Accounting Standard Changes and Firm's Financial Reporting Quality:

Evidence from ASU 2014-15

by

Lauren Matkaluk

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Phillip Lamoreaux, Chair
Steve Kaplan
Andy Call

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ABSTRACT

In 2016, the Financial Accounting Standards Board (FASB) imposed on managers a responsibility to evaluate their companies' forward-looking prospects for continuing as a going concern on a quarterly basis. Prior to this change, the responsibility of assessing the future of a company was only required annually by the external auditor through auditing standards. If this increase in management responsibility induced managers to implement a process and controls to obtain forward-looking information for disclosure, I would expect this information acquisition process to also improve overall financial reporting quality. I find that financial reporting quality increased for firms after Accounting Standards Update (ASU) 2014-15, as evidenced by less restatements. Additionally, while I find the timeliness of information decreased, as evidenced by slower earnings announcements, the decrease is not economically meaningful. Lastly, I find the effect of the standard change on financial reporting quality is greater for non-financially healthy companies who have to perform a more extensive analysis under ASU 2014-15. While the purpose of the accounting standard was to reduce diversity in the timing and content of going concern disclosures, I find evidence of other benefits with little costs that this standard had on firm's financial reporting.

DEDICATION

I dedicate this dissertation to my family and friends for their never-ending support of my doctoral studies. To my husband for his continued love, patience, and sacrifice throughout the program. To my parents for their encouragement to continue learning and educating myself. To my cohort members for being there for me every step of the way. Words are not enough to express my gratitude for all of you.

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CHAPTER 1

INTRODUCTION

A recent accounting standard change, ASU 2014-15, has shifted the primary responsibility for the going concern assessment from the external auditor to management. Further, management is required to make this assessment on a quarterly basis. Before this standard, there was no requirement in U.S. GAAP for management to evaluate its going concern assumption. This assessment has historically been the responsibility of the auditor alone (AICPA 2021; PCAOB 1989). The members of the FASB believed since management is responsible for the financial statements and disclosures, management should perform a going concern assessment and have direct responsibility for disclosing necessary uncertainties about the companies forward-looking prospects to continue as a going concern. PCAOB members also indicated that this standard is a positive step forward because it does not make logical sense for the auditor to have primary responsibility for the evaluation of the going concern assumption (PCAOB 2015).

The proposed standard was originally issued in October 2008, updated in June 2013, and finalized in August 2014 with an effective date for annual periods ending after December 15, 2016. While in concept the standard seemed reasonable for having management assume responsibility, it was heavily debated by companies, auditors, and investors as evidenced by over 76 comment letters received, and took over eight years to adopt.[1] Looking at the 47 comment letters from 2013, a majority of the individuals agreed that management should be responsible for going concern assessments (77%), but had

[1] The original proposal in 2008 received 29 comment letters, and the updated proposal in 2013 received 47 comment letters. Refer to https://www.fasb.org/page/PageContent?pageId=/reference-library/exposure-documents-public-comment-documents-archive.html for a copy of the comment letters.

concerns over the complexity and lack of auditability of managements' plans (36%), increase in litigation risk (36%), misalignment between auditing and accounting standards (21%), interim frequency costs (19%), and redundancy/lack of incremental information (19%). As an example, the Center for Capital Markets Competitiveness said they support the premise of management having responsibility for assessing going concern, but they did not support the Proposal because "it will not provide investors with additional decision useful information, increase complexity, contribute to disclosure overload, duplicate existing disclosures and create liability for companies". It is important to study the implications of this standard change because while it made clear the responsibility of management to perform the going concern assessment, the definitions and time period used are now misaligned from the current auditing standards. The PCAOB has currently added a going concern proposal to their agenda to be released in 2023. Additionally, before this standard the responsibility of the going concern assessment lied with the auditors as opposed to management, which is opposite of the traditional roles of first management making an assertion and second auditor verifying this assertation. After this standard, the roles were reversed back and the challenges between the auditor and management could have been reduced as any violation of the accounting standards would give the auditor leverage to modify their opinion.

Several empirical studies have looked at the direct implications of this standard by researching the content of the going concern disclosures, determinants of disclosures, and market reactions to these disclosures (Bochkay, Chychyla, Sankaraguruswamy and Willenborg 2018, 2022; Wang 2022; Krishnan, Krishnan, Lee, and Maex 2022). Additionally, an experimental study looks at the effect of this standard of jurors' judgments

of auditor liability (Owens, Saunders, Schachner, and Thornock 2020). Even though many individuals in the comment letters did not believe that the information in the disclosure would have any incremental benefit, studies do find evidence that these new disclosures have information content as measured by negative market reactions to substantial doubt disclosures (Wang 2022) and downward IPO price revisions for substantial doubt disclosures (Bochkay, Chychyla, Sankaraguruswamy and Willenborg 2018).[2] Additionally, Krishnan, Krishnan, Lee and Maex (2022) find a positive market reaction to "clean" disclosures, where companies explicitly say there is no substantial doubt about the ability to continue as a going concern (Krishnan et al. 2022). Collectively, these studies imply that management either acquired new information from implementing this process or had the information prior and now are disclosing it. Since this standard change required management to implement a new process and controls to obtain this information, it could have impacts on the companies' overall financial reporting quality.[3]

Prior studies have found that accounting standard changes can induce management to increase their information sets, which can then be used to improve corporate decision-making (Shroff 2017; Cheng, Cho, and Yang 2018). For example, Cheng et al. (2018) looks at the accounting standard change to goodwill in 2001, SFAS 142, in which managers could no longer amortize goodwill and had to conduct an impairment test annually. This standard induced managers to acquire new information on the fair value of the reporting units to

[2] Many of the comment letters issued by companies suggested that the information was redundant with similar disclosures in the MD&A section and risk factors section. Additionally, FASB acknowledged the potential for redundancies due to the overlap of disclosures required under U.S. auditing standards and disclosures required under SEC regulations, but still felt the standard would improve financial reporting (FASB 2014).
[3] According to ASU 2014-15, "because of the significant judgments involved in that [going concern] evaluation, entities may need to implement and document underlying processes and controls".

determine if it was below carrying value, and finds after the implementation of this standard, management's forecast accuracy, internal capital allocation efficiency, and firm performance improved (Cheng, Cho, and Yang 2018). In a similar manner, ASU 2014-15 requires managers to perform a going concern analysis quarterly and acquire new information about their company's future cash flows and expenditures for at least one year from the issuance of the financial statements. According to Julie Hiblovic, an audit partner at Anders CPA, an implication of this standard is that companies may "need to change forecasting to reflect the extended period, which may be a period that is not typically analyzed" (Hiblovic 2019). Not only does this standard potentially change the information sets available to managers, but it also induces them to implement and document processes and controls for this analysis (FASB 2014). As managers implement the process and controls to evaluate the going concern assumption, it could have effects to their broader financial reporting processes and controls over financial reporting. If the effects are positive, I would expect an overall improvement in financial reporting quality.

While there are reasons to believe this standard changed the processes and controls in place at companies which would lead to higher financial reporting quality, there are other reasons to suggest I may not find this result. On one hand, management may already have this information available to them before the standard and thus not need to implement a new process and controls to perform the going concern analysis. One of the main push-backs in the comment letters in regards to this standard was that the information required to be disclosed would be redundant with similar disclosures companies were already making in the MD&A and risk factors section. If management already has a process in place to obtain the same information as would be required in ASU 2014-15, the standard

may have no impact and I would not find any change in financial reporting quality. Additionally, even if management did not previously make disclosures in regards to the future viability of the company, but had no incentive to implement a process due to lack of enforcement or regulation, I may not find any effect on companies after this standard change. Therefore, it still remains an empirical question whether ASU 2014-15 impacted companies' financial reporting quality.

To test whether ASU 2014-15 impacted companies' financial reporting quality, I construct company-year observations in the one year before and one year after the effective date of ASU 2014-15, and compare two measures of financial reporting quality. The first measure is restatements, measured as company-years where the financial statements are subsequently restated. If a company has higher financial reporting quality, I would expect an implementation of accounting standard that induces managers to set up processes and controls to obtain the information to be negatively associated with restatements. The second measure is material weaknesses, measured as company-years where the company receives an internal control opinion noting material weaknesses from the auditor. If a company has higher financial reporting quality, I would expect their controls to be operating effectively and a negative association with material weaknesses. Both restatements and internal control weakness opinions from auditors have been used in prior literature as proxies for financial reporting quality (Kinney, Palmrose, and Scholz 2004; Dechow, Ge, and Schrand 2010; Costello and Wittenberg-Moerman 2011).

To test whether ASU 2014-15 impacted companies' information timeliness, I use the proxy of timeliness of earnings, measured as the number of days after year end a company releases their earnings, and used in prior literature (Ashraf, Michas, and

Russomano 2020). According to FASB's Conceptual Framework for Financial Reporting timeliness is one of the qualitative characteristics of useful financial information (FASB 2018). If it takes additional time for a company to implement the processes, controls, and perform the going concern analysis, I would expect slower earnings release. On the other hand, if this standard moves the going concern assessment to be done earlier in the year with less disagreement between the auditor and management, I would expect either faster earnings release or no impact to earnings release. I find evidence of higher financial reporting quality after implementation of ASU 2014-15. Companies are negatively associated with restatements in the year after ASU 2014-15 became effective. I fail to find evidence of any change in the likelihood of a reported internal control weakness opinion from the auditor after ASU 2014-15. This suggests that while there is some improvement in financial reporting quality in terms of fewer restatements of financial statements, there does not appear to be any change to internal controls. In terms of economic significance, companies after the standard are around 26% less likely to have a restatement compared to companies before the standard. Looking at information timeliness, I find companies are slower to announce their earnings after ASU 2014-15. However, the decrease in speed is not economically meaningful. I find companies are slower to announce their earnings by half a day. Taken together the results suggest some benefit of higher financial reporting quality after ASU 2014-15, with little cost to information timeliness.

While this standard change only applied to management, and did not change the auditing standards, research finds auditors became more conservative after ASU 2014-15 and increased their issuance of going concern opinions (Bakarich and Baranek 2020). As such, the improvement in financial reporting quality I find could be driven by auditors

changing their procedures and effort, rather than management. As such, I reperform my analysis using quarterly observations. Specifically, I rerun the analysis only using Quarter 1 through Quarter 3 observations, where the interim financial statements are only reviewed by the external auditor, and thus only analytical and inquiry procedures are performed. I continue to find a negative association with restatements, as well as a negative association with earnings announcement speed, suggesting my prior findings are not solely driven by auditor actions, but rather management.

My study makes the following contributions. First, I contribute to the literature on accounting standard changes. Prior literature has suggested that financial reporting standard changes can have spillover effects on companies' internal information environments and improve companies' investment decisions (Berger and Hann 2003, 2007; Hope and Thomas, 2008; Cho 2015; Shroff 2017; Cheng, Cho, and Yang 2018). Another effect that is more directly tied to accounting standard changes is whether overall financial reporting quality improves. My study suggests that accounting standard changes can impact external information environments and improve overall financial reporting quality, with little cost to information timeliness. Specifically, my study suggests that the requirement for managers to evaluate the going concern assumption increased companies' financial reporting quality in terms of fewer restatements, while only slowing down earnings release of half a day.

Second, I contribute to the literature specifically on ASU 2014-15. Since there are still differences in the current accounting and auditing standards for going concern in terms of definition of substantial doubt and measurement of future time period, it is important to understand both the direct and indirect impacts of ASU 2014-15. Prior literature has

already studied the direct impacts of ASU 2014-15 by looking at the disclosures specifically (Wang 2022; Krishnan et al. 2002). My study documents indirect effects of ASU 2014-15 on the overall financial reporting quality of companies after the standard. Therefore, this should be of interest to regulators as they perform post-implementation reviews and weigh the benefits and costs of ASU 2014-15. This should also be informative to the PCAOB as they have a going concern project in place and are seeking feedback on whether revisions need to be made to the current auditing standards.

CHAPTER 2

BACKGROUND AND HYPOTHESIS DEVELOPMENT

2.1 Background of ASU 2014-15

In October 2008, the Financial Accounting Standards Board (FASB) proposed a statement of financial accounting standards in regards to going concern. The purpose of the standard was to create accounting standards for management to perform a going concern assessment. At the time in 2008, only auditing standards[4] required auditors to perform a going concern assessment, and Section 607.02 of the Codification of Financial Reporting Policies issued by the Securities and Exchange Commission required disclosure if the auditors' report contained a paragraph on substantial doubt on going concern. However, since management is the one responsible for the financial statements of the entity, and has more information on the future viability of the entity, it did not seem appropriate to only have the auditors performing a going concern assessment. A new proposal in regards to going concern was issued again in June 2013, and the final standard was issued in August 2014 with an effective date of December 16, 2016.

This standard implemented three main things. First, the standard creates a definition for substantial doubt. The standard defines substantial doubt about going concern as existing when conditions indicate it is probable an entity will be unable to meet its obligations as they become due within one year of the date of the issuance of the financial statements. The threshold associated with the term probable is similar to that used in Topic

[4] The auditing standards are AU-C 570 issued by the American Institute of Certified Public Accountants, and AS 2415 issued by the Public Company Accounting Oversight Board.

450, Contingencies.[5,6] Second, management is now required to perform their own going concern assessment and make a disclosure in the footnotes about the events that give rise to substantial doubt, management's evaluation of those events, and management's plans to alleviate substantial doubt. Third, management has to perform this analysis on an interim and annual basis.[7]

According to the proposal in 2013, the Board believed the proposed amendments would reduce diversity in footnote disclosures and thus improve the timeliness and quality of footnote disclosures about going concern uncertainties (FASB 2013). While the standard was adopted, two of the board members of the FASB dissented to the standard. One of the board members dissented because he believed that forward-looking disclosures should not be in the notes to the financial statements, and any disclosures related to uncertainties about the future should remain in the MD&A section of the financial statements. He also believed the threshold of probable was too high and would not result in timely disclosure to investors, and believed a lower threshold should be used. The other board member dissented because he believed the costs outweigh the benefits. He believed the threshold of probable would reduce the number of disclosures due to the higher threshold. Despite the dissent of the two board members, the rest of the board members approved the standard as they believed the benefits outweighed the costs. They believed that creating guidance in GAAP for managers would improve disclosures by reducing the diversity and timing.

[5] Currently in the auditing standards, substantial doubt is not defined. And based on conversations with auditors, there is a wide mixture of the threshold used in practice, with some saying they use a probable threshold, and others saying they use anything in the range between more likely than not and probable (FASB 2014).
[6] The assessment period defined in the current auditing standards, a period not to exceed one year from the financial statements date, is shorter than the period defined in ASU 2014-15.
[7] The auditors only have to perform an assessment on an annual basis.

Additionally, they believed making clear standards that managers had to follow would reduce the complexity in the prior relationship between the preparer and auditor, where the auditor was the one responsible for the going concern assessment.

Even though ASU 2014-15 lessened the gap between accounting standards and auditing standards in regards to going concern assessment, there are still differences in place between the two standards in regards to thresholds, frequency of assessment, and assessment period. As such, the PCAOB has been discussing the implications of ASU 2014-15. On September 9, 2015, the PCAOB Investor Advisory Group held a meeting and discussed FASB's recent implementation of ASU 2014-15 and if the PCAOB needs to update the auditing standards. More recently, the PCAOB added going concern to their standard setting projects in May 2022 and will be releasing a new proposal in 2023.

2.2 Prior Literature and Hypotheses Development

Majority of the prior literature in regards to ASU 2014-15 studies the direct impact of the standard. Wang (2022) looks at the differences in management disclosures before and after the implementation of the standard. While disclosure would have been voluntary before the standard, she finds there was still a number of companies that made these voluntary disclosures on significant doubt about continuing as a going concern in their 10-Ks and 10-Qs.[8] This is in line with the companies in the comment letters saying the information was already being provided, and this standard would add redundant information to the financial statements. Wang (2022) finds the market reacts negatively to disclosures on substantial doubt on going concern only in the post-standard period, and

[8] Specifically, she finds 132(203) unique companies had a going concern disclosure in their 10-K (10-Q) before the standard, compared to the 335(344) unique companies after the standard.

finds the effect is concentrated in quarterly reports and not annual reports. Additionally, she finds disclosure of certain mitigation plans (issuing debt, debt restructuring, increasing revenue, selling assets) help mitigate the initial negative market reaction in the post-period. Lastly, she finds these disclosures are more predictive of future company failure, and those disclosures with mitigation plans are less predictive of future company failure. Even though individuals had concern that this standard would not provide any new information, this study suggests the standard does provide timelier and useful information. If management acquired new information from the going concern assessment process, and if going through that process had positive effects, it could also improve companies' overall financial reporting quality.

Another study by Krishnan et al. (2022) specifically looks at the companies who are not issued an auditors' going concern report and the disclosures made my management. Since these firms were not required by auditing standards to have any disclosures before the standard, they may be the most impacted by this standard. Krishnan et al. (2022) find after the standard there was an increase in companies explicitly disclosing there is no going concern problems. The firms that make this disclosure tend to be closer to receiving a going concern opinion from the auditor and the market reacts positively to this disclosure. The authors suggest that this going concern assessment process increases the information available to managers so they can make these explicit disclosures. If this process adds more information available to managers, it could also positively impact overall financial reporting quality.

Not only have prior studies suggested that after ASU 2014-15 management's information set increased, but prior literature on other accounting standards have

documented similar findings (Shroff 2017; Cheng et al. 2018). Shroff (2017) finds evidence of the "information hypothesis", where changes in GAAP lead to managers collecting more information in order to comply with the new rules, which then improves corporate decision-making. Specifically, Shroff (2017) looks at 49 accounting rule changes from 1991 to 2007 and finds for the accounting standards that are more likely to inform managers, there is a positive association with investments. Another study looking at the information hypothesis is Cheng et al. (2018), who find that after the adoption of SFAS 142, management forecast accuracy improved and this improvement in accuracy also resulted in higher firm performance. ASU 2014-15 may have changed the information sets of managers if they had to change their forecasting period to one year from the issuance of the financial statements, as this period is not the typical period analyzed, according to Julie Hiblovic, an audit partner at Anders CPA.[9] This change in information could also have positive impacts on companies' overall financial reporting quality. While there are reasons to suggest that financial reporting quality could be impacted after ASU 2014-15, there is also reasons to suggest this standard could have no impact. According to Holthausen (2009), accounting standards are only one factor that shapes financial reporting quality, and may not even be the strongest factor when considering managers' incentives, auditors' incentives, enforcement, regulation, and ownership structure. In fact, one study suggests that higher quality accounting standards are not sufficient by themselves to induce higher financial reporting quality (Ball, Robin, and Wu 2003). Ball et al. (2003) show in the Hong Kong setting where accounting standard quality is high but preparers' incentives are low, on average the financial reporting quality tends to be low. This suggests that the incentives

[9] https://anderscpa.com/what-fasbs-going-concern-standard-really-means-for-your-company/

of the preparers and auditors are more influential than the accounting standards in determining overall financial reporting quality. If management does not believe the enforcement or regulation of ASU 2014-15 will be high, they may not be incentivized to go through the process of obtaining a high quality disclosure, and I may not find any impact from the standard.[10]

There are others reasons to suggest that accounting standards by themselves will not determine financial reporting practice, some of which includes standards are less detailed than practice, standards lag innovations, and there is judgement involved in implementing standards (Ball et al. 2000; Ball et al. 2003). Management may try to use the subjectivity in estimating the probability they will be unable to meet its obligation due within a year to convince the auditor no disclosure is needed and reduce the amount of work they put forth in their going concern analysis. Managers could also apply a "rule-checking" mentality to the new standard, where the disclosure may not provide economic substance, which could also lead to either no change in financial reporting quality or a decrease in financial reporting quality (Ball 2009).

Even if management has incentive to provide high quality disclosures, they may have already voluntarily done so before the standard, and thus would not be implementing a new process in place. There are multiple reasons why a company may have a process in place and voluntarily disclosed this information prior to the standard. First, if the net benefits exceeded the costs for voluntary disclosure, the incentives for firms to disclose would have already been in existence before the standard (Ross 1979). Second, companies

[10] While the extent of the going concern analysis could vary depending on the companies' specific circumstances (FASB 2014), every company should have some sort of analysis in place, otherwise the auditor would likely issue a significant deficiency or material weakness (Hiblovic 2019).

with prior going concern opinions may have been making disclosures in regards to substantial doubt over going concern due to auditors' needs to comply with auditing standards.[11,12] Third, companies could have an analysis in place in order to determine disclosures necessary for the MD&A and risk factors section in the 10-K, or to determine if they would need to apply the liquidation basis of accounting to their financial statements (PCAOB 2015). If companies were voluntarily providing this information before the standard or already had a process in place to determine this information, I would not expect any change to financial reporting quality.

In summary, there are reasons to believe financial reporting quality could improve or not be impacted. Financial reporting quality could improve if the standards required companies to implement a new process and controls to acquire information to make a high quality disclosure. On the other hand, financial reporting quality may not be impacted if management already has this process in place or was not incentivized to implement a process and controls. Accordingly, I state the following hypothesis in the null form:

H1: After the implementation of ASU 2014-15, financial reporting quality will not change.

Another important feature of financial reporting is timeliness of information. There are reasons to believe information timeliness could increase or decrease after ASU 2014-

[11] According to Marcum's comment letter on the 2013 proposal, before this standard it was already normal for auditors to require management to prepare analyses supporting the going concern presumption to remain independent. As such, while they believed the standard should be formalized in US GAAP, they did not believe there would be any significant incremental benefit.

[12] However, auditing standards only require auditors to perform an assessment on an annual basis, whereas ASU 2014-15 requires managers to perform the assessment for each annual and interim period. So even if management was already performing an analysis before the standard, they would still have to increase their efforts after the standard to perform this assessment for the interim periods as well. As such, this increase in management effort to obtain the disclosure each period could increase the overall financial reporting quality as well.

15. Information timeliness could increase if the going concern assessment is done by management and coordinated with the auditor earlier in the year as opposed to before where the auditor only had to perform this analysis during the year-end audit. On the other hand, financial reporting timeliness could decrease since it takes time for management to set up a process and controls, and perform the analysis. Even if the analysis is done throughout the year, the time period covered is from the date of issuance of the financial statements. Therefore, management will still have to update their analysis continually until the audit is finished and the financial statements are issued. Accordingly, I state the following hypothesis in the null form:

H2: After the implementation of ASU 2014-15, timeliness of financial reporting will not change.

CHAPTER 3

RESEARCH DESIGN

3.1 The Model of Financial Reporting Quality

I employ two proxies for FRQ that have been used in prior literature (Kinney, Palmrose, and Scholz 2004; Dechow, Ge, and Schrand 2010; Costello and Wittenberg-Moerman 2011) and are publicly observed by the market.[13] The first proxy is restatements (*REST*), an indicator equal to 1 if the company's financial statements in year *t* are subsequently restated, and 0 otherwise. The second proxy is material weaknesses in controls (*ICW404*), an indicator variable equal to 1 if the company's auditor reported a SOX Section 404 material weakness in the current fiscal year, and 0 otherwise.[14] Both of these proxies are considered external indicators of earnings misstatements and the advantage of these proxies is that they directly reflect errors. While a disadvantage of these proxies is that they cannot distinguish between intentional versus unintentional errors, I do not believe my prediction for H1 would be dependent on the type of error. To test H1, I estimate the following model using logistic regression:

$$Pr(REST(ICW404)_{it} = 1) = F(\beta_0 + \beta_1 Post_{it} + \beta\, Controls_{it} + Industry\ Fixed\ Effects + \varepsilon_{it}) \quad (1)$$

The *Post* variable is an indicator variable equal to one if the company's fiscal year end is after December 15, 2016, which is the effective date of ASU 2014-15, and zero if

[13] While Dechow et al. (2010) use the term earnings quality, DeFond and Zhang (2014) say their definition of financial reporting quality is consistent with earnings quality defined in Dechow et al. (2010). Additionally, Zimmerman (2013) uses the terms earnings quality and external financial reporting quality interchangeably.

[14] Only companies that have at least a minimum public float of $75 million are subject to SOX 404(b) compliance, as such my analysis using this dependent variable has fewer observations than the analysis using earnings announcement speed or no restatements. I reran the main analysis using material weaknesses as disclosed by management under SOX Section 302 and continue to find similar results of insignificance.

the company's fiscal year end is before the effective date. For equation (1), a negative (positive) coefficient on β_1 would be indicative of higher (lower) financial reporting quality.

In order to proxy for information timeliness, I use the earnings announcement speed (*EarnAnnSpeed*) as used in prior literature (Ashraf, Michas, and Russomano 2020), measured as the number of days between fiscal year end and the earnings announcement date, divided by 365 and multiplied by negative one. To test H2, I estimate the following model using ordinary least squares regression:

$$EarnAnnSpeed_{it} = \beta_0 + \beta_1 Post_{it} + \beta\ Controls_{it} + Industry\ Fixed\ Effects + \varepsilon_{it} \quad (2)$$

For equation (2), a positive (negative) coefficient on β_1 would be indicative of more (less) timely information.

3.2 Control Variables

I follow prior literature when choosing the control variables that have been shown to be associated with FRQ. Control variables in the above models include firm and auditor characteristics that may affect financial reporting quality. The control variables include profitability changes (*ABSCHGROA*), big 4 auditor (*BIG4*), number of business and geographic segments (*BUSSEGS*, *GEOSEGS*), going concern opinion (*GC*), litigious industry (*HIGHLIT*), large accelerated filer (*LARGEACCEL*), leverage (*LEV*), company age (*LNAGE*), losses (*LOSS*), merger activity (*MERGER*), market-to-book ratio (*MTB*), company size (*SIZE*), and sales growth (*SGROWTH*). I also include industry fixed effects in all models and cluster standard errors by company. All continuous variables are

winsorized at the top and bottom 1 percent of their distributions, and all variables are defined in Appendix A.

CHAPTER 4

SAMPLE AND EMPIRICAL RESULTS

4.1 Sample Construction

I construct a sample of company-year observations for fiscal year ends December 31, 2015 through November 30, 2017. This includes one year of fiscal year ends before ASU 2014-15 and one year of fiscal year ends after ASU 2014-15. I compile the company financial information from Compustat, restatement and material weakness information from Audit Analytics, and market information from CRSP. I exclude regulated and financial companies (two-digit SIC codes 49, 60-69). I exclude companies that do not adopt U.S. GAAP. I exclude companies that do not have an observation for both the pre-period and post-period. This results in a final sample of 5,392 company-year observations for the earnings announcement speed and restatements tests. The sample for material weakness is reduced to only include companies subject to a SOX 404(b) audit, resulting in 3,592 company-year observations. Refer to Table 1 for the sample construction details.

4.2 Descriptives Statistics

Table 2 Panel A provides the descriptive statistics for the sample of company-year observations used to estimate equation (1) and (2). Looking at my sample, 7.8% of company-years have an annual restatement (*REST*). This is comparable to the average each year between 2007-2019, which the July 2020 Audit Analytics report details is between 6.34% and 9.93% (Whalen et al. 2020). Additionally, 5.8% of company-years have an internal control opinion noting material weaknesses (*ICW404*). This is comparable to the average each year between 2007-2019, which the July 2020 Audit Analytics report details is between 4.0% and 8.0% (Whalen and Manyak 2020). Lastly, the mean of

EARNANNSPEED is -0.161 which indicates that the average number of days to announce earnings after year end is around 59 days. According to SEC requirements, large accelerated filers have 60 days to file their 10-K, accelerate filers have 75 days to file their 10-K, and the remaining filers have 90 days to file their 10-K. While the earnings announcement can be filed before the 10-K, recent research shows an increase in the rise of companies who concurrently file their earnings announcement and 10-Ks within one day of each other (Arif et al. 2019). Additionally, 44% of my sample is large accelerate filers. I also include the control variables in the descriptives in panel A of Table 2.

Panel B of Table 2 provides the univariate statistics for the dependent and control variables comparing the year before to the year after the implementation of ASU 2014-15. Looking at the difference for *REST*, I see there is a decrease from the pre to post period, suggesting some initial support for H1 of higher financial reporting quality after the implementation of ASU 2014-15. However, looking at *ICW404*, there is no statistical difference between this variable across the time periods, which suggests a lack of evidence in support of H1. As such, there is some suggestive evidence of an increase in financial reporting quality after ASU 2014-15 for one of my two measures. When comparing *EARNANNSPEED* across the two time periods, there is no statistical difference, which suggests no change in information timeliness after ASU 2014-15 (H2). In regards to the difference in control variables across the two periods, the majority of control variables are not statistically different, with the exception of an increase in leverage (*LEV*) and decrease in sales growth (*SGROWTH*). I will add all control variables to the regression models.

Table 3 presents the correlations between the independent variable, dependent variables, and control variables used in the models. A majority of the correlations between

my variable of interest, *POST*, and the control variables are low ($|\rho| < 0.06$). Similar to the univariate statistics in Table 2 Panel B, there is no statistically significant correlation between *POST* and the dependent variables *ICW404* and *EARNANNSPEED*, but there is a negative correlation between *POST* and *REST*, suggesting some support for H1.

4.3 Main Results

I test whether financial reporting quality of companies improved after the implementation of ASU 2014-15, H1, by estimating equation (1) in Table 4. Regarding column (1) of Table 4, I find that the coefficient on *POST* is negative (-0.325) and statistically significant at the 1% level (z-stat=-4.26), suggesting that there are less company-years subsequently restated after this standard change compared to the prior year. In terms of economic significance, companies in the post period are 26% less likely to have a restatement compared to companies in the pre period.[15] The coefficient in column (2) is not statistically significant, suggesting I fail to find evidence of any change in internal controls after the implementation of ASU 2014-15. Based on the results in Table 4, there is some evidence of higher financial reporting quality as reflected in lower probability of a company subsequently restating its financial statements.

Next, I test whether information timeliness of companies was impacted after the implementation of ASU 2014-15 by estimating equation (2) in Table 5. Regarding column (1) of Table 5, I find that the coefficient on *POST* is negative (-0.001) and statistically significant at the 5% level (t-stat=-2.00), suggesting that earnings are released slower after this standard change compared to the prior year. In terms of economic significance, the decrease in earnings announcement speed after the standard is around half a day, or 1%

[15] I estimate marginal effects using MARGINS in STATA.

slower than the sample mean.[16] While the this suggests there could be a cost of less timely information, the economic significance of half a day does not appear to be meaningful. As such, combining the findings of Table 4 and 5 suggest the implementation of ASU 2014-15 had the benefit of improving financial reporting quality without much cost to timeliness of information.

[16] I estimate marginal effects using MARGINS in STATA.

CHAPTER 5

ADDITIONAL ANALYSES

5.1 Quarterly Results

One of the concerns with looking at the annual observations is that not only does management need to follow U.S. GAAP reporting standards, but the auditors need to follow PCAOB auditing standards. Therefore, it is difficult to know whether the effect of higher financial reporting quality is mainly driven by management or the auditor. As such, I rerun the analysis using quarterly observations. Specifically, I rerun the analysis using only Quarter 1, Quarter 2, and Quarter 3 observations. The standards the auditors have to follow for the first three quarters are less extensive than for the year-end audit that includes the fourth quarter. According to AS 4105, a review differs significantly from an audit and does not provide an opinion on whether the financial statements are materially in accordance with U.S. GAAP (PCAOB 2002). It mainly consists of analytical procedures and inquiries, rather than testing of controls and substantive testing of accounts and transactions. I rerun equation (1) using quarterly observations and adding quarter fixed effects in Table 6. Regarding column (1) of Table 6, I find that the coefficient on *POST* is negative (-0.132) and statistically significant at the 5% level (z-stat=-1.99), suggesting that there are less company-quarters subsequently restated after this standard change compared to the quarters before this standard change. In terms of economic significance, companies in the post period are 11% less likely to have a restatement compared to companies in the pre period. The coefficient in column (2) is not statistically significant, suggesting I fail to find evidence of any change in internal controls after the implementation of ASU 2014-15. The results in Table 6 suggest that my main finding in Table 4 of higher financial reporting

quality after the standard is not solely attributable to the auditor changing their effort and behavior, but also attributable to management of the company.

I rerun equation (2) using quarterly observations and adding quarter fixed effects in Table 7. Regarding column (1) of Table 7, I find that the coefficient on *POST* is negative (-0.001) and statistically significant at the 5% level (t-stat=-2.41), suggesting that earnings are released slower after this standard change compared to the prior quarters. In terms of economic significance, the decrease in earnings announcement speed after the standard is around a third of a day.[17] This change of a third of a day slower release of information is not economically meaningful, and thus combined with the results in Table 6, I find evidence that financial reporting quality improved after ASU 2014-15 without much cost to timeliness of information.

5.2 Cross-Sectional Results

Even though ASU 2014-15 is effective for all companies who follow U.S. GAAP, the extent of the analysis necessary to be performed varies by company. According to comments made in the cost and benefit section of the proposal, companies who are not financially healthy will have to perform a more extensive evaluation than companies who are financially healthy. If those non-financially healthy companies are collecting new information from the more extensive analysis, I would expect the effect of ASU 2014-15 on financial reporting quality to be greater for them. Whereas the healthy companies who do not have to provide new disclosures, and thus do not have to collect information about the future, would not be as impacted by ASU 2014-15. I create a measure of non-financially healthy companies based on a history of poor performance. This variable,

[17] I estimate marginal effects using MARGINS in STATA.

HIST_POORPERF, is an indicator equal to one for companies with a loss or negative operating cash flows in the two years prior to December 16, 2016. I add *HIST_POORPERF* and the interaction of *POST* with *HIST_POORPERF* to equation (1), as well as year fixed effects.[18] If ASU 2014-15 has a greater impact on the companies with a history of poor performance, I expect the interaction to be negative for restatements and internal control weaknesses.

Regarding column (1) of Table 8, I find that the coefficient on *POST x HIST_POORPERF* is negative (-0.240) and statistically significant at the 10% level, one-tailed (z-stat=-1.54), suggesting that decrease in restatements after the standard change is greater for the companies performing more analysis. Additionally, while I did not find a significant association between *POST* and *ICW404* in Table 4, I do find a significant association for the non-financially healthy companies. The interaction coefficient in column (2) is negative (-0.633) and statistically significant at the 1% level, one-tailed (z-stat=-2.84), suggesting a decrease in internal control deficiencies for companies performing more analysis after the standard change. As expected, the effect of the standard change on financial reporting quality is greater for companies who have a prior history of poor performance, and thus need to perform a more extensive analysis in order to determine their going concern disclosure.

I also rerun equation (2) adding *HIST_POORPERF*, the interaction of the variable with *POST*, and year fixed effects. Even though I expect non-financially healthy companies to be more impacted by the standard change, there are reasons to suggest this could increase

[18] The main effect of *POST* is subsumed by the year fixed effects and thus only *HIST_POORPERF* and the interaction are shown in Table 8.

or decrease their reporting timeliness. If this more extensive analysis takes the companies longer to prepare, I would expect a decrease in reporting timeliness. On the other hand, if this standard led companies to improve the internal information environment, as evidenced by less internal control deficiencies in Table 8, I would expect an increase in reporting timeliness. The coefficient in column (1) in Table 9 is not statistically significant, suggesting ASU 2014-15 did not incrementally change the reporting timeliness of non-financially healthy companies relative to financially healthy companies.

CHAPTER 6

CONCLUSION

The purpose of this study is to look at indirect costs and benefits of ASU 2014-15. More specifically, I examine if ASU 2014-15 had any impacts on companies' financial reporting quality. ASU 2014-15 took over eight years to finalize and become effective, with numerous comment letters suggesting that the proposed standard was redundant with information already disclosed by companies in the MD&A and risk factors section of their 10-K filings. Additionally, this standard did not achieve convergence between the accounting standards and auditing standards in regards to the definition of substantial doubt, frequency of assessment, and assessment period. And recent literature has shown that the number of firms providing the new mandatory disclosures under this standard is small (Krishnan et al. 2022), but the number of voluntary disclosures increased significantly. While the standard may not have directly impacted a large number of firms, it does appear it incentivized firms to increase their voluntary disclosures, and as such it suggests this standard could have impacted companies in other ways. One such way could be the increase in financial reporting quality as management is now required to complete a going concern assessment that requires them to gain forward-looking information. I find some evidence of an increase in financial reporting quality as measured through less restatements for companies after the implementation of ASU 2014-15. Additionally, while I find evidence that earnings are announced slower after ASU 2014-15, the decrease is not economically meaningful. Taken together the results suggest there was indirect benefits with little costs from ASU 2014-15.

My study makes several contributions. First, it is important to understand the many costs and benefits of standard changes. There are still talks about the impact of ASU 2014-15 and how the differences that exist under the current accounting and auditing standards over going concern need to be addressed. My study suggests ASU 2014-15 had impacts on overall financial reporting quality with a benefit of less restatements and only a small cost of less timely information. This should be of interest to regulators as they perform any post-implementation review, as well as to the PCAOB as they consider whether revisions need to be made to the current auditing standards. Additionally, my study contributes to the literature on accounting standard changes. Prior literature finds accounting standard changes can impact companies' internal information environments (Berger and Hann 2003, 2007; Hope and Thomas, 2008; Cho 2015; Shroff 2017; Cheng, Cho, and Yang 2018). My study suggests accounting standard changes can also impact overall financial reporting quality.

I acknowledge my study is subject to several limitations. One limitation is that all U.S. GAAP companies were impacted by this standard at the same time, and thus I do not have a treatment and control group. I have tried to create a treatment group in my cross-sectional tests with non-financially healthy companies. If non-financially healthy companies have to perform a more extensive evaluation to determine their disclosure, they would be the ones acquiring more information after this standard, and thus more likely impacted by this standard. I find evidence consistent with this, the effect of the standard change on financial reporting quality is greater for companies with a prior history of poor performance. Another limitation is that every standard change has a number of costs and benefits associated with it and I cannot speak to the overall net benefit or cost of this

standard change. While I document a benefit of higher financial reporting quality, I cannot determine the costs' borne by the company for implementing this process and controls and maintaining it.

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APPENDIX A

VARIABLE DEFINITIONS

Variable	Definition	Data Source
POST	An indicator equal to 1 if the fiscal year end for year *t* is after December 15, 2016, and 0 otherwise	Compustat
EARNANNSPEED	[(RDQ-APDEDATEQ)/365] multiplied by -1	Compustat
REST	An indicator variable equal to 1 if the financial statements for year *t* are subsequently restated, and 0 otherwise	Audit Analytics
ICW404	An indicator variable equal to 1 if the company had an internal control weakness opinion from the auditor in year *t*, and 0 otherwise	Audit Analytics
ICW302	An indicator variable equal to 1 if the company had an internal control weakness disclosed by mangement in year *t*, and 0 otherwise	Audit Analytics
HIST_POORPERF	An indicator variable equal to 1 if the company had a loss or negative cash flows in the two years prior to December 15, 2016, and 0 otherwise	Compustat
ABSCHGROA	The absolute value of $(ROA_t - ROA_{t-1})/ROA_{t-1}$, where ROA is calculated as IB/AT_{t-1}	Compustat
BIG4	An indicator variable equal to 1 if the company has a Big 4 auditor in year *t*, and 0 otherwise	Audit Analytics
BUSSEGS	The natural logarithm of the number of business segments in year *t*	Compustat
GEOSEGS	The natural logarithm of the number of geographic segments in year *t*	Compustat
GC	An indicator variable equal to 1 if the company has a going concern opinion in year *t*, and 0 otherwise	Audit Analytics
HIGHLIT	An indicator variable equal to 1 if the 4-digit SIC is in a high litigation industry per Francis, Philbrick, and Schipper (1994), and 0 otherwise	Compustat
LARGEACCEL	An indicator variable equal to 1 if the company was a large accelerated filer in year *t*, and 0 otherwise	Audit Analytics
LEV	(DLTT + DLC)/AT	Compustat
LNAGE	The natural logarithm of firm age, where firm age is calculated as the number of years in Compustat	Compustat
LOSS	An indicator variable equal to 1 if net income is less than 0, and 0 otherwise	Compustat

MERGER	An indicator variable equal to 1 if Abs(AQP) > 0, and 0 otherwise	Compustat
MTB	(CSHO * PRCC_F)/CEQ	Compustat
SIZE	The natural logarithm of total assets	Compustat
SGROWTH	$(SALE_t - SALE_{t-1})/SALE_{t-1}$	Compustat

Table 1. Sample Selection

Merger of U.S. clients for Compustat, Audit Analytics, CRSP for year before and year after ASU 2014-15 (fiscal year ends December 31, 2015 – November 30, 2017)	11,225
Less: Observations for financial services and regulated industries	(3,016)
Less: Companies who do not use U.S. GAAP	(1,456)
Less: Companies who do not have observation for both pre and post year	(541)
Less: Missing control variables	(820)
Final sample for earnings announcement speed and restatement tests	**5,392**
Less: Companies not subject to SOX 404(b) audit	(1,800)
Final sample for internal controls test	**3,592**

Table 2. Descriptive Statistics

Panel A: Descriptive Statistics

Variable	N	Mean	Min	P25	Med	P75	Max	St. dev.
POST	5392	0.500	0.000	0.000	0.500	1.000	1.000	0.500
EARNANNSPEED	5392	-0.161	-0.471	-0.195	-0.151	-0.110	-0.060	0.067
REST	5392	0.078	0.000	0.000	0.000	0.000	1.000	0.268
ICW404	3592	0.058	0.000	0.000	0.000	0.000	1.000	0.234
HIST_POORPERF	5392	0.520	0.000	0.000	1.000	1.000	1.000	0.500
ABSCHGROA	5392	1.709	0.007	0.184	0.501	1.124	37.335	4.641
BIG4	5392	0.631	0.000	0.000	1.000	1.000	1.000	0.483
BUSSEGS	5392	1.746	1.000	1.000	1.000	2.000	10.000	1.178
GEOSEGS	5392	1.514	1.000	1.000	2.000	2.000	3.000	0.506
GC	5392	0.100	0.000	0.000	0.000	0.000	1.000	0.300
HIGHLIT	5392	0.382	0.000	0.000	0.000	1.000	1.000	0.486
LARGEACCEL	5392	0.440	0.000	0.000	0.000	1.000	1.000	0.496
LEV	5392	0.368	0.000	0.039	0.237	0.426	5.808	0.707
LNAGE	5392	2.840	1.099	2.079	2.996	3.434	4.220	0.821
LOSS	5392	0.429	0.000	0.000	0.000	1.000	1.000	0.495
MERGER	5392	0.344	0.000	0.000	0.000	1.000	1.000	0.475
MTB	5392	2.998	-47.948	1.055	2.200	4.157	57.643	10.343
SIZE	5392	6.006	-1.411	4.398	6.263	7.788	11.701	2.601
SGROWTH	5392	0.153	-1.000	-0.079	0.026	0.143	7.791	0.900

Panel B: Univariate Tests Comparing Companies Before and After ASU 2014-15

Variable	N	(1) Mean *POST*=0	N	(2) Mean *POST*=1	t-stat or z stat (1)-(2)
EARNANNSPEED	2696	-0.160	2696	-0.161	0.961
REST	2696	0.089	2696	0.067	2.997
ICW404	1796	0.056	1796	0.060	-0.571
HIST_POORPERF	2696	0.520	2696	0.520	0.000
ABSCHGROA	2696	1.756	2696	1.661	0.748
BIG4	2696	0.637	2696	0.624	0.959
BUSSEGS	2696	1.744	2696	1.747	-0.069
GEOSEGS	2696	1.512	2696	1.517	-0.377
GC	2696	0.094	2696	0.106	-1.542
HIGHLIT	2696	0.382	2696	0.381	0.112
LARGEACCEL	2696	0.443	2696	0.438	0.357
LEV	2696	0.348	2696	0.388	-2.051
LNAGE	2696	2.799	2696	2.881	-3.654
LOSS	2696	0.433	2696	0.425	0.550
MERGER	2696	0.344	2696	0.343	0.086

Table 2 (continued)

Variable	N	(1) Mean *POST*=0	N	(2) Mean *POST*=1	t-stat or z stat (1)-(2)
MTB	2696	2.887	2696	3.110	-0.789
SIZE	2696	6.000	2696	6.012	-0.167
SGROWTH	2696	0.195	2696	0.110	3.458

Variables are defined in Appendix A.

Table 3. Correlations

	Variable	1	2	3	4	5	6	7	8	9	10	11	12
1	*POST*	1.00											
2	*EARNANNSPEED*	-0.01	1.00										
3	*REST*	-0.04*	-0.03*	1.00									
4	*ICW404*	0.01	-0.30*	0.05*	1.00								
5	*ABSCHGROA*	-0.01	-0.11*	-0.01	0.04*	1.00							
6	*BIG4*	-0.01	0.55*	-0.02	-0.11*	-0.03*	1.00						
7	*BUSSEGS*	0.00	0.15*	0.01	-0.03*	-0.02	0.15*	1.00					
8	*GEOSEGS*	0.01	0.34*	0.02*	-0.00	-0.02	0.24*	0.18*	1.00				
9	*GC*	0.02	-0.48*	-0.01	0.03*	0.04*	-0.32*	-0.16*	-0.24*	1.00			
10	*HIGHLIT*	-0.00	0.02	-0.03*	0.02	-0.03*	-0.00	-0.19*	-0.02*	0.01	1.00		
11	*LARGEACCEL*	-0.00	0.58*	-0.01	-0.12*	-0.07*	0.54*	0.21*	0.27*	-0.29*	-0.04*	1.00	
12	*LEV*	0.03*	-0.29*	-0.00	0.02	0.06*	-0.13*	-0.05*	-0.14*	0.43*	-0.03*	-0.08*	1.00
13	*LNAGE*	0.05*	0.29*	0.01	-0.06*	-0.02	0.14*	0.24*	0.25*	-0.22*	-0.18*	0.29*	-0.10*
14	*LOSS*	-0.01	-0.39*	-0.02*	0.08*	0.12*	-0.27*	-0.18*	-0.17*	0.36*	0.14*	-0.39*	0.17*
15	*MERGER*	-0.00	0.20*	0.06*	0.03*	0.01	0.22*	0.18*	0.23*	-0.19*	-0.05*	0.26*	-0.07*
16	*MTB*	0.01	0.10*	-0.03*	-0.00	-0.04*	0.07*	-0.02	0.05*	-0.09*	0.03*	0.10*	-0.11*
17	*SIZE*	0.00	0.70*	0.03*	-0.12*	-0.05*	0.66*	0.32*	0.34*	-0.54*	-0.12*	0.70*	-0.27*
18	*SGROWTH*	-0.05*	-0.06*	0.00	0.04*	-0.05*	-0.06*	-0.07*	-0.10*	0.08*	0.09*	-0.07*	-0.02*

	Variable	13	14	15	16	17	18
13	*LNAGE*	1.00					
14	*LOSS*	-0.31*	1.00				
15	*MERGER*	0.06*	-0.17*	1.00			
16	*MTB*	-0.01	-0.04*	0.03*	1.00		
17	*SIZE*	0.34*	-0.45*	0.32*	0.07*	1.00	
18	*SGROWTH*	-0.16*	0.07*	0.02*	0.00	-0.10*	1.00

Variables are defined in Appendix A. * represents significance at the 0.10 level.

Table 4. Financial Reporting Quality Tests

VARIABLES	(1) *REST*	(2) *ICW404*
POST	-0.325***	0.078
	(-4.26)	(0.62)
ABSCHGROA	-0.005	0.020*
	(-0.43)	(1.85)
BIG4	-0.474***	-0.572***
	(-2.78)	(-2.96)
BUSSEGS	-0.030	-0.031
	(-0.57)	(-0.50)
GEOSEGS	0.095	0.118
	(0.65)	(0.61)
GC	0.308	0.160
	(1.27)	(0.30)
HIGHLIT	-0.101	-0.012
	(-0.56)	(-0.05)
LARGEACCEL	-0.586***	-0.484**
	(-3.14)	(-2.24)
LEV	0.082	0.512**
	(0.79)	(2.52)
LNAGE	-0.016	-0.195
	(-0.19)	(-1.57)
LOSS	-0.137	0.323*
	(-0.98)	(1.71)
MERGER	0.383***	0.483***
	(2.92)	(2.94)
MTB	-0.010**	0.002
	(-1.97)	(0.29)
SIZE	0.184***	-0.131*
	(4.12)	(-1.69)
SGROWTH	0.000	0.061
	(0.00)	(0.80)
Observations	5,392	3,592
Industry FE	Yes	Yes
Pseudo R-Squared	0.0301	0.0673

This table presents tests of H1, examining the association between the effect of regulation ASU 2014-15 and financial reporting quality, using measures of restatements and internal control material weaknesses. The sample used is company-year observations. *, **, and *** denote significance at the 10%, 5%, and 1% levels, respectively (two-tailed test). Z-statistics are reported in parentheses. All models are logisitic regressions with robust standard errors clustered by company. All continuous variables are winsorized at the top and bottom 1 percent of their distributions. All variables are defined in Appendix A.

Table 5. Timeliness of Financial Reporting

VARIABLES	(1) *EARNANNSPEED*
POST	-0.001**
	(-2.00)
ABSCHGROA	-0.001***
	(-4.78)
BIG4	0.021***
	(9.51)
BUSSEGS	-0.004***
	(-5.57)
GEOSEGS	0.008***
	(4.78)
GC	-0.023***
	(-5.95)
HIGHLIT	0.002
	(0.96)
LARGEACCEL	0.020***
	(10.06)
LEV	-0.007***
	(-3.47)
LNAGE	0.004***
	(4.05)
LOSS	-0.009***
	(-4.92)
MERGER	-0.007***
	(-4.66)
MTB	0.000
	(1.47)
SIZE	0.010***
	(16.66)
SGROWTH	0.001
	(0.74)
Observations	5,392
Industry FE	Yes
R-Squared	0.5766

This table presents tests of H2, examining the association between the effect of regulation ASU 2014-15 and timeliness of financial reporting, using the measure earnings announcement speed. The sample used is company-year observations. *, **, and *** denote significance at the 10%, 5%, and 1% levels, respectively (two-tailed test). T-statistics are reported in parentheses. The model is ordinary least squares regression with robust standard errors clustered by company. All continuous variables are winsorized at the top and bottom 1 percent of their distributions. All variables are defined in Appendix A.

Table 6. Quarterly Financial Reporting Quality Tests

VARIABLES	(1) *REST*	(2) *ICW302*
POST	-0.132**	0.063
	(-1.99)	(0.93)
ABSCHGROA	0.011**	0.010***
	(2.51)	(2.62)
BIG4	-0.499***	-0.647***
	(-3.00)	(-4.42)
BUSSEGS	-0.060	0.075
	(-1.18)	(1.35)
GEOSEGS	0.064	-0.062
	(0.45)	(-0.46)
GC	0.388*	0.632***
	(1.84)	(3.79)
HIGHLIT	-0.207	0.003
	(-1.19)	(0.02)
LARGEACCEL	-0.699***	-0.478***
	(-3.70)	(-2.59)
LEV	0.007	0.092
	(0.07)	(1.27)
LNAGE	-0.057	-0.343***
	(-0.66)	(-4.01)
LOSS	0.069	0.058
	(0.59)	(0.53)
MERGER	0.395***	0.438***
	(3.20)	(3.38)
MTB	-0.002	-0.001
	(-0.37)	(-0.36)
SIZE	0.235***	-0.079*
	(6.04)	(-1.79)
SGROWTH	0.032	-0.011
	(0.71)	(-0.31)
Observations	15,079	15,079
Industry FE	Yes	Yes
Quarter FE	Yes	Yes
Pseudo R-Squared	0.0339	0.1139

This table presents tests of H1, examining the association between the effect of regulation ASU 2014-15 and financial reporting quality, using measures of restatements and internal control material weaknesses. The sample used is company-quarter observations. *, **, and *** denote significance at the 10%, 5%, and 1% levels, respectively (two-tailed test). Z-statistics are reported in parentheses. All models are logisitic regressions with robust standard errors clustered by company. All continuous variables are winsorized at the top and bottom 1 percent of their distributions. All variables are defined in Appendix A.

Table 7. Timeliness of Quarterly Financial Reporting

VARIABLES	(1) *EARNANNSPEED*
POST	-0.001**
	(-2.43)
ABSCHGROA	-0.000***
	(-3.20)
BIG4	0.008***
	(8.54)
BUSSEGS	-0.001***
	(-4.41)
GEOSEGS	0.002***
	(2.71)
GC	-0.006***
	(-3.80)
HIGHLIT	0.001
	(1.35)
LARGEACCEL	0.004***
	(3.86)
LEV	-0.004***
	(-3.50)
LNAGE	0.004***
	(7.52)
LOSS	-0.003***
	(-5.33)
MERGER	-0.003***
	(-5.31)
MTB	0.000
	(0.95)
SIZE	0.003***
	(11.45)
SGROWTH	0.000
	(0.13)
Observations	15,079
Industry FE	Yes
Quarter FE	Yes
R-Squared	0.3472

This table presents tests of H2, examining the association between the effect of regulation ASU 2014-15 and timeliness of financial reporting, using the measure earnings announcement speed. The sample used is company-quarter observations (Q1-Q3). *, **, and *** denote significance at the 10%, 5%, and 1% levels, respectively (two-tailed test). T-statistics are reported in parentheses. The model is ordinary least squares regression with robust standard errors clustered by company. All continuous variables are winsorized at the top and bottom 1 percent of their distributions. All variables are defined in Appendix A.

Table 8. Cross-Sectional: Poor Performance on Financial Reporting Quality

VARIABLES	*Pred*	(1) *REST*	(2) *ICW404*
HIST_POORPERF		0.091	0.637**
		(0.48)	(2.39)
POST x HIST_POORPERF	-	-0.240*	-0.633***
		(-1.54)	(-2.84)
ABSCHGROA		-0.004	0.017
		(-0.39)	(1.58)
BIG4		-0.478***	-0.563***
		(-2.81)	(-2.90)
BUSSEGS		-0.030	-0.031
		(-0.56)	(-0.50)
GEOSEGS		0.099	0.114
		(0.68)	(0.58)
GC		0.314	0.225
		(1.28)	(0.42)
HIGHLIT		-0.101	0.005
		(-0.56)	(0.02)
LARGEACCEL		-0.592***	-0.452**
		(-3.18)	(-2.07)
LEV		0.083	0.508**
		(0.80)	(2.48)
LNAGE		-0.012	-0.206
		(-0.14)	(-1.64)
LOSS		-0.152	0.087
		(-0.91)	(0.37)
MERGER		0.381***	0.485***
		(2.91)	(2.95)
MTB		-0.010**	0.003
		(-1.97)	(0.32)
SIZE		0.182***	-0.135*
		(4.08)	(-1.73)
SGROWTH		-0.002	0.054
		(-0.04)	(0.71)
Observations		5,392	3,592
Year FE		Yes	Yes
Industry FE		Yes	Yes
Pseudo R-Squared		0.0289	0.0736

This table presents cross-sectional tests of H1, examining if the effect of ASU 2014-15 on financial reporting quality is greater for non-financially healthy companies. The sample is company-year observations. *, **, and *** denote significance at the 10%, 5%, and 1% levels, respectively (one-tailed test for predicted coefficients, and two-tailed test otherwise). Z-statistics are reported in parentheses. All models are logisitic

regressions with robust standard errors clustered by company. All continuous variables are winsorized at the top and bottom 1 percent of their distributions. All variables are defined in Appendix A.

Table 9. Cross-Sectional: Poor Performance on Timeliness of Financial Reporting

VARIABLES	(1) *EARNANNSPEED*
HIST_POORPERF	-0.009***
	(-3.37)
POST x HIST_POORPERF	0.001
	(0.77)
ABSCHGROA	-0.001***
	(-4.29)
BIG4	0.020***
	(9.41)
BUSSEGS	-0.004***
	(-5.53)
GEOSEGS	0.009***
	(4.86)
GC	-0.023***
	(-5.95)
HIGHLIT	0.002
	(0.97)
LARGEACCEL	0.019***
	(9.43)
LEV	-0.007***
	(-3.47)
LNAGE	0.004***
	(4.12)
LOSS	-0.004
	(-1.62)
MERGER	-0.007***
	(-4.80)
MTB	0.000
	(1.51)
SIZE	0.010***
	(16.49)
SGROWTH	0.001
	(1.01)
Observations	5,392
Year FE	Yes
Industry FE	Yes
R-Squared	0.5783

This table presents cross-sectional tests of H2, examining if the effect of ASU 2014-15 on timeliness of financial reporting quality is greater for non-financially healthy companies. The sample is company-year observations. *, **, and *** denote significance at the 10%, 5%, and 1% levels, respectively (two-tailed test). T-statistics are reported in parentheses. The model is ordinary least squares regression with robust standard

errors clustered by company. All continuous variables are winsorized at the top and bottom 1 percent of their distributions. All variables are defined in Appendix A.