A Real Effects Perspective to Accounting Measurement and Disclosure: Implications and Insights for Future Research

Abstract:

In this paper, we argue that accounting research that ignores the “real effects” perspective might lead to insights and prescriptions that are incomplete and perhaps misleading and that an understanding of real economic consequences is essential to debates on fundamental accounting issues. We derive sufficient conditions that must be present for accounting measurement/disclosure to have real effects. We then use the real effects perspective to model some specific measurement issues that have been controversial in accounting. We conclude by discussing the implications of the real effects perspective for future empirical work in accounting.