

2025 SBA-GSTIM Colloquium

The effect of ASC 606 on management forecasts: a lesson for principles-based accounting standard

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Abstract

ASC 606 is a principles-based accounting standard that significantly transformed revenue recognition and expanded mandatory disclosure of pertinent information related to contracts with customers. This study examines the effect of ASC 606 on management forecasts. Using a Difference-in-Differences (DID) design surrounding the adoption of ASC 606, we find a significant reduction in the frequency of management forecasts among firms materially affected by the standard. We document pronounced declines in forecasts of top-line items (e.g., revenues), range forecasts, and good news forecasts. Diagnostic tests indicate that the ASC 606-induced reduction in management forecasts is most likely a result of the standard's expanded disclosure requirements (substitution effect), rather than the standard's revenue recognition practices. Our study has implications for the effect of principles-based accounting standards - which typically expand mandatory disclosure - on voluntary disclosure.

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