Investors and Accounting

A long interval of time often separates investors’ commitment of resources to the firm and the receipt of their inducements. Although other agents may wait for days or weeks, investors typically wait for years. Moreover, equity investors are entitled only to what remains after the resources due to all other agents have been set aside. This arrangement renders shareholders’ welfare highly sensitive to any malfunction in accounting and control. When some agents either fail to contribute the contracted resources, or take more resources than are due to them, the investors end up bearing much of the loss. Contribution and inducement measurement and the contract fulfillment aspects of accounting and control are therefore crucial in protecting investors’ interests. How do accounting and control affect the welfare of various types of investors, and how do investors protect their interests?

Description of the Investor Class

In the following discussion, we will limit the scope to holders of common equity and debt securities. What characteristics of these investors determine their participation in a firm’s accounting and control?

The Lack of Active Participation

Most individual shareholders of a large corporation do not have an effective voice in corporate decisions unless they cooperate among themselves. Such cooperation, in the form of proxy fights, occurs only infrequently. Equity investors’ ability to participate directly in managerial decisions of the firm is largely confined to yes/no votes on resolutions framed by hired managers. In the absence of an organized proxy fight, resolutions placed before the shareholders by managers rarely
go down to defeat. Most small shareholders have little information about, and under-
standing of, the issues that lie behind the resolutions. A page or two in explana-
tion of each resolution, written by the managers themselves, is all that the share-
holders receive. The financial press does not cover the details unless a proxy fight is
on for a large firm.

The lack of active involvement in, and relative ignorance of, corporate affairs
on the part of the shareholders is hardly accidental. It is exactly what the share-
holders want and expect when they purchase the stock of a firm. Most share-
holders have no desire to spend time or effort personally monitoring the perfor-
mance of managers and other agents. They rely on auditors, regulators, and law
enforcement authorities to use the system of accounting standards, corporate char-
ters, and laws to protect shareholder interests. They pay for this protection through
audit fees and taxes. They trade the loss of direct control of the firm against the
corresponding gains in the form of diversification of their investment portfolio
across firms, saving in personal effort and freedom from the need for investment
expertise. They do little more than cash the dividend checks, glance at the pretty
pictures and perhaps a few numbers in the annual report, and fill out the proxy card
by marking x in a few boxes. They also reserve the right to sue if they believe that
their fiduciary trust in the managers and auditors has been betrayed.

It would be inappropriate to conclude from this discussion that the return on
equity investment in professionally managed firms should be lower than that in
owner-managed firms. Following Berle and Means, a number of empirical studies
of comparative returns on two types of corporations yielded ambiguous results.1 If
returns were higher to equity investment in corporations where a few large in-
vestors actively participated in its management, smaller investors would shift their
investments to such firms. Such a shift has two consequences. First, the large
shareholders, who contribute personal effort in managing the corporation, would
extract extra returns for themselves in the form of pay or perquisites to prevent the
smaller shareholders from taking a free ride on their efforts. This tends to equate
the return to smaller shareholders across the two types of corporations. Second,
economies of scale associated with certain technologies, say, the manufacture
of large aircraft, may require firms of such large size that no single investor or
group of investors has enough wealth to acquire an effective voice in its manage-
ment. Equity investors in such industries may be able to earn a higher rate of re-
turn because owner-operated firms cannot compete in this segment. These two
factors, considered together, narrow the difference between the rates of return on
equity investment in the owner-managed and professionally managed firms.

Transferability of Contract

Rights and obligations associated with shares of stock are designed so that they
can be transferred easily at minimal cost (usually at no more than 1–2 percent of
value). When future prospects of the firm change, small transaction costs make it
possible for the market price of the shares to adjust rapidly to reflect such change.
Equity markets are liquid because of information symmetry between the buyers and sellers of such rights. If the cost of obtaining information for the non-participating agents were significantly higher than for the existing shareholders, the former would be informationally disadvantaged, leading to wider bid–ask spreads (the difference between the highest price a buyer is willing to pay and the lowest price a seller is willing to accept) and, therefore, to a less liquid equity market. Because information available to both the participating and the nonparticipating shareholders is identical, they reap the benefits of a liquid market. In contrast, asymmetry of information about privately held firms causes the transaction costs associated with initial public offerings to be high.

**Heterogeneity of Preferences**

The existence of a liquid market for equity claims resolves the problem of heterogeneity of preferences among shareholders. As long as no one acquires a large block of stock, other participating agents need not pay attention to the risk and time preferences of individual stockholders. A well-functioning market summarizes all they need to know about the shareholder preferences in a single statistic: the market price. In a well-functioning market, the maximization of the market price is equivalent to maximizing the shareholders’ wealth and it provides an unambiguous index of the preferences of a heterogeneous body of investors for managers and other participating agents.

**Information and Speed of Price Adjustments**

The market price of equity claims adjusts rapidly to changes in their prospects. The change in price is accompanied by a change in wealth. How this wealth is shared between existing and prospective shareholders depends on who gets the information first. During the interval when the price moves from the old to the new equilibrium level, informed investors have an opportunity to benefit from the change. Contractual arrangements are drawn to ensure that the release of such information, whenever it is within the control of managers, is equitable. Trading on the basis of inside information, accounting or any other, is illegal, not only for managers, but also for others who may have privileged access to it.

**Information Intermediaries**

The rapid adjustment of prices to information about changes in the future prospects of equity claims implies that such information is continually sought by at least some market participants. The effects of new events on the claims’ value have to be evaluated and acted upon in a matter of days or hours, sometimes even in minutes. This activity is costly and needs expertise.

Other things being equal, it is better for risk-averse investors to spread their investments over several firms. However, the information costs of actively managing investments increase with the number of firms monitored. The costs of processing information and the benefits of diversification give rise to intermediaries
who specialize in gathering and interpreting information. Information intermediaries sell either the digested information directly, or rights in a portfolio of investments managed on the basis of such information. Financial analysts belong to the former group; financial intermediaries, such as banks, mutual funds, and pension funds belong to the latter.

The growing presence of information intermediaries in the stock markets changes the picture of diffuse equity ownership that we have painted in the previous section. A large block of stock in the hands of an information intermediary, however, does not have the same effect as it would in the hands of a single large shareholder, because such intermediaries rarely seek to participate in operating control of the firm, and are often legally barred from exercising such control.

Since the quality and quantity of the portfolio managers' efforts are not directly observable, their contracts are designed to make their compensation dependent on investment results. These managers have an interest in managing portfolios to serve their own best interests. The performance of portfolios is less than perfectly correlated with the unobserved quality and quantity of the portfolio manager's effort. Moreover, the decision horizon of portfolio managers is shorter than that of the owners who benefit from the portfolio. As a result, portfolio managers rely on the short-term measures of corporate performance in their investment decisions. The reaction of corporate managers to such behavior by institutional investors is to alter their own production-investment and accounting decisions with a view to "manage" the annual as well as the quarterly reports.

The net result of institutionalized portfolio management is to shorten the decision horizon of corporate managers. Corporate managers can counteract this tendency by modifying their own compensation packages so a greater part of their personal wealth remains invested in the firm. Only those managers who feel confident about the future of the firm they manage can afford to send such a signal to the outsiders. Less competent and less optimistic managers can hardly afford to mimic such a strategy and convince the investors to put their trust in the future of the firm.

Since financial analysts sell information, they demand disclosure of accounting and other information. The greater the disclosure, the higher the value of their salable interpretive services. Individual investors want financial information to be easily understandable, but financial analysts can dissect complicated reports with their specialized skills and resources. Complex financial statements render the individual investor more dependent on the services of expert analysts. Thus, financial analysts help channel and focus the demand for more financial information, making the market for equity claims more liquid. By pressing for more detailed and complicated financial statements and disclosures, they shift resources from other investors to themselves. This resource transfer is the cost investors bear for the benefits of liquidity.

On the other hand, financial intermediaries who manage investment portfolios rarely demand public disclosures of financial and other data. They are more pas-
sive toward public financial reporting. When their investment in a firm is large enough, they can usually get the information they want by asking the firm directly. They have little incentive to press for public disclosure.

**Creditors**

Unlike shareholders, creditors do not make a permanent commitment of capital to the firm. Term, security, and diffusion are three characteristics of creditors that define their relationship to the accounting and control of their debtors.

Short-term creditors are interested largely in current assets and current liabilities and in the short-term ability of the firm to pay them. Until the early part of this century, when long-term loans were not yet common, much of the external audit effort was centered on verifying current assets and liabilities, and the auditors paid little attention to fixed assets.

On the other hand, long-term creditors place greater reliance on accounting and control, especially with respect to long-term assets, because the valuation of such assets is a weak link in accounting. Secured creditors have less interest in the operation of accounting and control because their interests are protected by the debt covenant.

Information intermediaries play a more important role when bonds are held by a large number of small investors. Large creditors have enough leverage with the debtor firm to demand and obtain the information they want directly. They rarely show much interest in the standard-setting activities of the FASB or the SEC.

Covenants accompanying debt instruments place restrictions on a firm's ability to pay dividends, to buy treasury stock, to issue new debt or retire old debt, or to allow certain accounting ratios to take values outside specified ranges. For example, the current ratio may be restricted from below and the debt-equity ratio from above. Debt covenants rarely use anything other than generally accepted accounting principles (GAAP) to specify such constraints, in spite of the possibility that the managers or shareholders may seek relief from such constraints by changing the methods of accounting. The multiplicity of accounting practices included in GAAP allows managers the flexibility to avoid violating debt covenants.

Why don't the creditors write debt covenants to tighten accounting constraints by insisting that the methods of accounting used at the time the covenant is signed remain applicable throughout the term of the covenant? One problem with such a "fixed" GAAP arrangement is that the creditor must incur the additional costs of outside auditors to monitor and enforce special accounting provisions of the covenant. A second possible explanation lies in the role accounting plays in the measurement of all inputs and entitlements of agents involved in the firm. Accounting changes may be induced by a variety of changes in the firm's environment as various agents make adjustments to protect their interests. By ruling out all changes in the accounting methods used for the enforcement of covenants, the creditor would also rule out any beneficial changes that may be implemented. It may be economical for creditors to cast their lot with other agents in relying on
GAAP to preserve the integrity of the accounting and control, instead of trying to set up a separate, parallel accounting apparatus specific to each debt covenant. If every agent tried to specify a special accounting system with the firm, the high cost and low credibility of multiple systems might render them even less attractive than relying on a floating GAAP.

**Investor Attitudes and Preferences**

It is important for investors to learn about contract performance by other agents. Investors weigh the information received from managers on the basis of its reliability and informativeness.

**Reporting on Contract Performance**

From an investor's point of view, a firm's accounting and control must ensure that the resources drawn by various agents from the firm's pool do not exceed what they are entitled to. The accounting system controls resource flows. A degree of costly redundancy is deliberately built into the double-entry bookkeeping to make it difficult for individuals to defraud the firm. Internal and external audits and the system review help implement this function.

Information on contract performance is important not only to the current but also to the prospective shareholders. The symmetric provision of such information to both existing and potential shareholders promotes liquidity in the market for shares of the firm. This liquidity is valued by shareholders, not only because one day they might wish to sell their shares, but also because the liquidity permits accurate and reliable valuation of the shares they might use as collateral in their other transactions.

**Incentives to Managers**

Inducing managers to contribute their optimum input and ensuring that they draw no more than their due are important and closely related functions of accounting and control. The financial reporting part of the accounting system is intended to control the top managers. The top managers have the responsibility for designing the incentives and controls for middle- and lower-level managers.

The relevance and reliability of data that can be provided by an accounting system are bounded from above by the considerations of cost and managerial incentives. The data most relevant to valuation of a firm's stock are also more subjective and costly to verify. Accordingly, their use has to be balanced against the possibility of deception by managers who provide the data. Asking managers to report data that cannot be independently verified at a reasonable cost adds nothing to the welfare of investors, because the response of the managers would be self-serving and investors would not trust it. This is exactly what seems to have happened to the unverified and often unverifiable data disclosed by oil and gas firms.
under the reserve-recognition accounting methods proposed by the SEC. In 1978, Accounting Series Release No. 253 required firms to disclose estimated underground reserves of oil and gas.7 The extreme subjectivity of such estimates rendered such data almost useless. In 1981, after a few years of experimentation, the SEC withdrew the proposal.

Aggregation Adds Information

More detailed financial reports are not necessarily more useful to investors. Using the theorem on greater value of information from a finer system, it has been argued that, in the absence of computational costs or information overload, more detailed data are more valuable.7 However, it is inappropriate to apply Blackwell’s theorem if the aggregation function for all levels of detail is not available to the decision maker. The free, universal availability of an aggregation function is not typical in accounting contexts. A single-page balance sheet can be more valuable to an investor than a hundred-page printout of all the account balances, not merely because of the computational costs but also because a considerable amount of detailed information must be added to these data in order to arrive at the aggregated balance sheet. The added information is contained in the aggregation function.

To illustrate, in the process of aggregation, accountants add their knowledge and judgment about similarities and dissimilarities of various accounts. To write a single line in the aggregated balance sheet (say, Inventories—$1 million), it is not sufficient to have a detailed list of each of the firm’s resources. One must also know the characteristics of all the resources and be able to decide which items from the detailed list could be usefully aggregated into a single line item labeled inventory on the balance sheet. This task cannot be performed by a lay person. An accounting expert brings special knowledge of aggregation functions and adds this information to the disaggregated data in order to arrive at the aggregated balance sheet. As an example, most investors could not find much use for a computer printout of each item that General Motors owns, even if they had free access to a supercomputer and computational software.

Accounting Choice Mechanisms for Investors

Investors influence a firm’s accounting decisions at four different stages: organization of the firm, trading in capital markets, voting on resolutions, and through sociopolitical institutions.

Organization of the Firm

In selecting a form of organization for a firm, its promoters also commit themselves to certain accounting features. In the United States, if the firm’s stock is distributed publicly, the accounting requirements of federal security laws govern its contract set. These laws and financial reporting standards present shareholders and
other agents with a contractual template or outline in which the details are filled in by the participants. Standardization restricts the agents’ flexibility in designing the accounting and control to suit the specific needs of the firm. It also saves search and negotiating costs for the participants. The better fit of a custom-made contract set is not necessarily worth the additional cost.

Investors often insist on, and sometimes succeed in, altering certain financial reporting practices of the firm when it issues its securities. They often demand that the firm hire a reputed audit firm before they will buy or trade its securities. Primary issues are usually sold to investment bankers or large investors who have concentrated buying power. It is easier for such investors to negotiate effectively with the firm’s managers.

When shares of stock pass through the secondary market, from investment bankers to a diffuse body of smaller shareholders, the ability of shareholders to exercise influence on accounting matters is attenuated and transformed. The shareholders have two instruments for making their preferences about the firm’s accounting choices known to the managers: voting on resolutions placed before them and trading the stock of the firm in the tertiary market.

**Voting and Proxies**

Voting allows only a yes/no choice to the shareholders, with little participation in framing the agenda. It is occasionally possible for the shareholders to initiate a resolution and put it to a vote. Such resolutions rarely pass. Typical resolutions put to a vote of the shareholders deal with the appointment of the board of directors and auditors, modifications in managerial compensation, and changes in the charter of the firm. Rarely do they deal with accounting matters. The relative unimportance of the voting mechanism for accounting issues suggests that the shareholders have, at best, only limited ability or interest in changing the accounting system of the firm in which they hold an interest. Given the shareholders’ vulnerability to fraud, this lack of interest may be surprising. In reality, shareholders have other, more effective, alternatives. In addition to using legal remedies, they vote with their feet, so to speak, in the stock market.

**Trading in Capital Markets**

A share of stock represents a bundle of contractual rights and obligations. Accounting is a part of this system of contracts. Investors can freely choose from a variety of contracts available in the market. The value of a share of stock derives, ultimately, from the dividends, and the size of dividends depends on how carefully the entitlements of various agents are determined and distributed. Other things being equal, investors would pay less for the stock of a firm that uses ineffective internal controls, internal audit, outside audit, and disclosure of accounting policies.

The influence of shareholders on accounting systems may be compared to the influence of car buyers on car designs. Neither the shareholder nor the car buyer
takes a direct role in design, yet they influence it profoundly by their right to buy or not to buy the final bundle of products and services offered to them. The common stock of limited liability firms in the United States is more widely held than in any other country. It is tempting to speculate that this breadth of stock holdings and the liquidity of the stock market may be caused by the financial reporting and disclosure required of publicly held firms in the United States.

Current shareholders benefit from changing the accounting system of a firm if the result is a higher share price. Investor decisions on accounting are essentially “reactionary.” They adjust their portfolios in response to decisions made by managers and auditors. Accounting control is a technical matter; direct input from investors is not feasible. Yet the anticipation of their preferences has a profound effect on the design of accounting and control systems. Managers’ and auditors’ anticipation of investor response affects their decisions on accounting, even though investors do not participate in the process directly.

Several accounting events support this view. We discussed the LIFO example in Chapter 4. In 1964, the Accounting Principles Board proposed that the investment tax credit be accounted for by using the deferral method instead of the then-prevalent flow-through method. They faced unified opposition from many managers and auditors, and ultimately had to back down. The possibility of negative investor response, though unsupported by data, was given as the basis of that opposition. Kaplan and Roll later found evidence that investor response was not negative.4

Sociopolitical Institutions

Legislatures, regulatory agencies, and the courts sometimes make or induce changes in accounting standards and in the institutions that set accounting standards. Such changes, usually triggered by major scandals or financial disasters, affect broad classes of firms. When some agents behave differently from what other agents expect of them, and the latter have no economic or legal remedy to make the former conform, the contract set falls apart. The disintegration of major firms, or of many small firms within a short period of time, suggests that the existing legal framework does not provide a stable basis for contracting in the prevailing economic environment and needs to be changed. The stock market crash of 1929 led to the passage of federal security laws and the creation of the SEC. These laws required that the annual financial reports of all publicly held firms in the United States be independently audited before publication. Since then, rules issued by the SEC have been a major force in shaping the accounting systems of publicly held corporations in the United States.

Similarly, the discovery of widespread use of bribes and unaccounted-for money led the U.S. Congress to pass the Foreign Corrupt Practices Act in 1977. The title of this statute is partially misleading. Its significant provisions relate not to briberies abroad but to the legal responsibility of corporate managers to maintain an effective system of internal controls to preserve their firm’s resources
against misappropriation. Prior to 1977, there were no explicit legal provisions to ensure that publicly held corporations protect the interests of their shareholders through appropriate design of their accounting and control.

Compared to stock prices, the response of sociopolitical systems to demands for change is slow. When changes do occur, they tend to be broader in scope. Changes through the market mechanism occur frequently and in smaller steps. In Chapters 11 and 12, we return to ask: To what extent should the shaping of the accounting and control be left to the markets versus the governmental and regulatory system?

**Consequences of Accounting Policy for Investors**

Although current shareholders pay the cost of accounting, financial reports are shared with the public. Professional investment analysts may even have better access to this information. A closer look at this arrangement reveals that it is not all unfavorable to the shareholders.

**Accounting Information as Public Goods**

Published financial reports are public goods. It costs no more to produce the financial reports for two people than for one, and it is difficult to keep those who do not pay for them from taking a free ride on the efforts of those who do. It has been argued that in the current system current shareholders pay the entire cost of financial reports, even though the benefits are shared with potential shareholders. Gonédès and Doupch have argued that the resultant underproduction of information and misallocation of resources by corporations could be corrected if the right to accounting information were “unbundled” from the right to residual wealth, freeing the corporation to sell the information separately to those willing to pay for it.

The availability of reliable information to all agents facilitates the smooth and orderly operation of a system of contracts. Assurance that they have or will receive the resources due to them from the firm is important. Without such information, an agent will refuse to participate. The information available to each agent acts as a constraint on others to induce them to meet the obligations they have accepted. The shareholders, being completely precommitted with respect to their capital, are not in direct touch with the day-to-day operations of the firm, and are too diffuse to act cohesively, to issue directives, or to negotiate directly. Therefore, they are especially vulnerable to the misappropriation of resources by other agents. The integrity of accounting and control is more important to them. All other participating agents are either in direct touch with the operations of the firm, or form a group cohesive enough to negotiate effectively with the firm and to have information about their entitlements available to them, outside published financial statements.

No stable system of contracts that denies information about the firm to the suppliers of equity capital seems feasible. Even if it were feasible, it would not be
more efficient than the current system based on public disclosure. As we discussed earlier, the availability of information about a firm facilitates the operation of the markets for resources that flow into and out of the firm. Outsiders (agents who do not currently participate in the firm) are not the only ones who benefit from the liquidity of factor markets. Participating agents who wish to vacate their contractual slots in the firm to seek alternative opportunities also benefit. They can sell their current contractual slot or transport their reputation and human capital to more attractive employment someplace else. Further, participating agents who are not directly involved in the transaction also benefit from their ability to find a prompt replacement for the vacated slot when a participant leaves. Unfilled contractual slots hurt all participating agents (unless, of course, they are redundant). Thus, "free" distribution of information is important to the dynamic stability of the firm in order to keep it intact, in spite of the movement of some or even all of the participating individuals.

A further shortcoming of a private information system is that even if everyone were to buy information, agents would not know that everybody else is also informed. This lack of "common knowledge" in a private purchase system of information would induce strategic behavior, more conflicts, and less efficient renegotiation of corporate contracts.

In capital markets, accounting plays a role akin to the role of advertising in product markets. An automobile dealer who places an advertisement in a newspaper "gives away" information to prospective customers and competitors. The dealer's justification for paying the advertising costs lies in the belief that his or her own benefits outweigh the cost of advertising. Public disclosure of accounting information may also be viewed as advertisements to attract new participants to join the firm. The economic viability of such a "free" distribution system rests on the excess of benefits over costs to the current participants.

Production of Information By Intermediaries

When information intermediaries such as financial analysts and investment agents process information, who pays the cost, and what, if any, are the benefits to those who pay? Early empirical results on the ability of capital markets to rapidly adjust prices to incorporate newly available information produced a euphoria that lead some to declare that the days of financial analysts were numbered. Financial analysts who earn their living by reading patterns in the past history of stock prices, or those who keep a close watch on the economic prospects of specific firms and industries, have not only survived the revolution in the theory of finance, they are flourishing on Wall Street. Who pays their wages and why?

An analyst who finds out about or infers an event that affects the price of a firm, before other analysts, has the ability to earn abnormal returns in a shorter period of time than it usually takes for others to acquire the knowledge, and for the price to adjust to the new equilibrium level. This abnormal return is absorbed by the cost of the analysts' effort to discover and interpret the information. Since
there are few barriers to entering this field, it seems reasonable to conclude that
large economic rents, positive or negative, could not persist in the business of fi-
nancial analysis.

An investor, who trades at random and without the benefit of advance infor-
mation about economic events, expects to lose a small amount on transactions
with an analyst, and the analyst expects to gain on the transaction. In equilibriu,
the investor’s expected loss is just enough to make him or her indifferent between
continuing the current investment practice and buying the services of an analyst.

If nobody did the research, prices would have no relationship to economic
events and, therefore, the capital market would fail to serve its resource allocation
function in society. Even a small investor benefits from the ability of the market
to adjust rapidly to new information because greater liquidity narrows the bid-ask
spread and permits the investor to make transactions at reduced cost.

The release of financial information by corporate managers to financial ana-
lysts in the form of interviews, informal estimates of sales and earnings, and so on
are sometimes criticized for favoring information intermediaries over smaller
shareholders. Similar criticism is made of the newer financial accounting stan-
dards and disclosure requirements, which have made it easier for financial analysts
to obtain detailed information, and at the same time, made the financial statements
less comprehensible to nonexperts. Open entry to financial analysis makes it un-
likely that analysts earn economic rents from this privileged access. The adverse
terms of trade that an uninformed investor faces against an informed one must be
balanced against the benefits of liquidity that accrue to all market participants in a
well-informed market.

Summary

As a class of agents, investors occupy a special place in the firm. They precommit
resources to the firm and agree to the passage of a relatively long, even indefinite,
time interval, before receiving their share of resources from the firm. The re-
source entitlement of shareholders, as a class, is defined as a residual and not as a
function of their contribution. This arrangement makes investors vulnerable to un-
foreseen events and to the misappropriation of resources by other agents. When
anything goes wrong with the implementation of contracts, investors end up
bearing a large part of the loss. This vulnerability of investors to the malfunc-
tioning of the contractual system is compensated by giving them special rights to
elect the board of directors and to control the audit process.

The diffuse nature of equity ownership in public corporations renders it infe-
sible for investors to participate directly in making accounting and auditing deci-
sions. They do, however, exert substantial influence on these decisions through
capital market trading, information intermediaries, and socioeconomic institu-
tions.
Investors’ attitudes toward the accounting and control and other aspects of the firm are summed up in the price they are willing to pay to acquire equity rights in the firm. Other agents have no such single, readily accessible variable that can be used as an index of their preferences. It is hardly surprising, then, that the relationship between accounting and investors has been the subject of the most intensive empirical inquiry during the quarter-century following the ready availability of computers and stock price and accounting numbers in computer readable form. The next chapter takes a closer look at the relationship between accounting and the stock market.

Notes


Additional Reading


