Measuring Economic Activity: An Accountant’s Perspective

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What is accounting?

Macro

Micro
The objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity.
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Issue 1: Do we achieve objective?

Earnings is a performance measure
But....does it measure performance?
  – Not measured directly
  – Based on recognized assets and liabilities
  – Most are not “measured”
  – Not all are recognized
  – Other comprehensive income
  – Conservative
  – Subject to earnings management

Can other accounting amounts help?
Evolution in value relevance of accounting information

Barth, Li, and McClure (2018)
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Evolution in value relevance of accounting information
Issue 2: What about different accounting standards?

So far, talking about US GAAP

– Only required by publicly traded companies
– What about private companies and nonprofits?
– What about differences in standards around the world?
Issue 2: What does this suggest for GDP?

Effects of different objective?
- Investment in firm
- Government policy

Effects of aggregation?
- Idiosyncracies
- Intangible assets
- Cash flows vs rates
- Conservatism
- Different standards
- Common incentives
What do we need to do?