



The Number of Estimates in Footnotes and Accruals

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Abstract

This study quantifies the number of estimates involved in firms' accruals and examines whether it is informative about the relation between accruals and future earnings. We measure the number of estimates using the frequency of the use of the word estimate in the qualitative portions of a firm's Notes to the Financial Statements (footnotes). Motivated by arguments regarding the impact of estimation errors in accruals, we hypothesize and find that the accruals of firms that have more estimates have a lower relation with future earnings (i.e., lower persistence) and a lower association with their past, current, and future cash flows.