

AAER Dataset Description

Since 1982, the SEC has issued Accounting and Auditing Enforcement Releases (AAERs) during or at the conclusion of an investigation against a company, an auditor, or an officer for alleged accounting and/or auditing misconduct. These releases provide varying degrees of detail on the nature of the misconduct, the individuals and entities involved and their effect on the financial statements. The dataset currently consists of 3,813 SEC AAERs (1,540 firm misstatement events) issued between May 17th 1982 and September 30th 2016. It contains 1,019 firm misstatement events that affect at least one of the firms' quarterly or annual financial statements.

The dataset consists of three data files: the Details, Annual and Quarterly files.

The Detail file contains:

- Firm name and its identifiers
- AAER numbers (e.g., 1 – 3,813) pertaining to each firm
- A description of the reason the AAER was issued
- The balance sheet and/or income statement accounts affected by the violation
- One observation per firm misstatement event.¹

The Annual and Quarterly files are compiled from the Detail file and are formatted by reporting period when the misstatement occurred.

The Annual and Quarterly files contain:

- AAERs with alleged financial misstatements
- Firm name and identifiers
- The year and/or quarter-end when the misstatements occurred
- Information on whether earnings or revenues are understated
- One observation for each year or quarter affected by the violation

The original AAERs are obtained from the SEC website:

<http://www.sec.gov/divisions/enforce/friactions.shtml>

A detailed description of the data collection is available in Dechow, Ge, Larson and Sloan (2011) Predicting Material Accounting Misstatements. *Contemporary Accounting Research*, 28: 17–82.

Published version: <http://onlinelibrary.wiley.com/doi/10.1111/j.1911-846.2010.01041.x/abstract>

SSRN version: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=997483

Some details on the sample are provided in the following table:

¹ A firm misstatement event is a set of related misstatements covered by a set of related AAERs.

Table 1

Sample description

Panel A: Sample selection of Accounting and Auditing Enforcement Releases (AAERs)	
Number of AAERs	Number
AAER No. 1–No. 3,813 from May 1982 to September 2016	3,813
Less: missing AAERs	(40)
Less: AAERs that do not involve specific company names	(217)
Total	3,556

Note:

Among 40 missing AAERs, 14 AAERs are intentionally omitted and 26 AAERs are missing.

Panel B: Percent of the 3,556 AAERs that are against various parties		
Party	Number	Percentage
Officer of the company	1,782	50.11%
Auditor	566	15.92%
Officer and company	485	13.64%
Company	498	14.00%
Other	122	3.43%
Other combination of parties	103	2.90%
Total	3,556	100.00%

Panel C: Frequency of AAERs by year					
AAER release date	Number of AAERs	Percentage	AAER release date	Number of AAERs	Percentage
1982	2	0.06%	2000	142	3.99%
1983	16	0.45%	2001	125	3.52%
1984	28	0.79%	2002	209	5.88%
1985	35	0.98%	2003	237	6.66%
1986	39	1.10%	2004	209	5.88%
1987	51	1.43%	2005	188	5.29%
1988	37	1.04%	2006	166	4.67%
1989	38	1.07%	2007	216	6.07%
1990	35	0.98%	2008	132	3.71%
1991	61	1.72%	2009	173	4.87%
1992	78	2.19%	2010	120	3.37%
1993	76	2.14%	2011	111	3.12%
1994	120	3.37%	2012	65	1.83%
1995	107	3.01%	2013	70	1.97%
1996	121	3.40%	2014	62	1.74%
1997	134	3.77%	2015	89	2.50%
1998	85	2.39%	2016	68	1.91%
1999	111	3.12%	Total	3,556	100.00%

(The table is continued on the next page.)

Table 1 (Continued)

Panel D: Frequency of AAERs for each firm misstatement event			
Number of AAERs for each firm misstatement events	Number of firm misstatement events	Percent of firm misstatement events	Total AAERs
1	744	48.31%	744
2	348	22.60%	696
3	170	11.04%	510
4	103	6.69%	412
5	62	4.03%	310
6	35	2.27%	210
7	18	1.17%	126
8	23	1.49%	184
9	7	0.45%	63
10	9	0.58%	90
11	5	0.32%	55
12	1	0.06%	12
13	4	0.26%	52
14	4	0.26%	56
15	1	0.06%	15
16	1	0.06%	16
17	1	0.06%	17
18	1	0.06%	18
20	1	0.06%	20
25	1	0.06%	25
49	1	0.06%	49
Total	1,540	100%	3,680

Note:

Firm misstatement event is a set of related misstatements for a single firm, covered by a set of related AAERs. Total AAERs will be greater than that from Panel C (3,556) because some AAERs relate to more than one misstatement event.

(The table is continued on the next page.)

Table 1 (Continued)

Panel E: Number of distinct firms	Matched on GVKEY	Matched on CIK
	Number	Number
Number of distinct firms misstatement events		
AAER No. 1–No. 3,813 from May 1982 to September 2016	1,540	1,540
Less: Enforcements that are unrelated to earnings misstatement (e.g., bribes, disclosure, etc.) or firms with misstatements that cannot be linked to specific reporting periods	521	521
Firms earnings misstatement events	1,019	1,019
Less: firms misstatement events missing GVKEY	219	219
Less: firms misstatement events with GVKEY available but CIK missing	-	19
Firms misstatement events with at least one quarter of misstated numbers	800	781
Firms misstatement events with total assets on COMPUSTAT	797	766
Distinct firms with total assets on COMPUSTAT	789	757
Firms misstatement events with stock price data on CRSP	752	737
Distinct firms with stock price data on CRSP	744	728
Less: firms misstatement events with quarterly misstatements corrected by the end of the fiscal year	116	110
Firms misstatement events with at least one annual misstated number	684	671
Firms misstatement events with total assets on COMPUSTAT	681	656
Distinct firms with total assets on COMPUSTAT	675	649
Firms misstatement events with stock price data on CRSP	638	627
Distinct firms with stock price data on CRSP	632	620

Note: Matching on GVKEY is done manually using company name.

(The table is continued on the next page.)

Table 1 (continued)

Panel F: Type of misstatement items identified in the AAERs

Type of misstatement	Percent of 1,019 firms earnings misstatement events (1)	Percent of 752 firms misstatement events with at least one quarterly misstatement and stock price data (2)	Percent of 684 firms misstatement events with at least one annual misstatement (3)	Percent of 681 firms misstatement events with at least one annual misstatement and total assets data (4)
Misstated revenue	50.15%	54.12%	55.70%	55.95%
Misstatement of other expense/ shareholder equity account	35.33%	37.90%	38.01%	37.89%
Capitalized costs as assets	28.26%	23.40%	23.98%	23.94%
Misstated accounts receivable	18.94%	19.95%	21.49%	21.59%
Misstated inventory	13.44%	14.49%	15.94%	16.01%
Misstated cost of goods sold	10.50%	11.84%	12.57%	12.63%
Misstated reserve account	9.52%	10.77%	10.38%	10.28%
Misstated liabilities	9.13%	9.04%	9.80%	9.69%
Misstated marketable securities	3.53%	2.93%	2.92%	2.79%
Misstated allowance for bad debt	3.24%	2.93%	3.07%	3.08%
Misstated payables	2.06%	2.66%	2.92%	2.94%

Note:

There are a total of 1,876 misstatement items mentioned in column 1; 1,429 misstatement items in column 2; 1,346 misstatement items in column 3; and 1,340 misstatement items in column 4. Therefore, column percentages sum to more than 100 percent.

Panel G: Matching

The dataset contains a tab called “Table 1 – Panel G”. This tab provides a link between the CONAME field in the AAER dataset and the company name field contained in the Compustat database.

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