] <i>PreCAE-ExtrBeat</i> * <i>I</i> (<i>GC</i> =0)	-0.011*** (-3.510)	-0.008*** (-3.848)	-0.012*** (-3.450)	-0.008*** (-3.801)	-0.010*** (-2.858)	-0.009*** (-3.204)
p-value testing [1] = [2]	0.682	0.003***	0.392	0.030**	0.542	0.069*
p-value testing [3] = [4]	0.975	0.260	0.816	0.505	0.848	0.808
Fixed effects	Y-Q-I	Y-Q-I	Y-Q-I	Y-Q-I	Y-Q-I	Y-Q-I
N	34,887	35,266	38,752	40,698	21,671	35,406
Adj. R ²	0.028	0.018	0.036	0.014	0.027	0.024

This table reports cross-sectional results. Columns (1) and (2) present the results of whether GC firms differ in their overall propensity to engage in income-increasing CAEs (*CAE_P*) when the firm has high integrity culture and low integrity culture. Columns (3) and (4) present the results of whether GC firms differ in their overall propensity to engage in income-increasing CAEs (*CAE_P*) when the number of analysts following is high and low. Columns (5) and (6) present the results of whether GC firms differ in their overall propensity to engage in income-increasing CAEs (*CAE_P*) when the firm's auditor is an industry-specialist auditor and not. [1], [2], [3], and [4] refer to the coefficients on *PreCAE-JustMiss*×*I*(*GC* = 1), *PreCAE-JustMiss*×*I*(*GC* = 0), *PreCAE-ExtrBeat*×*I*(*GC* = 1), and *PreCAE-ExtrBeat*×*I*(*GC* = 0), respectively. p-values are from Wald tests. **Year-, quarter-, and industry (Y-Q-I) fixed effects are included.** Variable definitions are included in Appendix A. Firm-level clustered standard errors are shown in the parentheses. *, **, and *** indicate statistically significant differences from zero (two-tailed) at the <0.10, <0.05, and <0.01 levels, respectively.

Table 4: The Effect of GC on Negative CAEs

	(1) <i>CAE_N</i>	(2) <i>CAE_N</i>	(3) <i>CAE_N</i>
[1] <i>PreCAE-JustBeat</i> * <i>I</i> (<i>GC</i> =1)	-0.010*** (-8.830)		-0.006*** (-5.239)
[2] <i>PreCAE-JustBeat</i> * <i>I</i> (<i>GC</i> =0)	-0.009*** (-9.169)		-0.005*** (-5.202)
[3] <i>PreCAE-ExtrBeat</i> * <i>I</i> (<i>GC</i> =1)		0.015*** (6.704)	0.013*** (5.833)
[4] <i>PreCAE-ExtrBeat</i> * <i>I</i> (<i>GC</i> =0)		0.012*** (7.365)	0.010*** (6.313)
p-value testing [1] = [2]	0.349		0.446
p-value testing [3] = [4]		0.275	0.264
Fixed effects	Y-Q-I	Y-Q-I	Y-Q-I
N	79,450	79,450	79,450
Adj. R ²	0.015	0.017	0.017

This table reports the regression results of whether GC firms exhibit different patterns in the timing of using income- decreasing CAEs (*CAE_N*) compared with non-GC firms. [1], [2], [3], and [4] refer to the coefficients on *PreCAE-JustBeat*×*I*(*GC* = 1), *PreCAE-JustBeat*×*I*(*GC* = 0), *PreCAE-ExtrBeat*×*I*(*GC* = 1), and *PreCAE-ExtrBeat*×*I*(*GC* = 0), respectively. p-values are from Wald tests. **Year-, quarter-, and industry (Y-Q-I) fixed effects are included.** Variable definitions are included in Appendix A. Firm-level clustered standard errors are shown in the parentheses. *, **, and *** indicate statistically significant differences from zero (two-tailed) at the <0.10, <0.05, and <0.01 levels, respectively.

Table 5: Cross-Sectional Analysis: GC Characteristics

Panel A: GC Secretary	
	(1) <i>CAE_P</i>
[1] <i>PreCAE-JustMiss*I(GC Secretary)</i>	0.004 (1.078)
[2] <i>PreCAE-JustMiss*I(GC Non-Secretary)</i>	0.027** (2.527)
[3] <i>PreCAE-JustMiss*I(GC=0)</i>	-0.001 (-0.547)
[4] <i>PreCAE-ExtrBeat*I(GC Secretary)</i>	-0.009*** (-4.192)
[5] <i>PreCAE-ExtrBeat*I(GC Non-Secretary)</i>	-0.004 (-0.866)
[6] <i>PreCAE-ExtrBeat*I(GC=0)</i>	-0.009*** (-4.940)
p-value testing [1] = [3]	0.203
p-value testing [2] = [3]	0.009***
p-value testing [4] = [6]	0.945
p-value testing [5] = [6]	0.264
Fixed effects	Y-Q-I
N	84,637
Adj. R ²	0.017

Panel B: GC On Board of Directors	
	(1) <i>CAE_P</i>
[1] <i>PreCAE-JustMiss*I(GC On-Board)</i>	-0.011*** (-4.506)
[2] <i>PreCAE-JustMiss*I(GC Not On-Board)</i>	0.010** (2.525)
[3] <i>PreCAE-JustMiss*I(GC=0)</i>	-0.001 (-0.315)
[4] <i>PreCAE-ExtrBeat*I(GC On-Board)</i>	-0.012*** (-4.630)
[5] <i>PreCAE-ExtrBeat*I(GC Not On-Board)</i>	-0.007*** (-3.617)
[6] <i>PreCAE-ExtrBeat*I(GC=0)</i>	-0.009*** (-4.788)
p-value testing [1] = [3]	0.008***
p-value testing [2] = [3]	0.014**
p-value testing [4] = [6]	0.308
p-value testing [5] = [6]	0.495
Fixed effects	Y-Q-I
N	83,190
Adj. R ²	0.018

Panel C: GC Gender	
	(1) <i>CAE_P</i>
[1] <i>PreCAE-JustMiss*I(GC Female)</i>	0.005 (0.731)
[2] <i>PreCAE-JustMiss*I(GC Male)</i>	0.010** (2.380)
[3] <i>PreCAE-JustMiss*I(GC=0)</i>	-0.001 (-0.547)
[4] <i>PreCAE-ExtrBeat*I(GC Female)</i>	-0.007* (-1.840)
[5] <i>PreCAE-ExtrBeat*I(GC Male)</i>	-0.008*** (-3.697)
[6] <i>PreCAE-ExtrBeat*I(GC=0)</i>	-0.009*** (-4.932)
p-value testing [1] = [3]	0.367
p-value testing [2] = [3]	0.015**
p-value testing [4] = [6]	0.648
p-value testing [5] = [6]	0.557
Fixed effects	Y-Q-I
N	84,637
Adj. R ²	0.017

This table reports cross-sectional results based on GC characteristics. Panel A compares firms where the GC serves as corporate secretary versus those where the GC does not. Panel B compares firms where the GC is on the board of directors versus those where the GC is not. Panel C compares firms with a male GC versus a female GC. [1]–[3] refer to the coefficients on *PreCAE-JustMiss* interacted with the two GC subgroups and non-GC firms ($I(GC = 0)$) defined in each panel, respectively. [4]–[6] follow the same pattern for *PreCAE-ExtrBeat*. p-values are from Wald tests. **Year-, quarter-, and industry (Y-Q-I) fixed effects are included.** Variable definitions are included in Appendix A. Firm-level clustered standard errors are shown in the parentheses. *, **, and *** indicate statistically significant differences from zero (two-tailed) at the <0.10, <0.05, and <0.01 levels, respectively.

Table 6: Robustness Tests

	(1)	(2)	(3)	(4)	(5)	(6)
	Entropy	FirmFE	No ICW	Big4	BoardEx	BoardEx
[1] $PreCAE-JustMiss \times I(GC=1)$	0.009** (2.358)	0.010*** (3.084)	0.009** (2.327)	0.009** (2.256)	0.006** (2.310)	0.006*** (2.696)
[2] $PreCAE-JustMiss \times I(GC=0)$	0.000 (0.122)	0.001 (0.485)	0.000 (0.179)	0.000 (0.022)	-0.005* (-1.865)	-0.002 (-0.623)
[3] $PreCAE-ExtrBeat \times I(GC=1)$	-0.010*** (-4.294)	-0.012*** (-5.203)	-0.010*** (-4.468)	-0.010*** (-4.104)	-0.010*** (-4.910)	-0.013*** (-6.166)
[4] $PreCAE-ExtrBeat \times I(GC=0)$	-0.012*** (-5.121)	-0.012*** (-5.577)	-0.010*** (-4.964)	-0.011*** (-4.820)	-0.008*** (-3.413)	-0.005* (-1.928)
p-value testing [1] = [2]	0.058*	0.018**	0.047**	0.046**	0.003***	0.022**
p-value testing [3] = [4]	0.389	0.891	0.951	0.756	0.465	0.015**
Industry FE	Yes		Yes	Yes	Yes	
Firm FE		Yes				Yes
Quarter FE	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
N	79,450	79,450	76,941	71,741	79,441	79,441
Adj. R ²	0.024	0.130	0.022	0.020	0.022	0.130

This table reports results using alternative samples. Column (1) reports results using the entropy-balanced sample. Column (2) reports results with firm fixed effects. Column (3) reports results using the sample restricted to firms without internal control weakness. Column (4) reports results using the sample restricted to firms with Big 4 auditors ($BIG_4 = 1$). Columns (5) and (6) are based on GC measured using BoardEx instead of ExecuComp: column (5) uses industry fixed effects and column (6) uses firm fixed effects. [1], [2], [3], and [4] refer to the coefficients on $PreCAE-JustMiss \times I(GC = 1)$, $PreCAE-JustMiss \times I(GC = 0)$, $PreCAE-ExtrBeat \times I(GC = 1)$, and $PreCAE-ExtrBeat \times I(GC = 0)$, respectively. p-values are from Wald tests. Variable definitions are included in Appendix A. Firm-level clustered standard errors are shown in the parentheses. *, **, and *** indicate statistically significant differences from zero (two-tailed) at the <0.10, <0.05, and <0.01 levels, respectively.

Appendix A. Variable Definitions

Variable	Definition
<i>CAE-related Variables</i>	
<i>CAE_P</i>	An indicator variable equal to 1 if the firm engages in a CAE that has an income-increasing (i.e., positive) impact on reported net income, and 0 otherwise.
<i>CAE_N</i>	An indicator variable equal to 1 if the firm engages in a CAE that has an income-decreasing (i.e., negative) impact on reported net income, and 0 otherwise.
<i>PreCAE-JustMiss</i>	An indicator variable equal to 1 if the difference between the pre-CAE EPS (i.e., actual EPS minus the CAE impact) and the analyst consensus forecast is between -\$0.02 and \$0, and 0 otherwise.
<i>PreCAE-JustBeat</i>	An indicator variable equal to 1 if the difference between the pre-CAE EPS (i.e., actual EPS minus the CAE impact) and the analyst consensus forecast is between -\$0.00 and \$0.02, and 0 otherwise.
<i>PreCAE-ExtrBeat</i>	An indicator variable equal to 1 if the difference between the pre-CAE EPS (i.e., actual EPS minus the CAE impact) and the analyst consensus forecast is greater than \$0.05, and 0 otherwise.
<i>PreCAE-Earnings</i>	Net income minus the CAE impact.
<i>PostCAE-Earnings</i>	Net income (i.e., including the CAE impact).
<i>GC Variables</i>	
<i>I(GC = 1)</i>	An indicator variable equal to 1 if the firm has a GC in top management, and 0 otherwise.
<i>I(GC = 0)</i>	An indicator variable equal to 1 if the firm does not have a GC in top management, and 0 otherwise.
<i>Other Variables</i>	
<i>SIZE</i>	Natural logarithm of total assets.
<i>MTB</i>	Ratio of the market value of equity to its book value.
<i>ROA</i>	Net income divided by the beginning balance of total assets.
<i>BIG4</i>	An indicator variable equal to 1 if the firm is audited by one of the Big 4 auditors, and 0 otherwise.
<i>ANALYSTS</i>	The number of analysts following the firm.
<i>LITIND</i>	An indicator variable equal to 1 if the firm is in the litigation industry, and 0 otherwise.
<i>LITRISK</i>	Firm-year ex-ante measure for litigation risk following Kim and Skinner (2012).
<i>BDFEMALE</i>	The number of female board members divided by the number of board members.
<i>BDINDEP</i>	The number of independent board members divided by the number of board members.
<i>CEO_DELTA</i>	Natural logarithm of one plus the dollar change in the value of the CEO's equity compensation for a \$1 change in the firm's stock price (i.e., log-transformed CEO incentive compensation delta).
<i>CEO_VEGA</i>	Natural logarithm of one plus the dollar change in the value of the CEO's equity compensation for a 0.01 change in the volatility of the firm's stock price (i.e., log-transformed CEO incentive compensation vega).
<i>OCF_{q+1}</i>	Quarterly operating cash flows scaled by total assets for the next quarter.
<i>OCF_{q+4}</i>	Quarterly operating cash flows scaled by total assets for the same quarter next year.

Appendix B. Sample Distribution and Summary Statistics

Panel A. Yearly distribution of GC and Non-GC firms

Year	GC= 1	GC= 0	Total
2006	1,104	2,208	3,312
2007	1,553	3,478	5,031
2008	1,605	3,408	5,013
2009	2,034	3,031	5,065
2010	2,026	3,040	5,066
2011	2,075	2,910	4,985
2012	2,153	2,820	4,973
2013	2,312	2,605	4,917
2014	2,281	2,617	4,898
2015	2,247	2,568	4,815
2016	2,241	2,439	4,680
2017	2,246	2,340	4,586
2018	2,169	2,387	4,556
2019	2,263	2,177	4,440
2020	2,373	2,020	4,393
2021	2,373	2,003	4,376
2022	2,381	1,963	4,344
Total	35,436	44,014	79,450

Panel B. Yearly distribution of CAEs

Year	CAE	CAE-POS	CAE-NEG
2006	72	37	35
2007	118	70	48
2008	141	80	61
2009	151	90	61
2010	121	71	50
2011	94	63	31
2012	87	52	35
2013	136	85	51
2014	194	110	84
2015	148	81	67
2016	152	84	68
2017	116	79	37
2018	141	84	57
2019	160	89	71
2020	171	88	83
2021	155	102	53
2022	139	87	52
Total	2,296	1,352	944

Panel C. Summary Statistics

	N	Mean	S.D.	P25	Median	P75
<i>SIZE</i>	79,450	7.711	1.576	6.602	7.614	8.723
<i>MTB</i>	79,450	1.659	1.531	0.697	1.190	2.051
<i>ROA</i>	79,450	0.012	0.032	0.004	0.014	0.025
<i>BIG4</i>	79,450	0.903	0.296	1.000	1.000	1.000
<i>ANALYSTS</i>	79,450	2.299	0.616	1.792	2.303	2.773
<i>LITIND</i>	79,450	0.288	0.453	0.000	0.000	1.000
<i>LITRISK</i>	79,450	-1.583	0.327	-1.816	-1.609	-1.378
<i>BDFEMALE</i>	79,450	0.163	0.121	0.091	0.143	0.250
<i>BDINDEP</i>	79,450	0.852	0.072	0.833	0.875	0.900
<i>CEO_DELTA</i>	79,450	4.997	2.043	4.134	5.224	6.305
<i>CEO_VEGA</i>	79,450	3.141	2.247	0.001	3.646	4.952

Appendix C. Covariate Balance Before and After Entropy Balancing

Panel A. Covariate Balance Before Entropy Balancing						
	<i>GC=1</i>		<i>GC=0</i>		Imbalance Stat.	
	Mean	Variance	Mean	Variance	Std.Diff	Var.Ratio
<i>SIZE</i>	7.83	2.13	7.56	2.78	0.19 ^a	0.77 ^b
<i>MTB</i>	1.49	2.07	1.82	2.71	-0.23 ^a	0.77 ^b
<i>ROA</i>	0.01	0.00	0.01	0.00	-0.07	0.94
<i>BIG4</i>	0.92	0.07	0.88	0.10	0.13 ^a	0.72 ^b
<i>ANALYSTS</i>	2.29	0.36	2.29	0.39	-0.01	0.93
<i>LITIND</i>	0.25	0.19	0.32	0.22	-0.16 ^a	0.86
<i>LITRISK</i>	-1.58	0.09	-1.59	0.12	0.05	0.79 ^b
<i>BDFEMALE</i>	0.18	0.01	0.15	0.01	0.20 ^a	0.95
<i>BDINDEP</i>	0.86	0.00	0.84	0.01	0.39 ^a	0.60 ^b
<i>CEO_DELTA</i>	4.86	3.98	5.00	4.66	-0.07	0.85
<i>CEO_VEGA</i>	3.06	5.03	3.10	5.12	-0.02	0.98

Panel B. Covariate Balance After Entropy Balancing						
	<i>GC=1</i>		<i>GC=0</i>		Imbalance Stat.	
	Mean	Variance	Mean	Variance	Std.Diff	Var.Ratio
<i>SIZE</i>	7.83	2.13	7.84	2.14	-0.00	1.00
<i>MTB</i>	1.49	2.07	1.50	2.03	-0.00	1.02
<i>ROA</i>	0.01	0.00	0.01	0.00	-0.01	1.04
<i>BIG4</i>	0.92	0.07	0.92	0.07	0.00	1.00
<i>ANALYSTS</i>	2.29	0.36	2.29	0.36	-0.01	1.00
<i>LITIND</i>	0.25	0.19	0.25	0.19	-0.00	1.00
<i>LITRISK</i>	-1.58	0.09	-1.58	0.09	0.00	0.99
<i>BDFEMALE</i>	0.18	0.01	0.18	0.01	-0.00	1.01
<i>BDINDEP</i>	0.86	0.00	0.86	0.00	0.00	0.97
<i>CEO_DELTA</i>	4.86	3.98	4.91	3.84	-0.03	1.04
<i>CEO_VEGA</i>	3.06	5.03	3.11	4.99	-0.02	1.01

This table reports results for covariate balance before and after entropy balancing. Panel A (B) shows the covariate balance before (after) entropy balancing. Superscript ^a indicates that standardized difference of mean values between treatment and control groups are outside of [-0.1, 0.1], and superscript ^b indicates that variance ratio is outside of [0.8, 1.25].